

7 May 2024

Fusion Microfinance

Decent quarter, strong earnings outlook; maintaining a Buy

With better asset quality and strong profitability, Fusion's Q4 was stable. Key positives were 1) asset quality (GNPA down 15bps q/q), 2) NIM up 5bps q/q and 3) strong profitability (4.7% RoA). Robust growth and stable collections are expected in H2 FY25. We have a positive outlook on MFIs and look favourably at Fusion. We introduce FY26e and maintain a Buy, at a lower 12-mth TP of Rs683, 1.7x P/BV on the FY26e book.

Headline asset quality improves. Asset quality improved in Q4, with GNPA falling 15bps q/q to 2.89%. Q4 PAR 90+ improved 12bps q/q to 2.4%. Q4 collection efficiency (incl. arrears) was 97.3%, down 60bps q/q. CE excl. Punjab was 98.3%, down 10bps q/q. The current share of Punjab's AUM is 2.8% (down from 5.2% in Mar'23). The company has stopped fresh disbursements in troubled areas and collection trends normalising in the state. We believe stable collection trends and lower stress building would lead to better asset quality in the coming quarter. The company maintains a provision buffer of Rs595m (0.52% of AUM), of which 180m was added in Q4.

RoA >4% in FY25/26. The 19bp q/q decline in cost of funds counterbalanced the 10bp drop in yields, which led to a 5bp q/q rise in NIM to 11.59%. With most of the re-pricing done on the cost side, we expect NIM to stabilise near current levels. In our view, the strong business growth, steady margins and modest credit costs would enable the company to generate a stable >4.5% RoA over FY25-26. We estimate >4.5% RoA and >19% RoE through FY25-26.

Valuation. Our TP of Rs683 is based on the two-stage DDM model. This implies a ~1.7x P/ABV multiple on the FY26e book. **Risks:** Less-than-expected AUM book growth; higher slippages from the MFI book.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Net interest income (Rs m)	5,684	9,573	13,011	15,637	18,695
Pre-provisioning profit (Rs m)	3,931	7,124	10,281	12,193	14,420
PAT (Rs m)	218	3,871	5,053	6,078	7,344
EPS (Rs)	2.6	38.6	50.2	60.4	73.0
NIM (%)	10.0	11.9	12.5	12.3	12.2
Cost-Income (%)	44.3	38.4	36.6	36.5	36.4
RoE (%)	1.7	21.2	19.5	19.3	19.2
RoA (%)	0.3	4.6	4.8	4.7	4.7
AUM growth (%)	46.3	37.0	23.5	21.5	20.0
GNPA (%)	5.7	3.5	2.9	2.7	2.4
CAR (%)	21.9	27.9	27.5	26.4	26.1
P/E (x)	187.2	12.8	9.8	8.1	6.7
P/BV (x)	3.0	2.1	1.7	1.4	1.2
P/ABV (x)	3.3	2.2	1.8	1.5	1.2

Source: Company, Anand Rathi Research

Rating: Buy

Target Price(12-mth): Rs.683

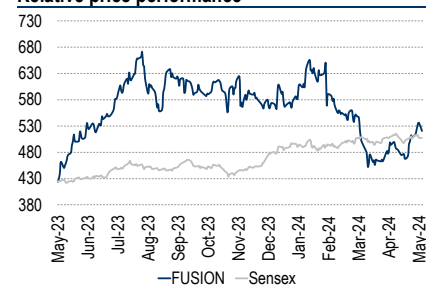
Share Price: Rs.495

Key data	FUSION IN
52-week high / low	Rs.691 / 419
Sensex / Nifty	73526 / 22307
3-m average volume	\$2m
Market cap	Rs.50bn / \$595.7m
Shares outstanding	101m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	57.7	57.7	67.9
- of which, Pledged	2.8	2.8	2.4
Free float	42.3	42.3	32.1
- Foreign institutions	6.0	6.7	5.2
- Domestic institutions	23.3	22.8	15.4
- Public	13.0	12.8	11.6

