

04 August 2023

India | Equity Research | Q1FY24 Result Review

## Fusion Micro Finance

Financial Services

### Steady performance with RoE sustaining >20% for past 5 quarters

Fusion Microfinance (Fusion) continues to deliver industry-leading profitability in Q1FY24- as reflected in it sustaining ~5% RoA and >20% RoE during the past 5 quarters. This is an outcome of its diversified operations with no single state contributing >20% of AUM, rural portfolio accounting for 93%, quality underwriting, proactive risk management and deep understanding of demographics in states where it operates. Disbursements fell by only 4% QoQ vs >20% for peers. Overall, AUM grew 4% QoQ, equally driven by new customer addition and ticket-size increase. While it continued to invest towards distribution expansion (opened >130 branches in the past 1 year), productivity improvement (AUM per branch increased to INR 90mn in Q1FY24 vs 78mn in Q1FY23) led to cost-income ratio remaining stable at 36%. Maintain **BUY** with a revised target price of INR 800 (earlier INR 650) as we now value at 2.5x Sep'24E BVPS vs 2x earlier given improved visibility on it sustaining 20% RoE in neat term.

### AUM growth remained robust at 31% YoY / 4% QoQ growth

Key feature of Fusion's growth journey so far, including Q1FY24, has been steady growth, unlike industry trend of weak first quarter. Further, Fusion has always focused on customer-led growth as reflected in 24% YoY growth in borrower base during Q1FY24 while ticket size grew only 6% YoY during Q1FY24. Outstanding per borrower now stands at INR 26,997, one of the lowest in MFI space. Total borrower base stands at 3.6mn as of Jun'23.

### Strong operating performance led to industry-leading profitability

PAT during Q1FY24 grew 12% QoQ to INR 1.2bn, largely driven by steady revenue growth and contained operating cost. NII growth remained robust 6% QoQ led by 4% QoQ AUM growth and NIM expansion of >30bps QoQ. Asset yield expansion at 50bps QoQ to 21.5% protected NIM as cost of borrowing too increased by 20bps QoQ. Quality underwriting, stable management team, strong rural presence (less vulnerable than urban) and negligible exposure in states that were highly covid-impacted (e.g. Kerala, Maharashtra, West Bengal, Assam) helped Fusion sail through the pandemic phase with relatively better asset quality metrics. As a result, asset quality ratios are steadily declining from their peaks. During Q1FY24, GNPL fell to 3.2% (3.5% QoQ) while NNPL remained at 0.8% with PCR of 76%.

**Key risks:** 1) AUM growth deceleration and 2) stress unfolding higher than anticipation.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	5,607	9,573	12,135	15,688
PAT (INR mn)	217	3,872	5,235	6,984
EPS (INR)	2.6	38.6	52.2	69.6
% Chg YoY	(52.9)	1,372.8	35.2	33.4
P/E (x)	245.4	16.7	12.3	9.2
P/BV (x)	4.0	2.8	2.3	1.8
Gross Stage - 3 (%)	5.7	3.5	2.7	2.7
Book value per share (INR)	161.7	231.4	283.6	353.2
RoAA (%)	0.3	4.6	4.7	4.8
RoAE (%)	1.7	21.2	20.3	21.9

#### Renish Bhuva

renish.bhuva@icicisecurities.com  
+91 22 6807 7465

#### Vaibhav Arora

vaibhav.arora@icicisecurities.com

#### Market Data

Market Cap (INR)	65bn
Market Cap (USD)	782mn
Bloomberg Code	FUSION IN
Reuters Code	
52-week Range (INR)	691 / 321
Free Float (%)	32.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	46.9	59.4	0.0
Relative to Sensex	7.4	8.2	13.2

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

24-05-2023: [Q4FY23 results review](#)

23-03-2023: [Company Update](#)

