

Fusion Finance had posted disproportionately higher stress/LLP in 1Q, and indicated guiding on incremental LLP after assessing the asset quality trend in 2Q. In an exchange release, the management has indicated higher LLP at Rs5-5.5bn in 2Q vs Rs3.5bn in 1Q; we believe this could partly be due to upfronting of stress/LLP and, thus, lead to higher net loss in 2Q. Additionally, founder cum MD & CEO Devesh Sachdev has indicated to the Board about stepping down from his executive role and assuming chairmanship once the nomination committee appoints a new CEO. The company has also replaced COO Tarun Mehndiratta, heading MFI, with external hire Sunil Mundra (ex RBL, ICICI Bank) and strengthening its underwriting/collection mechanism. Factoring in the higher than expected NPAs/LLP and the potential impact of elevated stress on growth, we cut FY25E/26E/27E earnings by 86%/30%/22% and resultantly our TP to Rs260/sh (earlier Rs340), rolling over to 0.8x Sep-26E ABV (earlier 1x Jun-26E ABV); retain REDUCE amid higher asset quality/management concern.

Fusion Finance: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	3,871	5,052	471	3,501	5,101
Loan growth (%)	35.9	23.7	14.2	17.4	20.7
NII growth (%)	68.4	35.9	24.5	8.3	15.3
NIM (%)	12.0	12.7	13.2	12.4	12.1
PPOP growth (%)	81.2	44.3	17.8	(0.5)	8.6
Adj. EPS (Rs)	42.3	50.3	4.7	34.8	50.7
Adj. EPS growth (%)	1,477.6	18.9	(90.7)	642.9	45.7
Adj. BV (INR)	245.0	274.6	277.6	310.3	360.1
Adj. BVPS growth (%)	53.9	11.0	1.5	12.2	15.9
RoA (%)	4.6	4.8	0.4	2.4	3.0
RoE (%)	21.2	19.7	1.7	11.5	14.7
P/E (x)	7.3	6.1	65.5	8.8	6.0
P/ABV (x)	1.2	1.1	1.1	1.0	0.8

Source: Company, Emkay Research

Management guides to higher LLP in 2Q, amid continued elevated stress

Fusion had reported higher NPAs in 1Q at 5.5%, mainly due to early recognition of stress given the disproportionately higher delinquency/recovery trends seen in northern India as well as in states like Tamil Nadu, Rajasthan, Odisha, Jharkhand, and Madhya Pradesh. Management attributed the higher stress due to industry-wide overleveraging, JLG indiscipline, field attrition, and recent impact of elections/floods in select states. Though these are industry-wide issues, we believe the disproportionately higher stress seen for Fusion could be due to its own weak underwriting standards as well as recovery mechanism. In its 1Q results call, management had declined to give any future guidance on LLP till it had assessed recovery trends. Hopefully, with some clarity on these, the management has guided to Rs5-5.5bn (20% annualized on AUM) provisions in 2Q which we believe could be partly due to upfronting of stress as well as provisioning.

Plans to rejig top management; capital raise to strengthen balance sheet

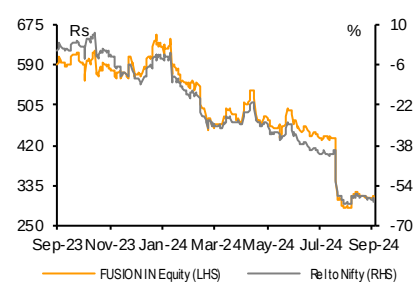
The company has already replaced COO Tarun Mehndiratta, heading MFI, with external hire Sunil Mundra (ex RBL, ICICI Bank) who has experience across Rural Banking, Branch & Business Banking, Risk & Control, and Digital Banking. Also, current Founder cum MD & CEO Devesh Sachdev has decided to step down from the executive role and take up the Chairmanship, once the new CEO has been appointed. We believe that the change in management and risk-off stance would derail the growth cart for the company. Thus, we cut our growth by 300-500bps over FY25-28E which, coupled with higher LLP and collection cost, would lead to a sharp fall in its RoA trajectory to 0.4-3% over FY25-28E. To strengthen its balance sheet, the company also plans to raise capital to the tune of Rs5.5bn, despite higher CAR at 26%. We believe any capital raise around current levels could be BV dilutive for the medium term.

