

India

**NOT RATED** (previously HOLD)

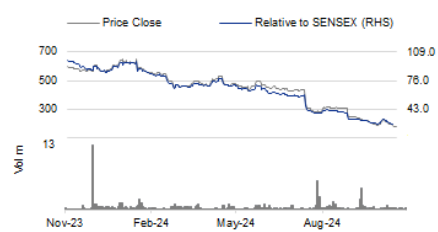
Consensus ratings\*: Buy 2 Hold 4 Sell 5

Current price:	Rs178
Target price:	0
Previous target:	Rs270
Up/downside:	51.7%
InCred Research / Consensus:	-0.5%
Reuters:	FUSN.NS
Bloomberg:	FUSION IN
Market cap:	US\$247m
	Rs17,953m
Average daily turnover:	US\$2.2m
	Rs158.0m
Current shares o/s:	101.0m
Free float:	42.3%

\*Source: Bloomberg

**Key changes in this note**

► The company's audit report doubts Fusion Finance on remaining as a going concern. However, strong promoter pedigree (Warburg) & rights share issue amounting to Rs5.5bn provide comfort.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(19.5)	(37.6)	(70.0)
Relative (%)	(15.1)	(36.4)	(74.6)

<b>Major shareholders</b>	% held
Honeyrose	32.8
Creation investment	19.8
Devesh Sachdev	4.9

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# Fusion Finance Limited

## Projections volatile; discontinue coverage

- We discontinue Fusion Finance's coverage as near-term projections are highly uncertain amid mounting NPAs, slowing growth & a change in management.
- Audit report doubts Fusion Finance on remaining as a going concern. However, strong promoter (Warburg) & Rs5.5bn rights issue provide comfort.
- We reiterate our cautious view on the MFI segment in the near term amid rising defaults and elevated credit costs due to overleveraging & weak underwriting.

### Asset quality turmoil continues; collection efficiency to remain low

Fusion Finance (FFL) has witnessed a sharp rise in Stage-3 assets to ~9.41% against ~5.46% last quarter and ~2.89% in Mar 2024. The company's management has attributed the same to various reasons including overleveraging of existing customers, failure of the JLG model leading to weak collection efficiency, weakness in states like Tamil Nadu, Rajasthan, Odisha, Jharkhand & Madhya Pradesh, higher employee attrition, etc. All-India collection efficiency (including arrears) for the company dipped to ~91% whereas Stage-2 assets rose to ~3.9%, which, we believe, will remain under pressure as typical microfinance or MFI customers are unable to pay two equated monthly instalments or EMIs at a time.

### Liability repayment is a problem, going concern is not an issue

The rise in defaults has severely affected the company's ability to repay its lenders, which could trigger a series of tight borrowing cycles not only for Fusion Finance but for the overall sector. Management has highlighted that most lenders are supporting the company however raising incremental borrowings will remain a challenge. The recent audit report doubts Fusion to remain a going concern, however strong promoter pedigree (Warburg) & rights share issue amounting to Rs5.5bn provide comfort.

### Disbursement momentum to ease; concentration risk remains

Disbursements made by Fusion Finance have declined by ~44% sequentially to Rs16.6bn due to tighter regulatory norms (implemented by MFIN) as well as a cautious approach of its management. After a rise in default risks at the customer level, the company has categorically stopped disbursements at certain branches and has also tightened customer onboarding criteria, which, in turn, would impact the incremental disbursement growth.

### Outlook & valuation

We have been highlighting concerns about adversities visible in the per borrower data of Fusion Finance for the past few quarters, which indicated overleveraging, and growth led by a rise in loan ticket sizes. The board is likely to appoint a new CEO while the company may witness growth consolidation with a focus on cleansing the balance sheet. We have discontinued coverage of Fusion Finance as the near-term projections are highly uncertain amid mounting NPAs, slowing growth & a change in management. We had a HOLD rating on the stock with a target price of Rs270 or ~1x FY26F BV. Upside risks: Superior growth & a decline in fresh slippage. Downside risks: Steep improvement in asset quality.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	9,573	13,011	16,741	19,688	22,573
Total Non-Interest Income (Rsm)	1,999	3,205	3,556	3,798	4,108
Operating Revenue (Rsm)	11,572	16,216	20,297	23,486	26,680
Total Provision Charges (Rsm)	(2,004)	(3,649)	(11,432)	(9,115)	(7,144)
Net Profit (Rsm)	3,871	5,053	863	3,448	5,230
Core EPS (Rs)	38.58	50.27	8.58	34.31	52.03
Core EPS Growth	1,353%	30%	(83%)	300%	52%
FD Core P/E (x)	4.61	3.54	20.71	5.18	3.42
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	291.9	326.2	378.3
P/BV (x)	0.77	0.63	0.61	0.54	0.47
ROE	21.2%	19.5%	3.0%	11.1%	14.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

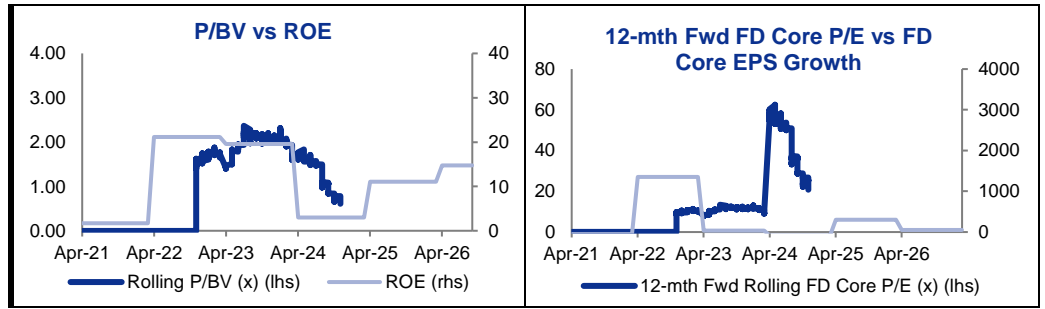
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: 2QFY25 earnings summary**