**Exhibit 1: Q1FY24 result review**

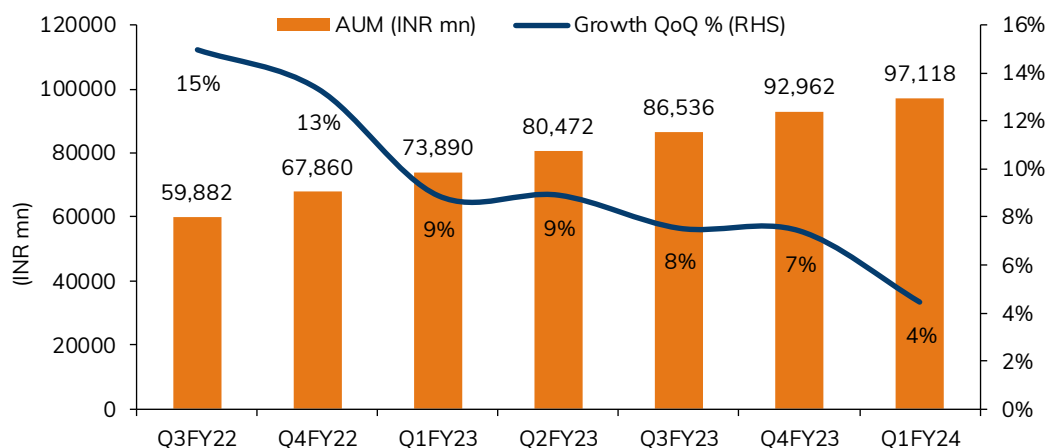
(INR mn)	Q1FY24	Q1FY23	% chg YoY	Q4FY23	% chgQoQ
Interest Income	5,311	3,427	55.0	5,009	6.0
Interest Expended	1,835	1,432	28.1	1,742	5.3
<b>Net interest income (NII)</b>	<b>3,476</b>	<b>1,995</b>	<b>74.2</b>	<b>3,267</b>	<b>6.4</b>
Other income	217	177	22.5	198	9.7
<b>Total income</b>	<b>3,693</b>	<b>2,173</b>	<b>70.0</b>	<b>3,465</b>	<b>6.6</b>
Operating expenses	1,339	971	38.0	1,253	6.8
-Staff expenses	978	722	35.5	894	9.4
-Other expenses	361	248	45.3	359	0.4
<b>Operating profit</b>	<b>2,354</b>	<b>1,202</b>	<b>95.8</b>	<b>2,211</b>	<b>6.5</b>
Total provisions	759	201	278.4	692	9.7
<b>Profit before tax</b>	<b>1,595</b>	<b>1,001</b>	<b>59.3</b>	<b>1,519</b>	<b>5.0</b>
Tax	390	250	55.8	374	4.3
<b>Profit after tax</b>	<b>1,205</b>	<b>751</b>	<b>60.4</b>	<b>1,145</b>	<b>5.2</b>

**Key statistic (INR mn)**

	Q1FY24	Q1FY23	% chg YoY	Q4FY23	% chgQoQ
<b>AuM</b>	<b>97,118</b>	<b>73,890</b>	<b>31.4</b>	<b>92,962</b>	<b>4.5</b>
Borrowers (in mn)	3.6	2.9	24.1	3.5	2.0
Calc. Avg ticket size	26,977	25,479	5.9	26,335	2.4

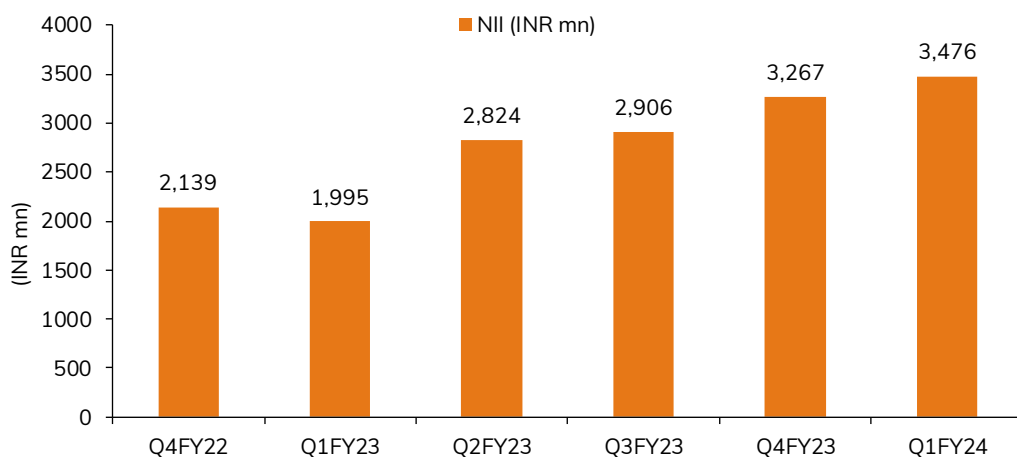
Ratios (%)			bps chg YoY	bps chg QoQ	
<b>Profitability ratios</b>					
Portfolio Yields	21.5	19.5	200	21.0	50
Cost of Funds	10.6	10.1	50	10.4	20
<b>NIM</b>	<b>10.9</b>	<b>9.4</b>	<b>150</b>	<b>10.6</b>	<b>33</b>
RoAum	5.0	-	499	5.0	1
<b>Asset Quality</b>					
Gross NPL ratio	3.2	NA		3.5	(26)
Net NPL ratio	0.8			0.9	(9)
<b>PCR</b>	<b>75.6</b>			<b>74.9</b>	<b>77</b>
<b>Business &amp; Other Ratios</b>					
Cost-income ratio	36.3	44.7	(842)	36.2	8
<b>CAR</b>	<b>28.3</b>			<b>27.9</b>	<b>32</b>

