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**IPO Report**

31<sup>st</sup> Oct' 22

**Snapshot**

Fusion Microfinance Ltd provide financial services to underserved women across India in order to facilitate their access to greater economic opportunities. Company's focus customer segment is women in rural areas with an annual household income of up to ₹300,000. As of June 30, 2022, company had 2.90 million active borrowers which were served by its network of 966 branches and 9,262 employees spread across 377 districts in 19 states and union territories in India. Company had the fourth fastest gross loan portfolio CAGR of 53.89% between the financial years 2017 and 2021.

**VALUATION**

Company is bringing the issue at price band of Rs 350-368 per share at p/b multiple of 1.84x on FY22 basis.

Company is well diversified and has extensive Pan-India presence with strong rural focus. Company has access to diversified sources of capital and effective asset liability management with robust underwriting process and risk management policies. Company's stable and experienced management team supported by marquee investors indicates decent fundamentals with strong growth potential in future. Also issue seems reasonably priced at current level but looking after industry, we recommend "Subscribe" on issue for risk appetite investors.

|                                  |                                 |
|----------------------------------|---------------------------------|
| <b>Price Band (Rs./Share)</b>    | <b>350-368</b>                  |
| <b>Opening date of the issue</b> | <b>02<sup>nd</sup> Nov'2022</b> |
| <b>Closing Date of the issue</b> | <b>04<sup>th</sup> Nov'2022</b> |
| <b>No of shares pre issue</b>    | 84,326,388 Eq Shares            |
| <b>Issue Size</b>                | Rs 1079-1104 Cr                 |
| <b>Fresh Issue</b>               | Rs 600 Cr                       |
| <b>Offer For Sale</b>            | 13,695,466 Eq Shares            |
| <b>Face Value (Rs/ share)</b>    | Rs 10/share                     |
| <b>Bid Lot</b>                   | 40                              |

**BIDDING DETAILS**

|                                |   |
|--------------------------------|---|
| <b>QIBs (Including Anchor)</b> | 50% of the offer (Approx 14999906 Eq Shares)                |
| <b>Non-Institutional</b>       | 15% of the offer ( Approx 4499972 Eq Shares)                |
| <b>Retail</b>                  | 35 % of the offer ( Approx 10499935 Eq Shares)              |
| <b>Lead managers</b>           | ICICI Securities, CLSA India, IIFL Securities, JM Financial |
| <b>Registrar to the issue</b>  | Link Intime India Pvt Ltd.                                  |

**WHAT WE LIKE**

***Well Diversified and Extensive Pan-India Presence***

As of June 30, 2022, company had 2.90 million active borrowers which were served by its 966 branches and 9,262 employees spread across 377 districts in 19 states and union territories in India. Company's extensive geographic presence puts it in a vantage position to lend across the country in a scalable manner while maintaining low operating costs, helps company mitigate any risks arising from economic, political, cultural or environmental factors particular to a specific region, and allows company to offer "last-mile" connectivity to its customers in even the most remote areas.

***Access to Diversified Sources of Capital and Effective Asset Liability Management***

Over the years, company have adopted a calibrated approach towards diversifying its fund raising sources and minimizing company's costs of borrowings with prudent asset liability management and effective liquidity management. Company's average effective cost of borrowings have declined at a steady rate and was 10.10%, 10.43%, 11.23% and 12.33% for the three months ended June 30, 2022 and the financial years 2022, 2021 and 2020, respectively. Company's focus on building a healthy balance sheet with a good mix of assets, liability and equity and a positive net asset position has enabled it to overcome various negative market conditions in the past

***Proven Execution Capabilities with Strong Rural Focus***

Company have a long history of serving rural markets with high growth potential in the microfinance segment, and have maintained a track record of financial performance and operational efficiency through consistently high rates of customer acquisition and retention and lowcost expansion into underpenetrated areas. Company's total AUM grew at a CAGR of 37.17% from ₹36,065.24 million as of March 31, 2020 to ₹67,859.71 million as of March 31, 2022, and was ₹73,890.23 million as of June 30, 2022. Over the last decade, company have built a deep rural franchise in the microfinance segment. As of June 30, 2022, 2.05 million or 70.77% of company's total customers, 696 branches or 72.05% of company's total branches, and ₹67,511.99 million or 91.37% of its total AUM, were from rural areas.