Target Price – 12M	Sep-25
Change in TP (%)	(23.5)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(15.2)
CMP (20-Sep-24) (Rs)	306.6

Stock Data	Ticker
52-week High (Rs)	675
52-week Low (Rs)	281
Shares outstanding (mn)	101.0
Market-cap (Rs bn)	31
Market-cap (USD mn)	371
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	167.8
ADTV-3M (USD mn)	2.0
Free float (%)	32.0
Nifty-50	25,791
INR/USD	83.6
Shareholding, Jun-24	
Promoters (%)	57.7
FPIs/MFs (%)	4.0/22.8

Price Performance			
(%)	1M	3M	12M
Absolute	5.7	(35.4)	(49.0)
Rel. to Nifty	1.2	(40.9)	(60.7)

1-Year share price trend (Rs)



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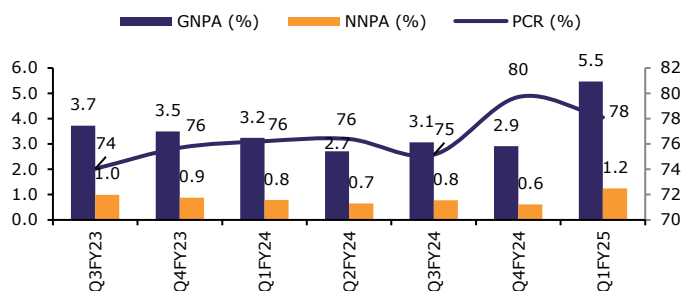
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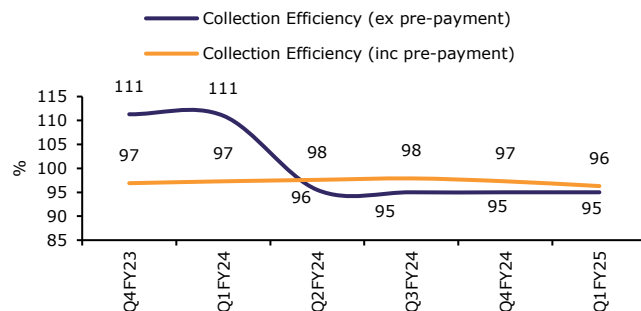
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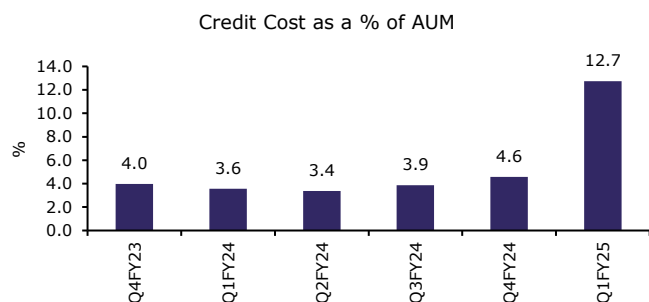
Story in Charts

Exhibit 1: Higher slippages lead to GNPA/NNPA ratios shooting up


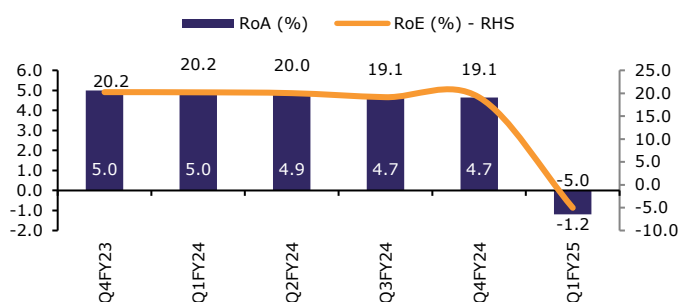
Source: Company, Emkay Research

Exhibit 2: Collection efficiency impacted by stress in MFI


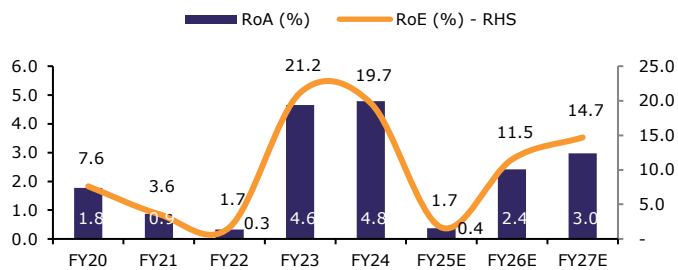
Source: Company, Emkay Research

Exhibit 3: Credit cost elevated in Q1FY25 due to higher delinquency trends; expected to continue in Q2FY25 as well