Source: Company data, I-Sec research

**Exhibit 2: AUM grew 4% QoQ despite Q1 being seasonally the weakest quarter**

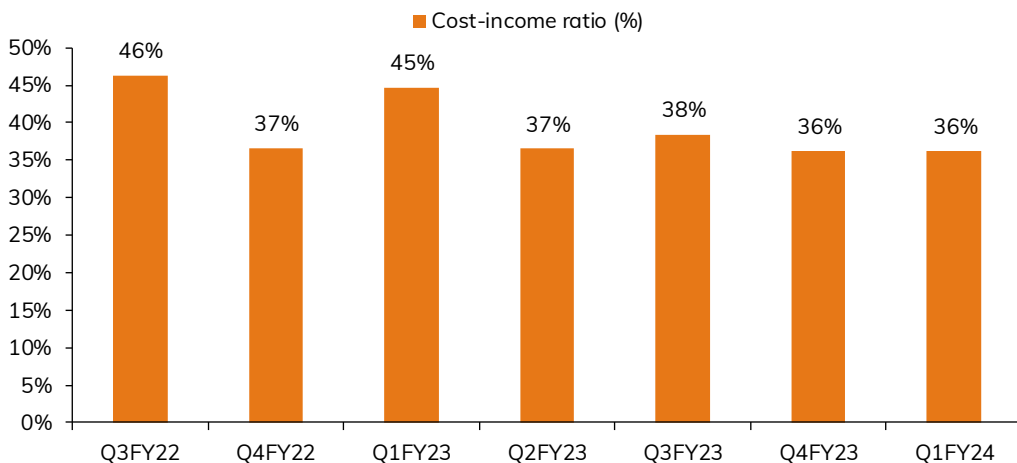
Source: Company data, I-Sec research

**Exhibit 3: NII grew 6% QoQ driven by strong AUM growth and NIM expansion...**



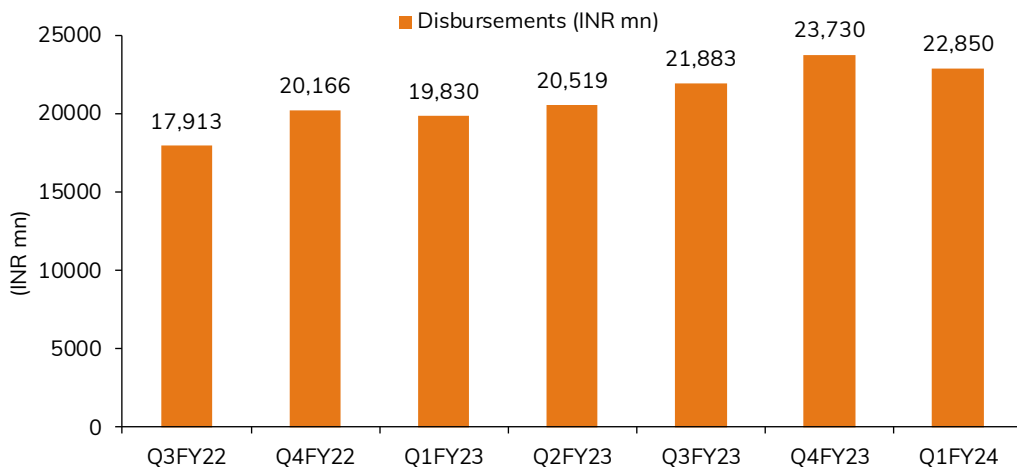
Source: Company data, I-Sec research

**Exhibit 4: ...the same resulted in cost/income ratio remaining flat QoQ at 36% during Q1FY24**



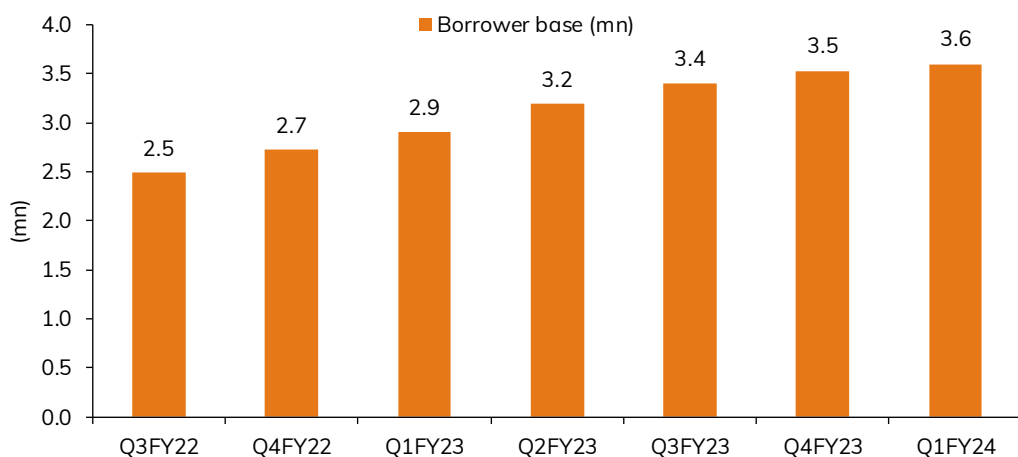
Source: Company data, I-Sec research