Estimates revision (%)	FY25e	FY26e
Net interest income	-1.8	-2.3
Pre-provisioning profit	-1.4	-2.1
PAT	-11.5	-9.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	5,684	9,573	13,011	15,637	18,695
<i>NII growth (%)</i>	25.6	68.4	35.9	20.2	19.6
Non-interest income	1,370	1,999	3,205	3,559	3,988
Net total income	7,054	11,572	16,216	19,196	22,683
<i>Total income growth (%)</i>	41.6	64.1	40.1	18.4	18.2
Operating expenses	3,123	4,448	5,935	7,003	8,263
PPoP	3,931	7,124	10,281	12,193	14,420
<i>PPoP growth (%)</i>	41.6	81.2	44.3	18.6	18.3
Provisions	3,687	2,004	3,649	4,067	4,601
PBT	244	5,120	6,633	8,125	9,818
Tax	27	1,248	1,580	2,048	2,474
PAT	218	3,871	5,053	6,078	7,344
<i>PAT growth (%)</i>	(50.5)	1,679.6	30.5	20.3	20.8
EPS (Rs)	2.6	38.6	50.2	60.4	73.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	828	1,003	1,006	1,006	1,006
Reserves & surplus	12,552	22,216	27,475	33,553	40,897
Net worth	13,380	23,219	28,482	34,559	41,903
Borrowings	57,758	67,784	86,159	104,683	125,620
Other Liabilities & Prov.	1,767	2,632	3,103	3,436	3,780
Total liabilities	72,905	93,635	117,743	142,679	171,303
Cash & bank balances	11,536	10,650	15,532	19,741	24,082
Advances	59,182	80,416	99,479	119,914	143,896
Investments	0	0	21	21	21
Fixed & other assets	192	212	336	372	410
Other assets	1,995	2,357	2,376	2,631	2,894
Total assets	72,905	93,635	117,743	142,679	171,303
No. of shares (m)	83	100	101	101	101
AUM	67,860	92,960	114,761	139,434	167,321
<i>AUM growth (%)</i>	46.3	37.0	23.5	21.5	20.0

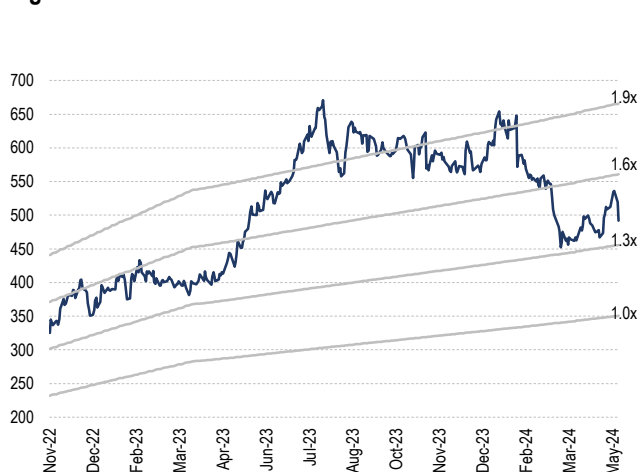
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis %

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
<i>NIM</i>	10.0	11.9	12.5	12.3	12.2
<i>Other inc. / total inc.</i>	19.4	17.3	19.8	18.5	17.6
<i>Opex / avg AUM</i>	5.5	5.5	5.7	5.5	5.4
<i>Provisions / avg AUM</i>	6.5	2.5	3.5	3.2	3.0
<i>Cost-income</i>	44.3	38.4	36.6	36.5	36.4
<i>Gross NPA</i>	5.7	3.5	2.9	2.7	2.4
<i>Net NPA</i>	1.6	0.9	0.7	0.7	0.6
<i>Provision coverage</i>	71.9	74.9	75.0	75.0	75.0
<i>BV (per share)</i>	161.7	231.4	283.1	343.5	416.5
<i>Adj. BV (per share)</i>	149.2	224.4	275.9	335.5	408.0
<i>CAR</i>	21.9	27.9	27.5	26.4	26.1
<i>- Tier 1</i>	19.9	26.6	25.9	25.6	25.4
<i>RoE</i>	1.7	21.2	19.5	19.3	19.2
<i>RoA</i>	0.3	4.6	4.8	4.7	4.7