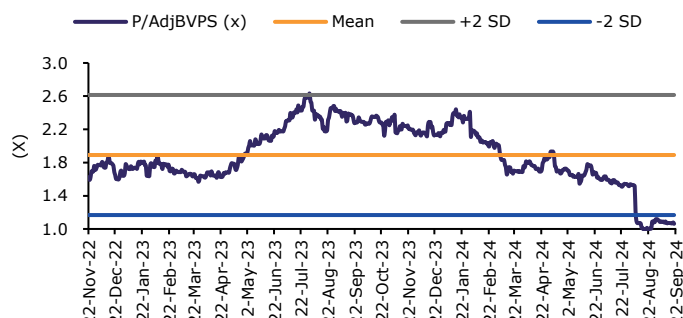
Source: Company, Emkay Research

Exhibit 4: Return ratios turn negative on significantly higher LLP


Source: Company, Emkay Research

Exhibit 5: We reduce our RoA/RoE for Fusion, given higher than expected NPAs/LLP and potential impact of elevated stress on growth


Source: Company, Emkay Research

Exhibit 6: The stock trades at 1.1x its 1Y forward ABV


Source: Bloomberg, Emkay Research

Exhibit 7: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	20,239	19,776	-2.3%	23,072	21,506	-6.8%	26,819	24,588	-8.3%
PPOP	12,623	12,112	-4.0%	13,734	12,051	-12.2%	15,533	13,092	-15.7%
PAT	3,401	471	-86.1%	4,985	3,501	-29.8%	6,565	5,101	-22.3%
EPS (Rs)	33.8	4.7	-86.1%	49.5	34.8	-29.8%	65.2	50.7	-22.3%
BV (Rs)	314.0	284.9	-9.3%	363.6	319.7	-12.1%	428.8	370.4	-13.6%

Source: Emkay Research

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Fusion Finance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	16,001	20,919	25,749	28,565	32,967
Interest Expense	6,428	7,908	9,554	11,025	12,749
Net interest income	9,573	13,011	16,195	17,540	20,218
NII growth (%)	68.4	35.9	24.5	8.3	15.3
Other income	1,999	3,205	3,581	3,966	4,370
Total Income	11,572	16,216	19,776	21,506	24,588
Operating expenses	4,448	5,935	7,664	9,455	11,496
PPOP	7,124	10,281	12,112	12,051	13,092
PPOP growth (%)	81.2	44.3	17.8	(0.5)	8.6
Core PPOP	7,124	10,281	12,112	12,051	13,092
Provisions & contingencies	2,004	3,649	11,482	7,371	6,273
PBT	5,120	6,632	630	4,680	6,819
Extraordinary items	0	0	0	0	0
Tax expense	1,248	1,580	159	1,179	1,718
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,871	5,052	471	3,501	5,101
PAT growth (%)	1,685.4	30.5	(90.7)	642.9	45.7
Adjusted PAT	3,871	5,052	471	3,501	5,101
Diluted EPS (Rs)	41.6	49.5	4.6	34.3	49.9
Diluted EPS growth (%)	1,475.6	19.1	(90.7)	642.9	45.7
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	24.4	23.8	25.2	25.2	25.2
Net interest margins (%)	12.0	12.7	13.2	12.4	12.1
Cost-income ratio (%)	38.4	36.6	38.8	44.0	46.8
Shares outstanding (mn)	108.3	100.6	100.6	100.6	100.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,083	1,006	1,006	1,006	1,006
Reserves & surplus	22,136	27,475	27,946	31,447	36,548
Net worth	23,219	28,482	28,953	32,453	37,554
Deposits	0	0	0	0	0
Borrowings	67,784	86,693	103,068	120,941	145,899
Interest bearing liab.	67,784	86,693	103,068	120,941	145,899
Other liabilities & prov.	2,632	2,569	1,922	2,861	3,454
Total liabilities & equity	93,635	117,743	133,942	156,255	186,907
Net advances	80,416	99,479	113,612	133,330	160,888
Investments	0	0	0	0	0
Cash, other balances	10,650	15,532	17,306	19,469	22,055
Interest earning assets	91,066	115,011	130,918	152,799	182,943
Fixed assets	212	336	269	354	471
Other assets	2,357	2,396	2,756	3,102	3,493
Total assets	93,635	117,743	133,942	156,255	186,907
BVPS (Rs)	252.7	280.6	284.9	319.7	370.4
Adj. BVPS (INR)	245.0	274.6	277.6	310.3	360.1
Gross advances	92,960	114,761	133,123	155,753	183,789
Credit to deposit (%)	118.6	114.7	110.2	110.2	110.3
CASA ratio (%)	-	-	-	-	-
Cost of deposits (%)	-	-	-	-	-
Loans-to-Assets (%)	85.9	84.5	84.8	85.3	86.1
Net advances growth (%)	37.0	23.5	16.0	17.0	18.0
Deposit growth (%)	-	-	-	-	-
Book value growth (%)	53.3	10.6	1.5	12.2	15.9