**Exhibit 5: Strong traction in disbursement continued...**



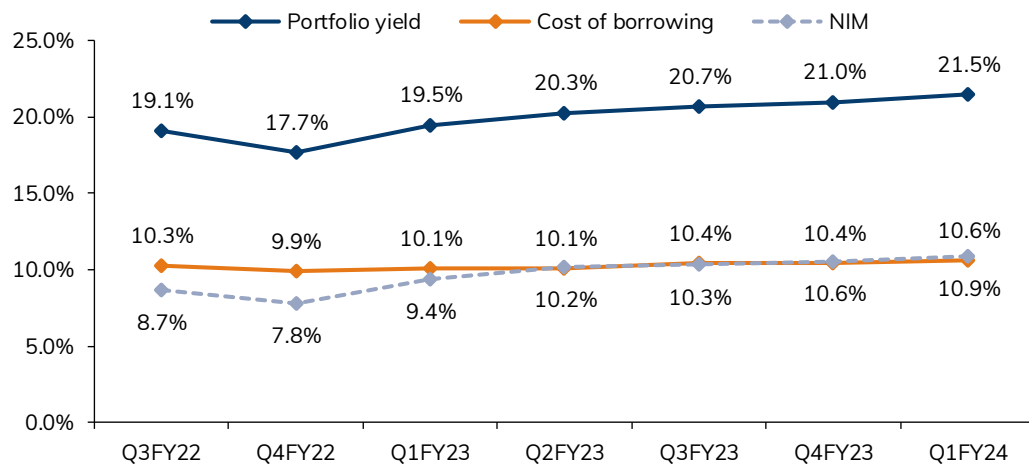
Source: Company data, I-Sec research

**Exhibit 6: ...led by new customer acquisition**



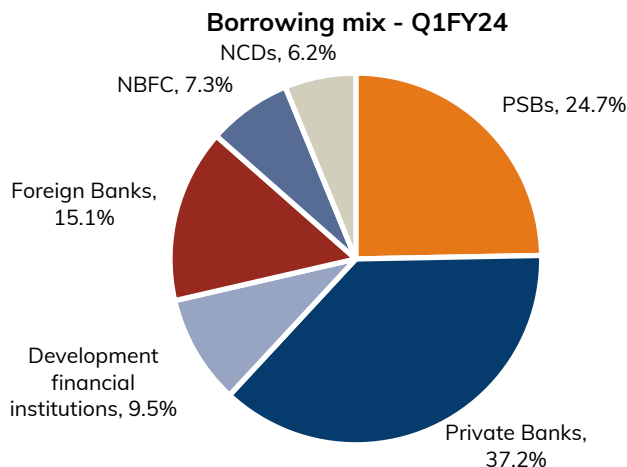
Source: Company data, I-Sec research

**Exhibit 7: NIM sustained at >10% with asset repricing outpacing cost of borrowing increase**



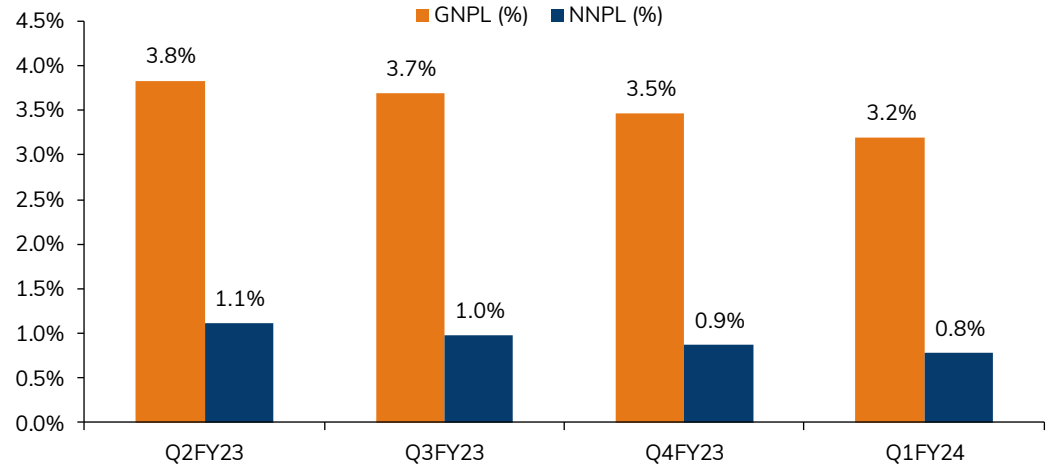
Source: Company data, I-Sec research

**Exhibit 8: Bank borrowing remained the major source of funding**



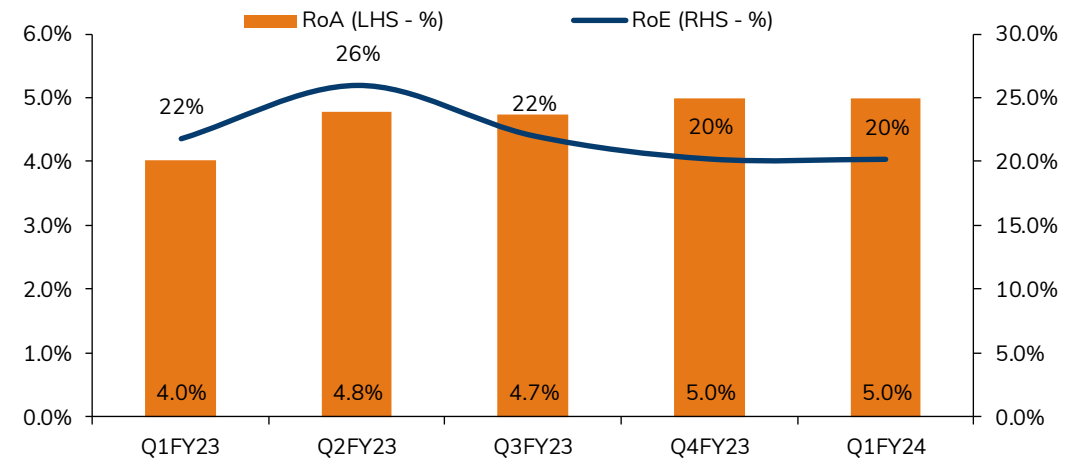
Source: Company data, I-Sec research

**Exhibit 9: Steady improvement in asset quality ratios**



Source: Company data, I-Sec research

**Exhibit 10: Profitability remained healthy; RoA at ~5% during Q1FY24**



Source: Company data, I-Sec research

**Exhibit 11: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	68.2	68.2	68.2
Institutional investors	18.1	19.5	20.9
MFs and other	9.6	9.9	11.2
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	2.3	2.9	2.9
FIIIs	6.2	6.7	6.8
Others	13.7	12.3	10.9