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Interest income	4,507	4,790	4,968	5,400	5,761
Interest expense	1,742	1,835	1,910	2,015	2,149
NII	2,765	2,955	3,058	3,386	3,612
Y/Y growth	62.0	58.7	26.1	34.2	30.6
Non-interest income	700	738	745	732	991
Total income	3,465	3,693	3,803	4,118	4,603
Y/Y growth	46.8	70.0	28.9	38.0	32.8
Operating expenses	1,253	1,339	1,385	1,515	1,696
- of which, staff cost	894	978	993	1,119	1,222
PPoP	2,211	2,354	2,418	2,603	2,907
Y/Y growth	47.8	95.8	29.1	41.6	31.5
Total provisions	692	759	762	938	1,190
PBT	1,519	1,595	1,656	1,665	1,717
Tax	374	390	399	401	390
PAT	1,145	1,205	1,257	1,265	1,327
Y/Y growth	767.9	60.4	32.2	23.4	15.9

Source: Company

Fig 8 – Balance Sheet

	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Net worth	23,219	24,454	25,769	27,090	28,482
Borrowings	67,784	71,880	75,279	80,239	86,159
Others	2,632	3,046	3,269	3,245	3,103
Liabilities	93,635	99,380	104,318	110,573	117,743
Cash / Bank	10,650	12,471	14,611	14,183	15,532
Loans	80,416	84,030	86,947	93,559	99,479
Investments	0	0	20	20	21
Fixed Assets	212	224	238	315	336
Others	2,357	2,655	2,501	2,497	2,376
Assets	93,635	99,380	104,318	110,573	117,743

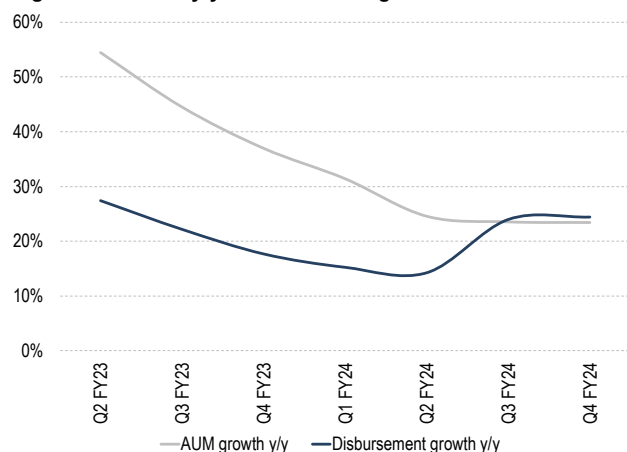
Source: Company

Fig 9 – Productivity ratios

	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
ATS ('000)	41.2	42.4	42.2	44.7	43.8
Borrowers (m)	3.53	3.64	3.69	3.78	3.86
Average / borrower ('000)	25.6	25.8	26.2	27.2	28.5
AUM / RO (m)	14.0	14.0	14.0	13.0	13.0
AUM / branch (m)	88.0	91.0	88.0	89.0	91.0
Borrower / branch	3,452	3,513	3,381	3,260	3,204