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	2,955.2	3,057.9	3,385.8	3,611.8	3,978.7	3,987.2	30.4%	0.2%
<i>NIM (% of AUM) Calculated</i>	10.9%	11.1%	11.5%	11.2%	11.6%	11.5%		
Fee-Based Income	737.8	744.6	732.0	990.8	854.0	776.3	4.3%	-9.1%
Operating Expenses	1,339.1	1,384.6	1,515.2	1,695.8	1,855.2	1,925.1	39.0%	3.8%
<b>Operating Profit</b>	<b>2,353.9</b>	<b>2,417.9</b>	<b>2,602.6</b>	<b>2,906.8</b>	<b>2,977.5</b>	<b>2,838.4</b>	<b>17.4%</b>	<b>-4.7%</b>
Provisions	759.3	762.0	937.6	1,189.7	3,484.7	6,940.5	810.8%	99.2%
Exceptional Items	-	-	-	-	-	-		
<b>PBT</b>	<b>1,594.6</b>	<b>1,655.9</b>	<b>1,665.0</b>	<b>1,717.1</b>	<b>-507.2</b>	<b>-4,102.1</b>	<b>-347.7%</b>	<b>708.8%</b>
Tax	390.0	399.0	400.5	390.2	-151.0	-1,051.7	-363.6%	596.5%
<i>Tax rate (%)</i>	24.5%	24.1%	24.1%	22.7%	29.8%	25.6%		
<b>PAT</b>	<b>1,204.6</b>	<b>1,256.9</b>	<b>1,264.5</b>	<b>1,326.9</b>	<b>-356.2</b>	<b>-3,050.4</b>	<b>-342.7%</b>	<b>756.4%</b>
<b>AUM (Rs bn)</b>	97.1	100.3	106.9	114.8	121.9	115.7	15.4%	-5.1%
<b>Disbursements (Rs bn)</b>	22.8	23.4	27.1	29.5	29.9	16.6	-29.1%	-44.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	9,573	13,011	16,741	19,688	22,573
<b>Total Non-Interest Income</b>	<b>1,999</b>	<b>3,205</b>	<b>3,556</b>	<b>3,798</b>	<b>4,108</b>
Operating Revenue	11,572	16,216	20,297	23,486	26,680
<b>Total Non-Interest Expenses</b>	<b>(4,448)</b>	<b>(5,935)</b>	<b>(7,715)</b>	<b>(9,773)</b>	<b>(12,563)</b>
Pre-provision Operating Profit	7,124	10,281	12,582	13,712	14,117
<b>Total Provision Charges</b>	<b>(2,004)</b>	<b>(3,649)</b>	<b>(11,432)</b>	<b>(9,115)</b>	<b>(7,144)</b>
Operating Profit After Provisions	5,120	6,633	1,150	4,598	6,973
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	5,120	6,633	1,150	4,598	6,973
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	5,120	6,633	1,150	4,598	6,973
<b>Exceptional Items</b>					
Pre-tax Profit	5,120	6,633	1,150	4,598	6,973
Taxation	(1,248)	(1,580)	(288)	(1,149)	(1,743)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	3,871	5,053	863	3,448	5,230
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	3,871	5,053	863	3,448	5,230
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					
<b>Avg Liquid Assets/Avg IEAs</b>	<b>115.9%</b>	<b>114.6%</b>	<b>112.9%</b>	<b>109.8%</b>	<b>109.9%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>80,416</b>	<b>99,479</b>	<b>121,169</b>	<b>144,801</b>	<b>169,546</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	80,416	99,479	121,169	144,801	169,546
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	80,416	99,479	121,169	144,801	169,546
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>1,200</b>	<b>1,592</b>	<b>2,069</b>	<b>2,690</b>	<b>3,497</b>
<b>Total Non-Interest Earning Assets</b>	<b>1,409</b>	<b>1,816</b>	<b>2,349</b>	<b>3,026</b>	<b>3,900</b>
Cash And Marketable Securities	10,650	15,532	12,946	13,109	18,041
<b>Long-term Investments</b>					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	67,784	86,159	100,473	120,024	143,538
Total Interest-Bearing Liabilities	67,784	86,159	100,473	120,024	143,538
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,632	3,103	6,647	8,120	9,927
Total Liabilities	70,416	89,262	107,120	128,144	153,465
Shareholders Equity	23,219	28,482	29,344	32,792	38,022
<b>Minority Interests</b>					
Total Equity					

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	68.4%	35.9%	28.7%	17.6%	14.7%
Operating Profit Growth	81.2%	44.3%	22.4%	9.0%	3.0%
Pretax Profit Growth	1,991%	30%	(83%)	300%	52%
Net Interest To Total Income	82.7%	80.2%	82.5%	83.8%	84.6%
Cost Of Funds	10.24%	10.27%	10.10%	9.70%	9.30%
Return On Interest Earning Assets	22.9%	23.3%	23.7%	22.8%	22.2%
Net Interest Spread	12.68%	12.98%	13.62%	13.15%	12.86%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	28%	35%	91%	66%	51%
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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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.