Source: Bloomberg, I-Sec research

**Exhibit 12: Price chart**



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Interest Income	10,566	16,001	21,443	27,463
Interest Expenses	(4,960)	(6,428)	(9,307)	(11,775)
Net Interest Income (NII)	5,607	9,573	12,135	15,688
<b>Other Income</b>	<b>1,447</b>	<b>1,999</b>	<b>2,510</b>	<b>3,139</b>
Total Income (net of interest expenses)	7,054	11,572	14,646	18,827
<b>Employee benefit expenses</b>	<b>(2,331)</b>	<b>(3,255)</b>	<b>(4,079)</b>	<b>(5,035)</b>
Depreciation and amortization	(54)	(74)	(96)	(120)
Other operating expenses	(738)	(1,119)	(1,456)	(1,820)
Total Operating Expense	(3,123)	(4,448)	(5,631)	(6,976)
Pre Provisioning Profits (PPoP)	3,931	7,124	9,014	11,852
<b>Provisions and write offs</b>	<b>(3,687)</b>	<b>(2,004)</b>	<b>(2,092)</b>	<b>(2,616)</b>
<b>Profit before tax (PBT)</b>	<b>244</b>	<b>5,120</b>	<b>6,922</b>	<b>9,236</b>
Total tax expenses	(27)	(1,248)	(1,688)	(2,252)
<b>Profit after tax (PAT)</b>	<b>217</b>	<b>3,872</b>	<b>5,235</b>	<b>6,984</b>

Source Company data, I-Sec research

### Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Share capital	828	1,003	1,003	1,003
Reserves & surplus	12,552	22,216	27,450	34,434
<b>Shareholders' funds</b>	<b>13,380</b>	<b>23,219</b>	<b>28,454</b>	<b>35,438</b>
Borrowings	59,092	70,175	99,049	1,25,238
Provisions & Other Liabilities	433	241	241	241
Total Liabilities and Stakeholder's Equity	72,905	93,635	1,27,744	1,60,917
Cash and balance with RBI	11,536	10,650	12,844	16,058
<b>Fixed assets</b>	<b>122</b>	<b>133</b>	<b>139</b>	<b>146</b>
Loans	59,182	80,416	98,802	1,23,521
Deferred tax assets (net)	868	777	785	793
<b>Other Assets</b>	<b>1,197</b>	<b>1,659</b>	<b>15,173</b>	<b>20,398</b>
Total Assets	72,905	93,635	1,27,744	1,60,917

Source Company data, I-Sec research

**Exhibit 15: Key ratios**

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>AUM and Disbursements (INR mn)</b>				
AUM	67,860	92,960	1,16,238	1,45,319
Disbursements	61,798	85,960	1,07,450	1,34,313
Repayments	40,316	60,860	84,172	1,05,231
Growth (%):				
Total AUM (%)	46.3	37.0	25.0	25.0
Disbursements (%)	67.0	39.1	25.0	25.0
<b>Repayments (%)</b>	<b>51.0</b>	<b>51.0</b>	<b>38.3</b>	<b>25.0</b>
Loan book (on balance sheet) (%)	46.3	37.0	25.0	25.0
Total Assets (%)	24.9	28.4	36.4	26.0
Net Interest Income (NII) (%)	30.1	70.8	26.8	29.3
Non-interest income (%)	115.7	38.1	25.6	25.0
Total Income (net of interest expenses) (%)	41.6	64.1	26.6	28.5
Operating Expenses (%)	41.7	42.5	26.6	23.9
Employee Cost (%)	38.2	39.7	25.3	23.4
Non-Employee Cost (%)	54.2	51.6	30.1	25.0
Pre provisioning operating profits (PPoP) (%)	41.6	81.2	26.5	31.5
Provisions (%)	67.0	(45.7)	4.4	25.0
PBT (%)	(57.0)	1,996.1	35.2	33.4
PAT (%)	(50.7)	1,685.7	35.2	33.4
EPS (%)	(52.9)	1,372.8	35.2	33.4
<b>Yields, interest costs and spreads (%)</b>				
NIM on loan assets (%)	9.5	11.9	12.3	12.7
NIM on IEA (%)	8.1	10.5	10.4	10.8
NIM on AUM (%)	9.8	11.9	11.6	12.0
<b>Yield on loan assets (%)</b>	<b>17.9</b>	<b>19.9</b>	<b>21.7</b>	<b>22.2</b>
Yield on IEA (%)	15.2	17.5	18.4	18.9
Yield on AUM (%)	18.5	19.9	20.5	21.0
Cost of borrowings (%)	9.5	9.9	11.0	10.5
Interest Spreads (%)	9.0	10.0	9.5	10.5
Operating efficiencies				
Non interest income as % of total income	46.7	53.2	50.7	51.3
Cost to income ratio	44.3	38.4	38.5	37.1
Op.costs/avg assets (%)	4.8	5.3	5.1	4.8
<b>Op.costs/avg AUM (%)</b>	<b>5.5</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>
No of employees (estimate) (x)	8,704	-	-	-
No of branches (x)	934	339	-	-
Salaries as % of non-interest costs (%)	74.6	73.2	72.4	72.2
NII /employee (INR mn)	0.6	-	-	-
AUM/employee(INR mn)	7.8	-	-	-
AUM/ branch (INR mn)	72.7	274.2	-	-
<b>Capital Structure</b>				
Average gearing ratio (x)	4.4	3.0	3.5	3.5
Leverage (x)	5.4	4.0	4.5	4.5
CAR (%)	21.9	26.8	21.8	19.6
<b>Tier 1 CAR (%)</b>	<b>19.9</b>	<b>25.3</b>	<b>20.9</b>	<b>18.9</b>
Tier 2 CAR (%)	2.0	1.4	0.9	0.7
RWA (estimate) - INR mn	62,049	87,663	1,31,555	1,82,289
RWA as a % of loan assets	104.8	109.0	133.1	147.6