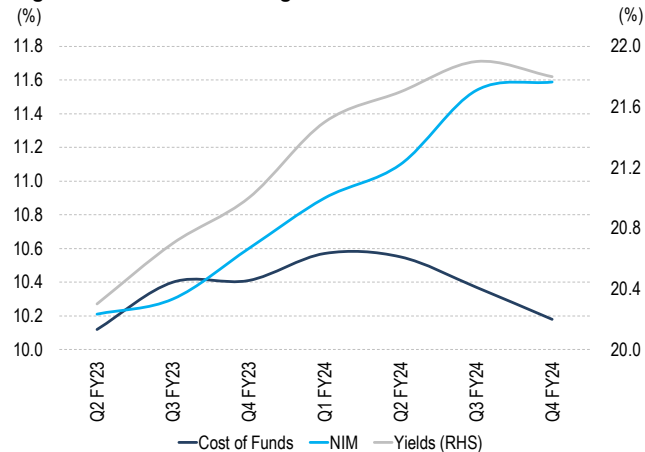
Source: Company, Anand Rath Research

Fig 10 – AUM vs. y/y disbursement growth



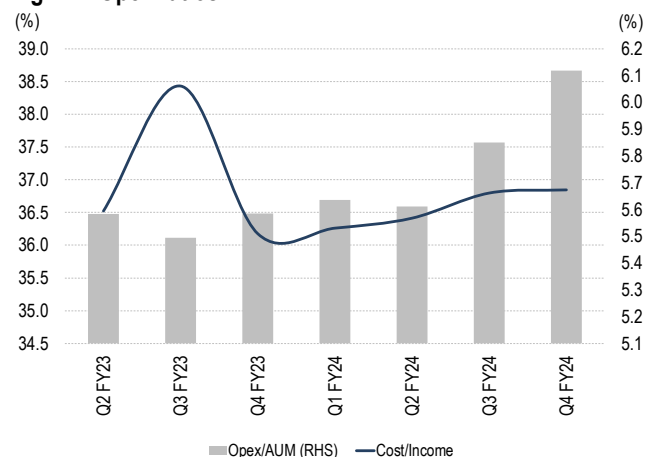
Source: Company, Anand Rathi Research

Fig 11 – Movement in margins



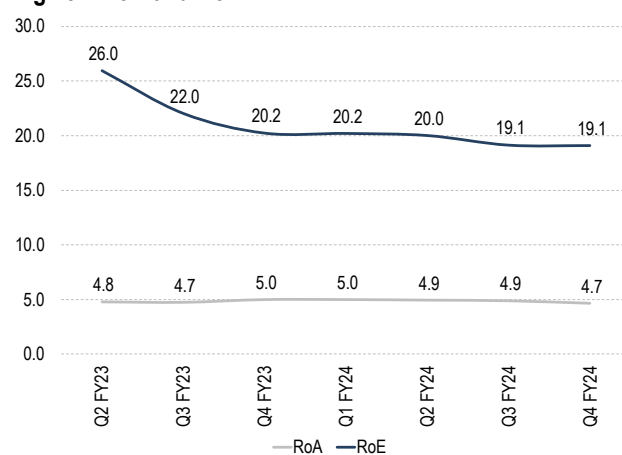
Source: Company, Anand Rathi Research

Fig 12 – Opex ratios



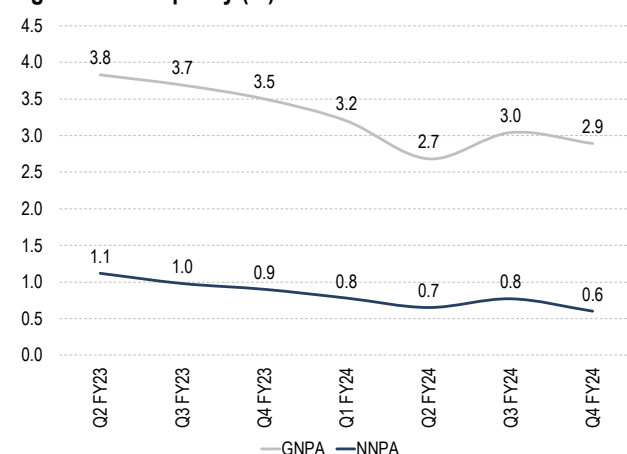
Source: Company, Anand Rathi Research

Fig 13 – RoA and RoE



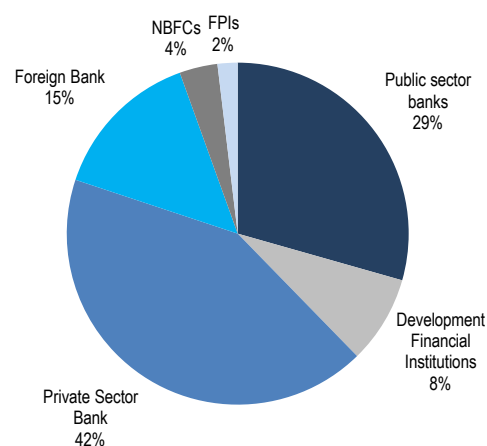
Source: Company, Anand Rathi Research

Fig 14 – Asset quality (%)



Source: Company, Anand Rathi Research

Fig 15 – Liability mix



Source: Company

Valuation

- Our TP of Rs683 is based on the two-stage DDM model. This implies a ~1.7x P/ABV multiple on its FY26e book.

Fig 16 – Change in estimates (Rs m)

	FY25e			FY26e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	15,637	15,926	-1.8	18,695	19,139	-2.3
