



SMC Ranking

★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Banking and financial services
Offer for sale (Shares)	13,695,466
Fresh Issue (Shares)	16,304,348
Net Offer to the Public	29,999,814
Issue Size (Rs. Cr.)	1049.99-1103.99
Price Band (Rs.)	350 - 368
Offer Date	2-Nov-22
Close Date	4-Nov-22
Face Value	10
Lot Size	40

Issue Composition

	In shares
Total Issue for Sale	29,999,814
QIB	14,999,907
NIB	4,499,972
Retail	10,499,935

About the company

Incorporated in 1994, Fusion Micro Finance Ltd is engaged in providing financial services to women entrepreneurs belonging to the economically and socially deprived section of the society. Fusion Micro Finance Ltd is one of the youngest companies among the top 10 NBFC-MFIs in India in terms of AUM as of June 30, 2022. The company has achieved a significant footprint across India, where the company has extended its reach to 2.90 million active borrowers which were 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. As of June 30, 2022 and March 31, 2022, 2021 and 2020, its total AUM was Rs. 7389 crore, Rs. 6785.97 Crore, Rs. 4637.84 Crore and Rs. 3606.52 Crore, respectively.

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	85.57%	58.10%
QIB	13.58%	26.29%
NIB	0.84%	5.18%
Retail	0.00%	10.43%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

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 the existing and potential customers and creation of a public market for our Equity Shares in India.

Book Running Lead Manager

- ICICI Securities Limited
- CLSA India Private Limited
- IIFL Securities Limited
- JM Financial Limited

Name of the registrar

- Link Intime India Private Limited

Strength

Well Diversified and Extensive Pan-India Presence: As of June 30, 2022, the 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. It believes its extensive geographic presence puts it in a vantage position to lend across the country in a scalable manner while maintaining low operating costs, helps it to mitigate any risks arising from economic, political, cultural or environmental factors particular to a specific region, and allows it to offer "last-mile" connectivity to its customers in even the most remote areas. The company has a strong focus on reducing state concentration risk through contiguous expansion into new states and widening its reach into untapped markets in a strategically controlled manner.

Proven Execution Capabilities with Strong Rural Focus: It believes that its significant footprint of active borrowers and branch network puts it in a vantage position to further penetrate and deepen its presence in areas in which it established branch infrastructure but remains relatively untapped and also to expand into new regions that have significant growth potential. Its extensive and geographically diverse distribution network allows it to offer "last-mile" connectivity to its customers in remote rural areas.

Access to Diversified Sources of Capital and Effective Asset Liability Management: It benefits 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. According to CRISIL, it had the second-highest number of lender relationships among the top 10 NBFC-MFIs in India as of March 31, 2022.

Robust Underwriting Process and Risk Management Policies: The 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 its active management of state concentration, it has been able to maintain low levels of AUM concentration per state despite growth over the years.

Technologically Advanced Operating Model: Technology is an integral part of FMFL'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. The company 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.

Strategies

Deepen, Strengthen and Expand Geographic Presence: The company believes that its existing customers serve as a foundation of its future growth and seek to prioritize their requirements and customize its offerings to provide them with optimal solutions at their doorstep. The company will continue to offer them privileges such as pre-qualification for preferential interest rates, streamlined loan processing and lower turnaround times, and access to additional products such as its emergency, top-up and cross-sell loan products. The company believes that focusing on increasing customer penetration in these relatively untapped markets will enable it to grow its presence while at the same time benefit from substantial operational efficiencies and lower expansion costs. In addition, it generally seeks to establish new branches in areas that are adjacent to its existing markets or which may have similar customer demographics and financing needs. It has established 690 new branches across 19 states over the last five years, and seeks to maintain this rate of expansion over the next few years.

Continue to Invest in Technology to Enhance Operational Efficiency and Optimize Costs: The Company believes in innovating and investing in state-of-the-art technology to assist it to provide a superior customer experience, attain greater operational and management efficiencies and productivity as well as ensure asset quality, which will, in turn, drive growth in AUM and profitability. It endeavors to employ a comprehensive "Touch & Tech" model across all its operations that focus on maintaining frequent technology-based communication points that enhance efficiency and customer experience. As of June 30, 2022, it had capital expenditures amounting to Rs.3 Crore committed to further investments in technology.

Leverage Network, Domain Expertise and Data to Enhance Product Offering: It expects to derive benefits from economies of scale as there is limited incremental sourcing cost for existing customers, and they are eligible to borrow higher loan amounts from its since they have progressed to higher loan cycles. It believes this strategy serves as an effective mitigation mechanism from potential interest rate volatility and would contribute to its profitability. It seeks to develop new product adjacencies based on the needs of its customers and that complement its existing loan categories.

Continue to Diversify Borrowing Mix and Reduce Cost of Funds: As the company continues to grow the scale of its operations, it is focused on maintaining an adequate liquidity buffer and plans to further increase its lender base to access funds from insurance, pension and provident funds, mutual funds, overseas lenders as well as external commercial borrowings ("ECBs") through the issuance of NCDs and commercial papers. It intends to continue to focus on improving asset liability management and achieving positive interest rate gaps across all time buckets. It believes that these initiatives will enable it to continue to improve its credit ratings and reduce its cost of funds.

Risk factor

- The company margins are in down trend in the last 3 years
- Increase in NPAs can impact the business
- The microfinance industry in India faces unique risks due to the category of borrowers that it

services, which are generally not associated with other forms of lending.