Source Company data, I-Sec research

	FY22A	FY23A	FY24E	FY25E
<b>Asset quality and provisioning</b>				
GNPA (%)	5.7	3.5	2.7	2.7
NNPA (%)	1.6	0.9	0.8	0.8
Coverage ratio (%)	71.9	74.9	70.4	70.4
Credit Costs as a % of avg AUM (bps)	645	249	200	200
Credit Costs as a % of avg on book loans (bps)	645	249	200	200
<b>Return ratios</b>				
RoAA (%)	0.3	4.6	4.7	4.8
<b>RoAE (%)</b>	<b>1.7</b>	<b>21.2</b>	<b>20.3</b>	<b>21.9</b>
ROAAUM (%)	0.4	4.8	5.0	5.3
<b>Valuation Ratios</b>				
No of shares	83	100	100	100
<b>No of shares (fully diluted)</b>	<b>83</b>	<b>100</b>	<b>100</b>	<b>100</b>
EPS (INR)	2.6	38.6	52.2	69.6
EPS fully diluted (INR)	2.6	38.6	52.2	69.6
Price to Earnings (x)	245.4	16.7	12.3	9.2
Price to Earnings (fully diluted) (x)	245.4	16.7	12.3	9.2
Book Value (fully diluted)	162	231	284	353
Adjusted book value	162	231	284	353
Price to Book	4.0	2.8	2.3	1.8
Price to Adjusted Book	4.0	2.8	2.3	1.8

Source Company data, I-Sec research

**Exhibit 16: Key metrics**

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>DuPont Analysis</b>				
Average Assets (INR mn)	65,642	83,270	1,10,690	1,44,330
Average Loans (INR mn)	51,395	69,799	89,609	1,11,162
Average Equity (INR mn)	12,922	18,299	25,836	31,946
Interest earned (%)	16.1	19.2	19.4	19.0
Interest expended (%)	7.6	7.7	8.4	8.2
<b>Gross Interest Spread (%)</b>	<b>8.5</b>	<b>11.5</b>	<b>11.0</b>	<b>10.9</b>
Credit cost (%)	5.6	2.4	1.9	1.8
<b>Net Interest Spread (%)</b>	<b>2.9</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>
Operating cost (%)	4.8	5.3	5.1	4.8
<b>Lending spread (%)</b>	<b>(1.8)</b>	<b>3.7</b>	<b>4.0</b>	<b>4.2</b>
Non interest income (%)	2.2	2.4	2.3	2.2
<b>Operating Spread (%)</b>	<b>0.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.4</b>
Tax rate (%)	11.2	24.4	24.4	24.4
<b>ROAA (%)</b>	<b>0.3</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>
Effective leverage (AA/ AE)	5.1	4.6	4.3	4.5
<b>RoAE (%)</b>	<b>1.7</b>	<b>21.2</b>	<b>20.3</b>	<b>21.9</b>

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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