Pre-provisioning profit	12,193	12,369	-1.4	14,420	14,728	-2.1
PAT	6,078	6,865	-11.5	7,344	8,136	-9.7

Source: Anand Rathi Research

Risks

- Less-than-anticipated loan growth could cut into our estimates.
- Large slippages from the core MFI portfolio.

Fig 17 – du Pont Analysis

(%)	FY22	FY23	FY24	FY25e	FY26e
Interest income	16.2	19.2	19.8	19.2	18.8
Interest expense	7.6	7.7	7.5	7.2	6.9
Net interest income	8.7	11.5	12.3	12.0	11.9
Non-interest income	2.1	2.4	3.0	2.7	2.5
Net revenues	10.7	13.9	15.3	14.7	14.4
Operating expense	4.8	5.3	5.6	5.4	5.3
PPoP	6.0	8.6	9.7	9.4	9.2
Provision	5.6	2.4	3.5	3.1	2.9
Taxes	0.0	1.5	1.5	1.6	1.6
ROA	0.3	4.6	4.8	4.7	4.7
Equity multiplier (x)	5.1	4.6	4.1	4.1	4.1
RoAE	1.7	21.2	19.5	19.3	19.2

Source: Company, Anand Rathi Research

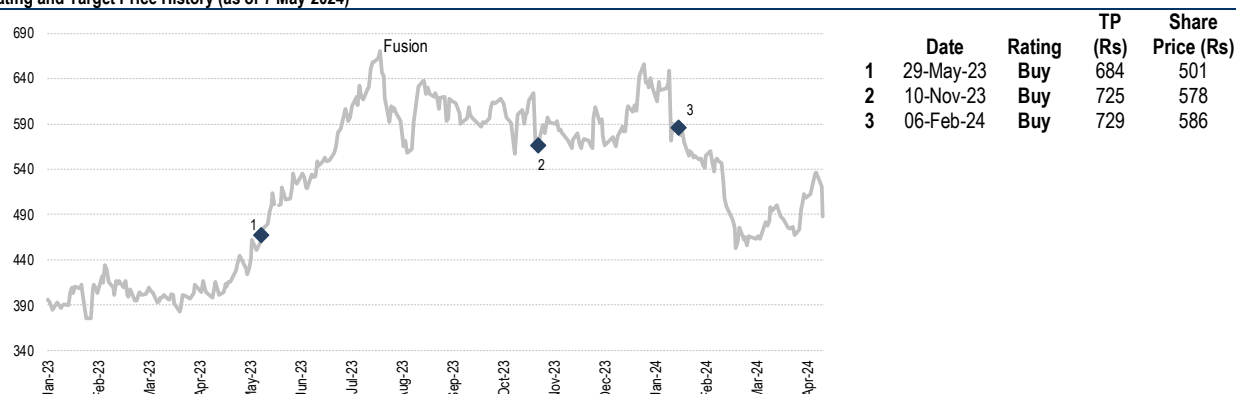
Appendix

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