Peer comparison

Co_Name	Net Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Spandana Sphoort	782.86	-91.16	0.00	0.00	1.47	403.87	10	593.00	4208.95
CreditAcc. Gram.	2029.73	586.88	37.59	25.39	3.40	281.12	10	954.50	14901.84
Equitas Sma. Fin	2725.28	365.82	2.92	16.75	1.44	33.88	10	48.90	6130.45
Suryoday Small	722.71	-37.57	0.00	0.00	0.70	142.60	10	99.40	1055.22
Bandhan Bank	11854.75	3857.08	3.97	66.80	2.46	107.90	10	265.20	42719.05
Ujjivan Small	2324.23	21.84	0.11	226.82	1.61	15.53	10	24.95	4876.49
Fusion Micro Finance Ltd.	705.39	21.75	2.16	170.22	1.91	192.58	10	368.00	3703.21

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.368, the stock is priced at pre issue P/E of 142.64x on FY22 EPS of Rs.2.58. Post issue, the stock is priced at a P/E of 170.22x on its EPS of Rs.2.16. Looking at the P/B ratio at Rs.368, pre issue, book value of Rs. 158.66 of P/Bvx 2.32x. Post issue, book value of Rs.192.58of P/Bvx 1.91.

Considering the P/E valuation, on the lower end of the price band of Rs.350, the stock is priced at pre issue P/E of 135.67 on FY22 EPS of Rs.2.58 .Post issue, the stock is priced at a P/E of 161.90x on its EPS of Rs.2.16. Looking at the P/B ratio at Rs.350, pre issue, book value of Rs. 158.66 of P/Bvx 2.21x. Post issue, book value of Rs.192.58of P/Bvx 1.82.

Industry Outlook

The microfinance industry (joint-liability group (“JLG”) portfolio) has recorded healthy growth in the past few years. The industry’s gross loan portfolio (“GLP”) increased at a CAGR of 21% since the financial year 2018 to reach approximately ₹3.1 trillion in the first quarter of the financial year 2023. The growth rate for NBFC-MFIs is the fastest as compared to other player groups. In the financial year 2021, the industry has been adversely impacted due to the onset of the COVID-19 pandemic. While disbursements came to a standstill in the first quarter of the year, they have picked up subsequently. Disbursements have reached to the pre-COVID levels for NBFC-MFI in the third and fourth quarter of the financial year 2021. In the financial year 2022, the second wave of COVID-19 led to a slow start in disbursements. However, with decline in the number of Covid cases and faster recovery of the industry, the situation started improving from the second half with gross loan portfolio registering 10% growth on-year at the end of the financial year 2022. Microfinance industry has grown at a healthy pace over the past few years to reach a GLP (credit outstanding) of ₹3.02 trillion in the financial year 2022 compared to other segments like housing finance and auto finance with credit outstanding of ₹25.5 trillion and ₹8.0 trillion, respectively, in the financial year 2022. The microfinance industry growth has been relatively higher despite the impact of various events like demonetisation, farm loan waivers, natural calamities, IL&FS crisis and outbreak of the COVID-19 crisis. The Industry is expected 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.

Outlook

The company is one of the youngest companies among the top NBFC-MFIs in India. The company has suffered for the last two fiscals on bottom lines due to higher provisioning on account of the pandemic, natural calamities, and branch expansion expenses. A long term investor may opt the Issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	02-November-22
BID/ISSUE CLOSES ON	04-November-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	10-November-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	11-November-22
Credit of Equity Shares to demat accounts of Allottees	14-November-22
Commencement of trading of the Equity Shares on the Stock Exchanges	15-November-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Jun-22 (3 Months)	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)**
Interest Earned	329.36	1,064.32	827.56
Interest Expended	143.19	495.96	375.10
Net Interest Income	186.17	568.36	452.46
Other Income	31.09	137.03	45.52
Net Total Income	217.26	705.39	497.98
Operating Expenses	117.13	680.96	441.19
Operating Profits	100.13	24.43	56.79
Provisions & Contingencies			
Profit Before Tax	100.13	24.43	56.79
Provision for Tax	25.03	2.67	12.85
Net Profit for the year	75.10	21.75	43.94
Add : Profit brought forward			
Profit After Tax	75.10	21.75	43.94

** standalone for the year ended 31st March 2021

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-22	As on 31-Mar-22	As on 31-Mar-21**
Assets			
Fixed Assets	12.07	12.20	10.27
Advances	6,650.90	5,918.19	4,360.73
Investments	0	0	0
Bank balances other than cash and cash equivalents	95.84	142.23	119.84
Cash and cash equivalents	673.81	1,011.37	1,215.42
Other financial assets	58.59	66.87	30.08
Trade receivables	5.80	4.34	2.79
Other Assets	14.25	13.16	10.32
Current tax assets (net)	39.54	35.36	11.96
Deferred tax assets (net)	64.44	86.76	76.53
Total Assets	7,615.24	7,290.48	5,837.93
Liabilities			
Deposits			
Borrowings	5,847.30	5,613.24	4,315.53
Trade payables	36.67	17.66	11.31
Other Liabilities and Provisions	314.80	321.63	264.74
Total Liabilities	6,198.77	5,952.53	4,591.58
NET Worth	1,416.47	1,337.95	1,246.36
Net worth represented by:			
Share capital	82.78	82.76	79.04
Other equity	1,333.68	1,255.19	1,167.32
Net Worth	1,416.47	1,337.95	1,246.36

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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