

Company Overview

Incepted in 2010, Fusion Micro Finance Ltd. (FMFL) is one of the youngest companies (for getting an NBFC-MFI license) to reach amongst the top NBFC-MFIs in India in terms of AUM as of June 30, 2022. The company's key product offerings include income-generating loans that provide capital for women entrepreneurs in rural areas to fund businesses operating in the agriculture-allied and agriculture, manufacturing and production, trade and retail, and services sectors. The 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. Apart from this, FMFL also offers its existing customers top-up loans to manage interim working capital requirements for existing businesses and emergency loans to fund urgent financial needs. In addition, they provide the existing customers cross-sell loans that are utilized for livelihood and productivity-enhancing purposes as well as MSME loans to eligible enterprises. The company prioritizes organic diversification with a focus on strategic management of state concentration risk leading to no single state contribution of more than 20.00% of the total AUM. As of June 30, 2022, the company extended its reach to 2.90 million active borrowers through its network of 966 branches spread across 377 districts in 19 states and union territories in India.

Objects of the Fresh issue

The IPO proceeds will be used towards the following purposes:

⇒ To Augment the capital base of the company

Investment Rationale

Strong execution capabilities in rural areas

The company credits its success in the growth strategy to serving underpenetrated rural areas with high growth opportunities. Fusion Micro Finance benefits from less competition, lower credit penetration, less migration, and better credit behavior in such regions which in turn leads to lower delinquency rates. Among the top ten NBFC-MFIs in India, the company witnessed the highest decline of almost 19% in its cost-to-income ratio between the period FY2019 to FY2022. Additionally, the company had the fourth-lowest gross loan portfolio per district and second-lowest gross loan portfolio per customer in FY2022. The company focuses on a customer-centric model which led them to achieve improving customer retention rates of 71.75%, 70.00%, 68.99%, and 47.43% for the three months ended June 30, 2022, and the financial years 2022, 2021, and 2020, respectively.

Prudent Asset Liability Management (ALM) practices and access to diversified sources of capital

With prudent asset liability management and effective liquidity management, Fusion Micro Finance Ltd. aims to diversify its fundraising sources and minimize its costs of borrowing. The company's average effective cost of borrowings has 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. Also, to meet its capital requirements the company has 56 lenders in total which include a range of public banks, private banks, foreign banks, and financial institutions. As of FY2022, this is the second-highest number of lender relationships among the top 10 NBFC-MFIs in India. This is attributable to improving rating upgrades and the company having a stable credit history.

Valuation and Outlook

The microfinance industry has seen rapid growth over the past few years owing to the small ticket size and doorstep disbursement. Despite this, a large portion of the market remains underpenetrated, thus creating significant growth opportunities for MFIs like Fusion Micro Finance Ltd. The company's average asset quality of 2.4% is ranked lowest among all player groups in the northern region between the financial years 2015 and 2022. However, a large portion of the company's collections and disbursements from customers are in cash, exposing them to certain operational risks. On the upper end of the price band, the issue is valued at a P/B of 1.1x based on FY22 annualized earnings. However, P/E of 139.4x based on the FY22 annualized earnings is aggressively priced and despite of growth in revenue, the company recorded declining profits. Hence, we are not comfortable with the current valuation and suggest investors to "AVOID" this issue.

Issue Details

Offer Period	2 nd Nov– 4 th Nov, 2022
Price Band	INR.350 to INR.368
Bid Lot	40
Listing	BSE&NSE
Issue Size (no. of shares in mn)	3
Issue Size (INR. in bn)	11
Face Value	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%
BRLM	ICICI Securities Limited CLSA India Private Limited IIFL Securities Limited JM Financial Limited
Registrar	Link Intime India Private Limited

Particulars	Pre Issue %	Post Issue %
(Assuming issue subscribed at higher band)		
Promoter	85.57%	58.1%
Public	14.43%	41.9%
Total	100%	100%

Research Team - 022-61596407



Fusion Micro Finance Ltd.

IPO Note

Income Statement (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
Income				
Revenue from Operations	3,427	11,513	8,558	7,203
Total Revenue	3,427	11,513	8,558	7,203
Finance costs	1,432	4,960	3,751	3,377
Impairment on Financial Instruments	201	3,687	2,208	927
Employee benefit expenses	722	2,331	1,686	1,483
Other expenses	234	738	479	490
Total Operating Expenses	2,588	11,716	8,124	6,277
Total Operating Profit	839	(203)	434	925
Depreciation and amortisation expense	15	54	39	26
Other income	177	501	173	100
PBT	1,001	244	568	1,000
Current tax	29	130	589	396
Deferred Tax charge	222	(103)	(460)	(92)
MAT Credit reversed/(availed)	-	-	-	-
Total tax	250	27	128	304
PAT	751	218	439	696
Diluted EPS	9	3	5	10

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in million)

Particulars	Q1FY23	FY22	FY21	FY20
Cash Flow from operating activities	(5,784)	(16,407)	(7,930)	(7,494)
Cash flow from investing activities	37	185	96	201
Cash flow from financing activities	2,372	14,182	14,592	5,451
Net increase/(decrease) in cash and cash equivalents	(3,376)	(2,040)	6,758	(1,843)
Cash and cash equivalents at the beginning of the period	10,114	12,154	5,397	7,240
Cash and cash equivalents at the end of the period	6,738	10,114	12,154	5,397

Source: RHP, BP Equities Research



Fusion Micro Finance Ltd.

IPO Note

Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
Equity and Liabilities				
Share Capital	828	828	790	790
Other Equity	13,337	12,552	11,673	11,199
Net worth	14,165	13,380	12,464	11,989
Financial Liabilities				0
Borrowings	60,100	57,758	44,323	29,737
Provisions	0	0	0	0
Other Financial Liabilities	1,276	1,334	1,266	513
Total Non Current Liabilities	61,375	59,092	45,588	30,250
Current Liabilities				
Derivative Financial Instrument	78	77	-	-
Trade Payables				
(a) total outstanding dues of micro enterprises and small enterprises	-	-	-	-
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	367	177	113	41
Short Term Provisions	68	72	81	58
Other current liabilities	98	106	80	62
Current tax liabilities	1	1	54	1
Total Current Liabilities	612	433	327	160
Total liabilities	61,988	59,525	45,916	30,411
Total Equity and Liabilities	76,152	72,905	58,379	42,399
Assets				
Property, plant and equipment	121	122	103	59
Right-of-Use assets	79	69	78	0
Other Intangible assets	1	1	2	1
Investments	-	-	-	5
Loans and Advances	66,509	59,182	43,607	33,430
Other Financial Assets	586	669	301	238
Deferred tax assets	644	868	765	305
Other non-current assets	-	-	-	-
Total Non current assets	67,940	60,910	44,856	34,039
Investments				
Financial Assets				
Trade Receivables	58	43	28	31
Cash and cash equivalents	6,738	10,114	12,154	5,397
Other Bank Balances	958	1,422	1,198	2,781
Other Financial Assets	63	62	23	33
Other tax assets	395	354	120	119
Total Current Asset	8,213	11,995	13,523	8,361
Total Assets	76,152	72,905	58,379	42,400

Source: RHP, BP Equities Research

Key Risks

- ⇒ 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
- ⇒ The business is particularly vulnerable to interest rate risk, and volatility in interest rates could hurt its net interest income and net interest margin, thereby affecting the results of operations and cash flows.
- ⇒ Any downgrade in the company's credit ratings may constrain its access to capital and debt markets and, as a result, may adversely affect its cost of borrowings and the results of operations.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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