

## Fusion Micro Finance Limited

Incorporated in 1994, Fusion Micro Finance Limited (FML) is one of the youngest companies among the top NBFC-MFIs in India in terms of AUM. FML is engaged in providing financial services to unserved and underserved section of society. The company has achieved a significant footprint across India, where they have extended reach to 2.90 million active borrowers which are served through its 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. The company's business runs on a joint liability group-lending model, wherein a small number of women form a group (typically comprising five to seven members) and guarantee one another's loans.

**Positives:** (a) Well Diversified and Extensive Pan-India Presence (b) Technologically Advanced Operating Model (c) Well-positioned to capitalize on industry tail winds (d) Stable and Experienced Management Team Supported by Marquee Investors

**Investment concerns:** (a) A large portion of collections and disbursements from customers are in cash, exposing company to operational risks (b) Any downturn in economy can impact GNPA/NNPA ratios (c) Any disruption in sources of funding or increase in costs of funding could adversely affect liquidity and financial condition

**Outlook & Valuation:** In terms of valuations, the post-issue P/B works out to 1.9x adjusted FY22 BVPS and P/E of 168x FY22 Diluted EPS (at upper price band of the IPO). FML has strong revenue growth (CAGR of 31%) and healthy advances growth (CAGR of 33%) over 2 years period. Though it posted strong growth in top lines, it recorded declining profits due to the pandemic, and expansion spending from FY20 to FY22. Going forward, strong tailwinds in banking sector, uptick in credit cycle and strong Q1FY23 results of FML, considering all the positive factors, we believe this valuation is at reasonable levels. Thus, we recommend a **NEUTRAL** rating on the issue. Investors may consider investment from a medium to long term perspective.

### Key Financials

Y/E March (₹ cr)	FY'20	FY'21	FY'22
<b>Net Interest Income</b>	<b>329</b>	<b>452</b>	<b>568</b>
% chg		38%	26%
<b>Net profit</b>	<b>70</b>	<b>44</b>	<b>22</b>
% chg		-37%	-50%
NIM (%)	9.8%	10.4%	9.6%
EPS (₹)	8.4	5.3	2.6
P/E (x)	43.8	69.3	140.0
P/ABV (x)	2.5	2.4	2.3
RoA (%)	1.6%	0.8%	0.3%
RoE (%)	5.8%	3.5%	1.6%

Source: Company RHP, Angel Research

## NEUTRAL

Issue Open: November 02, 2022

Issue Close: November 04, 2022

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 82.76cr

Offer for Sale: ₹ 504cr

Fresh issue: ₹ 600cr

Post Eq. Paid up Capital: ₹ 99.1cr

Issue size (amount): ₹ 1,104cr

Price Band: ₹350 - ₹368

Lot Size: 40 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹3,551cr - \*\* ₹3,703cr

Promoters holding Pre-Issue: 85.57%

Promoters holding Post-Issue: 58.10%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	58.1%
Public	41.9%

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## Company background

Incorporated in 1994, Fusion Micro Finance Limited (FML) is one of the youngest companies among the top NBFC-MFIs in India in terms of AUM. FML is engaged in providing financial services to unserved and underserved section of society. The company has achieved a significant footprint across India, where they have extended reach to 2.90 million active borrowers which are served through its 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. The company's business runs on a joint liability group-lending model, wherein a small number of women form a group (typically comprising five to seven members) and guarantee one another's loans.

It benefits from a large and diversified mix of 56 lenders comprising a range of public banks, private banks, foreign banks, and financial institutions. It has second-highest number of lender relationships among the top 10 NBFC-MFIs in India. Technology is an integral part of FML's overall business strategy. Through the early adoption of cloud computing software and emphasis on best-in-class security practices, it established a foundation in enabling automation and digitalization of several processes across business functions including customer onboarding, customer service, loan disbursements, internal audit, and risk management. FML continues to invest in and upgrade technology platforms and solutions with the goal of applying a comprehensive "Touch & Tech" model across operations that focuses on maintaining frequent technology-based communication points that enhance efficiency and customer experience.

## Issue details

The IPO is made up of Fresh issue of ₹600cr and offer for sale of ₹504cr making the total Issue size of ₹1,104cr.

### Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	7,21,61,216	85.6%	5,84,65,750	58.1%
Public	1,14,54,800	13.6%	4,14,54,614	41.2%
Others	7,10,372	0.8%	7,10,372	0.7%
<b>Total</b>	<b>8,43,26,388</b>	<b>100.0%</b>	<b>10,06,30,736</b>	<b>100.0%</b>

Source: Company, Angel Research

## Objectives of the Offer

Rs 600cr proceeds from the fresh issue would be utilized for strengthening the Capital Adequacy position of the company

## Financial Summary

### Income Statement

Y/E March (₹ cr)	FY'20	FY'21	FY'22
<b>Net Interest Income</b>	<b>329</b>	<b>452</b>	<b>568</b>
- YoY Growth (%)		38%	26%
Other Income	64	46	137
- YoY Growth (%)		-29%	201%
<b>Operating Income</b>	<b>393</b>	<b>498</b>	<b>705</b>
- YoY Growth (%)		27%	42%
Operating Expenses	200	220	312
- YoY Growth (%)		10%	42%
<b>Pre - Provision Profit</b>	<b>193</b>	<b>278</b>	<b>393</b>
- YoY Growth (%)		44%	42%
<b>Prov. &amp; Cont.</b>	93	221	369
- YoY Growth (%)		138%	67%
<b>Profit Before Tax</b>	<b>100</b>	<b>57</b>	<b>24</b>
- YoY Growth (%)		-43%	-57%
Provision for Taxes	30	13	3
- as a % of PBT	30%	23%	11%
<b>PAT</b>	<b>70</b>	<b>44</b>	<b>22</b>
- YoY Growth (%)		-37%	-50%

Source: Company, Angel Research

**Balance Sheet (Consolidated)**

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Equity	79	79	83
Reserve & Surplus	1,120	1,167	1,255
<b>Total Net worth</b>	<b>1,199</b>	<b>1,246</b>	<b>1,338</b>
- Growth (%)		4%	7%
<b>Financial Liabilities</b>			
Debt Securities	400	990	784
Borrowings	2,457	3,325	4,829
Subordinated liabilities	117	117	163
Other Financial Liabilities	55	138	159
<b>Non-Financial Liabilities</b>			
Provisions	6	8	7
Other Liabilities	6	13	11
<b>Total Liabilities</b>	<b>4,240</b>	<b>5,838</b>	<b>7,290</b>
<b>Financial Assets</b>			
Cash Balances	540	1,215	1,011
Bank Balances	278	120	142
Advances	3,343	4,361	5,918
- Growth (%)		30%	36%
Other Financial Assets	27	33	71
<b>Non-Financial Assets</b>			
Fixed Assets	6	18	19
Other Assets	46	91	128
<b>Total Assets</b>	<b>4,240</b>	<b>5,838</b>	<b>7,291</b>
- Growth (%)		38%	25%

Source: Company, Angel Research

### Key Ratios

Y/E March (₹ cr)	FY'20	FY'21	FY'22
<b>Profitability ratios (%)</b>			
NIMs	9.8%	10.4%	9.6%
Cost to Income Ratio	51%	44%	44%
RoA	1.6%	0.8%	0.3%
RoE	5.8%	3.5%	1.6%
<b>B/S ratios (%)</b>			
CAR	36%	27%	22%
Tier I	33%	26%	20%
<b>Asset Quality (%)</b>			
Gross NPAs	1.1%	5.5%	5.7%
Net NPAs	0.4%	2.4%	1.7%
Provision /Avg. Assets	2%	4%	6%
Provision Coverage	65%	57%	69%
<b>Per Share Data (₹)</b>			
EPS	8.41	5.31	2.63
Diluted EPS	7.03	4.44	2.20
BVPS	144.9	150.6	161.7
ABVPS	144.6	150.4	158.6
<b>Profitability ratios (%)</b>			
NIMs	9.8%	10.4%	9.6%
Cost to Income Ratio	51%	44%	44%

Source: Company, Angel Research;

### ROA TREE

Y/E March	FY'20	FY'21	FY'22
Interest Income	15.7%	14.2%	14.6%
Interest Expense	8.0%	6.4%	6.8%
<b>Net Interest Income</b>	<b>7.8%</b>	<b>7.7%</b>	<b>7.8%</b>
Other Income	1.5%	0.8%	1.9%
<b>Total Income</b>	<b>9.3%</b>	<b>8.5%</b>	<b>9.7%</b>
Operating Expenses	4.7%	3.8%	4.3%
<b>PPoP</b>	<b>4.5%</b>	<b>4.8%</b>	<b>5.4%</b>
Provisions	2.2%	3.8%	5.1%
<b>Profit Before Tax</b>	<b>2.4%</b>	<b>1.0%</b>	<b>0.3%</b>
Provision for Taxes	0.7%	0.2%	0.0%
<b>ROA</b>	<b>1.6%</b>	<b>0.8%</b>	<b>0.3%</b>
Leverage	3.5	4.7	5.4
<b>ROE</b>	<b>5.8%</b>	<b>3.5%</b>	<b>1.6%</b>

Source: Company, Angel Research;

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