## COMPANY BACKGROUND

Company have prioritized organic geographic diversification since its inception in 2010, with a focus on strategic management of state concentration risk by expanding into underpenetrated rural areas that offer significant growth opportunities. As a result, company have achieved a significant footprint across India, where it have extended its reach to 2.90 million active borrowers which were served through company's network of 966 branches and 9,262 permanent employees spread across 377 districts in 19 states and union territories in India, as of June 30, 2022. Company's significant footprint of active borrowers and branch network puts company in a vantage position to further penetrate and deepen its presence in areas in which company have established branch infrastructure but remain relatively untapped and also to expand into new regions that have significant growth potential. Company's extensive and geographically diverse distribution network allows it to offer "last-mile" connectivity to company's customers in remote rural areas. According to CRISIL, company had the fourth lowest gross loan portfolio per district and second lowest gross loan portfolio per customer among the top ten NBFC-MFIs in India, for the financial year 2022, demonstrating better diversification and lower risk per customer. As a result of company's active management of state concentration, company have been able to maintain low levels of AUM concentration per state despite its growth over the years. As of June 30, 2022, no single state contributed to more than 20.00% of company's total AUM, and its proportion of AUM in its five largest states in terms of AUM concentration has further decreased from ₹6,124.90 million or 94.61% of company's total AUM as of March 31, 2016 to ₹48,854.21 million or 66.12% of company's total AUM as of June 30, 2022. As of June 30, 2022, company's share of AUM from customers in rural areas represented 91.37% of its total AUM.

Company benefit from a large and diversified mix of 56 lenders comprising a range of public banks, private banks, foreign banks and financial institutions, as of June 30, 2022. Company had the second highest number of lender relationships among the top 10 NBFC-MFIs in India as of March 31, 2022. Company have been able to consistently raise both debt and equity capital over the years and, in turn, have maintained healthy capital adequacy ratios despite challenging environments. Company's average effective cost of borrowings have declined at a steady rate and was 10.10%, 10.43%, 11.23% and 12.33% for the three months ended June 30, 2022 and the financial years 2022, 2021 and 2020, respectively

### Company's Products

**Income-generating loans :** Income-generating loans are company's core loan product for use by women in rural areas and are intended to provide capital for their small businesses.

**MSME loans :** Company offer MSME loans to eligible enterprises. To be eligible for MSME loans, an enterprise must be a manufacturer, trader or service provider, and have an investment limit of less than ₹1,500,000. Company grant MSME loans for amounts up to ₹1,500,000. The annual effective interest rate of company's MSME loans is currently 27.00%, and it charge a non-refundable loan processing fee up to 3.00% of the loan amount. The term of an MSME loan is up to 10 years, with principal and interest payments due on a monthly basis, subject to compliance with any applicable local law requirements. Disbursements under company's MSME loans category amounted to ₹353.68 million and ₹1,214.89 million in the three months ended June 30, 2022 and the financial year 2022, respectively.

**Emergency loans :** Company also grant emergency loans to existing customers to fund urgent financial requirements arising out of unforeseen events such as health emergencies, natural disasters and family bereavements. To be eligible for its emergency loans, a customer must have completed at least one cycle of company's income-generation loans with no delinquency and a minimum attendance rate of 60.00% at its scheduled center meetings. Company grant emergency loans for amounts ranging from ₹3,000 to ₹7,000. The annual effective interest rate of company's emergency loans is currently 19.00%, and company do not charge a processing fee for such loans. The term of an emergency loan is typically 8 months, with repayment made in the form of equated monthly installments on a fortnightly or monthly basis. As of June 30, 2022, company had ₹0.12 million emergency loans outstanding.