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	2,889.0	2,972.5	7,299.0	9,426.2	10,319.6
Net NPLs	707.9	603.1	729.9	942.6	1,032.0
GNPA ratio (%)	3.5	2.9	6.1	6.6	6.1
NNPA ratio (%)	0.9	0.6	0.6	0.7	0.6
Provision coverage (%)	75.5	79.7	90.0	90.0	90.0
Gross slippages	1,776.7	3,281.8	9,614.5	7,090.7	5,956.2
Gross slippage ratio (%)	2.2	3.2	8.0	5.0	3.5
LLP ratio (%)	2.8	4.0	10.3	5.6	4.0
NNPA to networth (%)	3.0	2.1	2.5	2.9	2.7
Capital adequacy					
Total CAR (%)	27.9	27.5	24.4	23.3	22.4
Tier-1 (%)	27.0	27.4	24.2	23.1	22.2
CET-1 (%)	27.0	27.4	24.2	23.1	22.2
RWA-to-Total Assets (%)	88.4	85.0	86.0	87.0	88.0
Miscellaneous					
Total income growth (%)	49.8	34.0	21.6	10.9	14.8
Opex growth (%)	42.5	33.4	29.1	23.4	21.6
Core PPOP growth (%)	81.2	44.3	17.8	(0.5)	8.6
PPOP margin (%)	8.6	9.7	9.6	8.3	7.6
PAT/PPOP (%)	54.3	49.1	3.9	29.0	39.0
LLP-to-Core PPOP (%)	28.1	35.5	94.8	61.2	47.9
Yield on advances (%)	23.1	23.3	24.2	23.2	22.4
Cost of funds (%)	10.2	10.2	10.1	9.8	9.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	7.3	6.1	65.5	8.8	6.0
P/B (x)	1.2	1.1	1.1	1.0	0.8
P/ABV (x)	1.3	1.1	1.1	1.0	0.9
P/PPOP (x)	4.7	3.0	2.5	2.6	2.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split (%)					
NII/avg assets	11.5	12.3	12.9	12.1	11.8
Other income	2.4	3.0	2.8	2.7	2.5
Fee income	1.9	2.4	2.2	2.2	2.1
Opex	5.3	5.6	6.1	6.5	6.7
PPOP	8.6	9.7	9.6	8.3	7.6
Core PPOP	8.6	9.7	9.6	8.3	7.6
Provisions	2.4	3.5	9.1	5.1	3.7
Tax expense	1.5	1.5	0.1	0.8	1.0
RoA (%)	4.6	4.8	0.4	2.4	3.0
Leverage ratio (x)	4.6	4.1	4.4	4.8	4.9
RoE (%)	21.2	19.7	1.7	11.5	14.7
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	2,955	3,058	3,386	3,612	3,979
NIM(%)	10.9	11.1	11.5	11.6	11.6
PPOP	2,354	2,418	2,603	2,907	2,978
PAT	1,205	1,257	1,265	1,327	(356)
EPS (Rs)	12.00	12.52	12.60	13.22	(3.55)

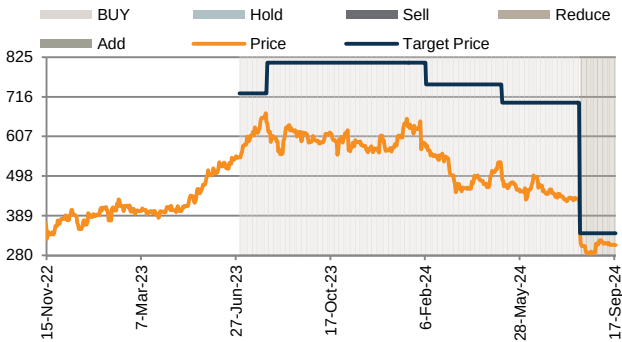
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Aug-24	346	340	Reduce	Anand Dama
07-May-24	488	700	Buy	Anand Dama
07-Feb-24	577	750	Buy	Anand Dama
30-Nov-23	564	810	Buy	Anand Dama
07-Nov-23	569	810	Buy	Anand Dama
03-Aug-23	643	810	Buy	Anand Dama
01-Jul-23	549	725	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
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ADD	5-15% upside
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SELL	<15% downside

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