| <b>INVESTMENT RATIONALE</b>   |  |
|---|--|
| <b><i>Robust Underwriting Process and Risk Management Policies</i></b>                          | Company's robust risk management policies and underwriting processes, such as extensive customer assessment methodologies and monitoring systems, have resulted in healthy portfolio quality indicators. As of June 30, 2022 and March 31, 2022, 2021 and 2020, company's gross NPA ratio was 3.67%, 5.71%, 5.51% and 1.12%, respectively, and its net NPA ratio was 1.35%, 1.64%, 2.20% and 0.38%, respectively. Company had the sixth lowest gross NPA ratio among the top 10 NBFC-MFIs in India during the financial year 2022, and its average asset quality of 2.4% between the financial year 2015 and financial year 2022 was the lowest among all NBFC-MFIs operating in North India. Company's risk management division is divided into separate teams that are respectively dedicated to managing and mitigating credit risk, market risk and operational risk, and which are subject to oversight by its Risk Management Committee and its Board of Directors.  |
| <b><i>Technologically Advanced Operating Model</i></b>  | Company have followed a well-defined IT strategy since its inception with clear targets that company regularly review and revise in order to remain at the forefront of the dynamic and fast-evolving nature of business technology. Company have utilized a loan origination system since the disbursement of its very first loan in 2010 and, through its technology transformation over the years, company have automated and digitized various customer acquisition and customer service functions. Company's current platforms support mobile customer onboarding, paperless loan processing, real-time application tracking using barcodes, real-time credit checks, cloud computing, integrated credit bureau data collection, comprehensive online grievance redressal, geographic tagging for center meetings and real time notifications to customers. Company adopted cloud computing software as early as 2013, which has provided it with agility, flexibility and improved collaboration in scaling company's business in a cost efficient manner.   |
| <b><i>Access to Diversified Sources of Capital and Effective Asset Liability Management</i></b> | Over the years, company have adopted a calibrated approach towards diversifying its fund raising sources and minimizing its costs of borrowings with prudent asset liability management and effective liquidity management. Company's average effective cost of borrowings have declined at a steady rate and was 10.10%, 10.43%, 11.23% and 12.33% for the three months ended June 30, 2022 and the financial years 2022, 2021 and 2020, respectively. Its focus on building a healthy balance sheet with a good mix of assets, liability and equity and a positive net asset position has enabled company to overcome various negative market conditions in the past. Company benefit from a large and diversified mix of lenders which has increased over the years and included 56 lenders as of June 30, 2022, comprising a range of public banks, private banks, foreign banks and financial institutions to meet company's capital requirements. Company have been continuously widening its lender pool with the aim of adding different types of lender every year. Company had the second highest number of lender relationships among the top 10 NBFC-MFIs in India as of March 31, 2022. |
| <b><i>Stable and Experienced Management Team Supported by Marquee Investors</i></b>             | Company was founded by Mr. Devesh Sachdev, a first-generation entrepreneur who has 26 years of experience in the banking and financial services and logistics industry. As a result of his strategic vision and focus on building a culture that fosters growth, attracts talent and encourages long-term thinking, company has grown to become a significant contributor to financial inclusion in India. Company also benefit from support of marquee investors, including Warburg Pincus LLC, a leading private equity firm focused on growth investing across several sectors, and Creation Investments Fusion, LLC, a leading alternative investment management company with a focus on private equity and private credit investments in emerging market financial services companies serving underserved and underbanked clients, both of whom are now company's Promoters.  |



## OBJECTS OF OFFER

Company proposes to utilize the Net Proceeds towards augmenting its capital base. In addition, company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges and enhancement of its brand name amongst its existing and potential customers and creation of a public market for equity Shares in India.

## RISKS

Company's management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, collection and remedial management, provisioning policies and an overall architecture for managing credit risk. However, even if company's credit monitoring and risk management policies and procedures are adequate and appropriately implemented, company may not be able to anticipate future economic or financial developments or downturns, which could lead to an increase in its NPAs. If company's NPAs increase or the credit quality of company's borrowers deteriorate, it could have an adverse effect on company's business, financial condition, results of operations and cash flows

Source:RHP

## INDUSTRY OVERVIEW

### Outlook for Indian Microfinance Industry

CRISIL Research expects MFI Industry to grow at 18-20% CAGR between FY2022-2025. During the same period, NBFC-MFIs are expected to grow at a much faster rate of 20-22% as compared to the MFI industry. Key drivers behind superior growth outlook of the MFI industry include increasing penetration into the hinterland and expansion into newer states, faster growth in rural segment, expansion in average ticket size, and support systems like credit bureaus. The presence of self-regulatory organisations (SRO) like MFIN and Sa-Dhan is also expected to support sustainable growth of the industry going forward. Microfinance sector in India regulated by the RBI. The RBI's new regulatory regime for micro finance loans effective April 2022 has done away with interest rate cap applicable on loans given by NBFC-MFIs, and also supports growth by enabling players to calibrate pricing in line with customer risk.

### Key enablers behind growth of Microfinance Industry

- Digitalisation to bring down costs, improve collection efficiency and profitability for MFIs. CRISIL Research expects that the lower cost of servicing customers, better productivity and lower credit costs through the use of technology will help MFIs improve their profitability.
- MFIs have built a large distribution network in urban and rural India. Now these MFIs are leveraging this network to distribute financial and non-financial products including insurance and product financing of other institutions to members at a cost lower than competition.

### Rising Penetration to Support Continued Growth of the Industry

Although, India's household credit penetration on MFI loan has increased to 33% in the financial year 2020 from 23% in the financial year 2017. The penetration is still on the lower side as only 4 states have penetration higher than 40%. There is huge untapped market available for MFI players. As of the end of March 2022, the microfinance industry had grown at a CAGR of 22% since the financial year 2018. In the financial year 2022, the industry grew by 10% year on year to reach ₹3.02 trillion as of March 2022. Going forward, CRISIL Research expects the overall portfolio size to reach ₹5.0 trillion by end of the financial year 2025.



| <b>Financials</b>      | <b>Q1FY23</b> | <b>FY22</b> | <b>FY21</b> | <b>FY20</b> |
|------------------------|---------------|-------------|-------------|-------------|
| Total Income           | 3604.47       | 12013.49    | 8730.88     | 7303.11     |
| Total Expenses         | 2402.54       | 8082.30     | 5954.87     | 5376.17     |
| Pre Provision Profit   | 1201.93       | 3931.19     | 2776.01     | 1926.94     |
| Provisions             | 200.64        | 3686.93     | 2207.80     | 926.99      |
| PBT                    | 1001.29       | 244.26      | 568.21      | 999.95      |
| Tax                    | 250.27        | 26.71       | 128.47      | 303.85      |
| PAT                    | 751.02        | 217.55      | 439.74      | 696.10      |
| Eq Cap                 | 827.84        | 827.60      | 790.37      | 789.50      |
| Net Worth              | 14,164.65     | 13,379.51   | 12,463.55   | 11,988.89   |
| EPS                    | 8.91          | 2.58        | 5.47        | 8.66        |
| Book Value             | 167.97        | 158.66      | 155.05      | 149.15      |
| NIM %                  | ---           | 8.39        | 9.22        | 8.85        |
| Cost To Income ratio   | 44.68         | 44.27       | 44.26       | 50.92       |
| CRAR %                 | 21.13         | 21.94       | 27.26       | 35.82       |
| GNPA%                  | 3.67          | 5.71        | 5.51        | 1.12        |
| NNPA%                  | 1.35          | 1.64        | 2.20        | 0.38        |
| ROE%                   | 21.81         | 1.68        | 3.59        | 7.63        |
| ROA%                   |               | 0.33        | 0.87        | 1.77        |
| Collection Efficiency% | 95.22         | 92.32       | 96.38       | 98.36       |

(Source: RHP)

## Peer Comparison

| <b>FY22</b>                | <b>Yields on advances</b> | <b>Cost of borrowing</b> | <b>NIM</b>   | <b>Opex Ratio</b> | <b>Cost to Income Ratio</b> | <b>Credit costs Ratio</b> |
|----------------------------|---------------------------|--------------------------|--------------|-------------------|-----------------------------|---------------------------|
| CreditAccess               | 19.16%                    | 8.18%                    | 9.72%        | 3.25%             | 29.73%                      | 3.27%                     |
| Satin Creditcare           | 21.31%                    | 10.47%                   | 7.46%        | 5.58%             | 64.44%                      | 2.30%                     |
| Spandana Sphoorty          | 20.64%                    | 11.64%                   | 9.69%        | 4.10%             | 32.81%                      | 6.13%                     |
| Bandhan Bank               | 13.88%                    | 4.88%                    | 6.87%        | 2.78%             | 30.54%                      | 6.21%                     |
| Equitas SFB                | 17.33%                    | 6.75%                    | 7.89%        | 6.60%             | 662%                        | 1.91%                     |
| Ujjivan SFB                | 16.73%                    | 5.70%                    | 8.07%        | 6.80%             | 71.68%                      | 5.19%                     |
| <b>Fusion Microfinance</b> | <b>20.56%</b>             | <b>9.72%</b>             | <b>8.66%</b> | <b>4.76%</b>      | <b>44.26%</b>               | <b>5.62%</b>              |

(Source: RHP)





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