July 2023

Microfinance Industry

Unlocking growth; empowering lives!

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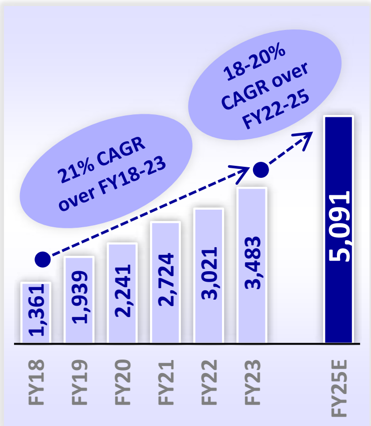
Microfinance Industry: Unlocking growth; empowering lives!

Initiating Coverage

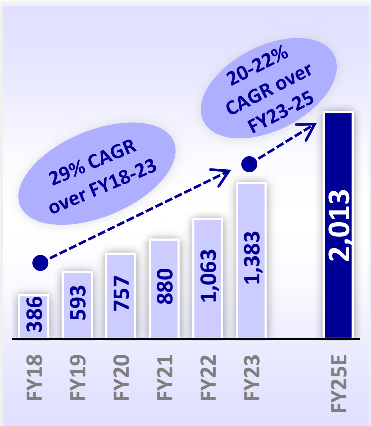
Company update

Microfinance Industry

MFI loans to reach INR5.1t by FY25E – GLP (INR b)



NBFC-MFI to touch ~INR2.0t by FY25E – GLP (INR b)



Microfinance: Unlocking growth; empowering lives!

Initiating coverage on CREDAG, Fusion and Spandana with a BUY

- **The Indian MFI industry is entering the growth phase and we expect the industry to post a healthy 20%+ loan CAGR over FY23-25 along with a further improvement in asset quality and expansion in return ratios. The industry after facing both growth and asset quality disruptions during the Covid-19 period, reported a strong recovery in FY23 that is likely to pick up further pace in the coming years.**
- **NBFC microfinance institutions (NBFC-MFIs) have steadily improved their market share to 40% as of FY23 from 32% in FY20, and their combined loan book grew to INR1.4t as of FY23. Meanwhile, loans from banks and small finance banks (SFBs) saw a modest 9% and 13% CAGR, respectively, over FY20-23.**
- **MFIs' expansion into the significantly under-penetrated and fast-growing regions of North, Central and West provides meaningful growth opportunities, along with geographical diversification.**
- **Improvement in asset quality – as reflected in a sharp decline in PAR-30 book to 2.2% as of FY23 (vs. a peak of 14.8% in Jun'21) – and margin recovery will enable superior growth in earnings during FY24/FY25.**
- **We note that CreditAccess Grameen Ltd (CREDAG), Fusion MicroFinance Ltd (Fusion) and Spandana Sphoorty Financial Ltd (Spandana) together account for 27% of NBFC-MFI loan book. We believe that these MFIs are well positioned to further gain market share and deliver robust earnings. We initiate coverage on CREDAG, Fusion and Spandana with a BUY rating.**
- **Among the unlisted MFIs, there are several sizable players that have demonstrated healthy loan growth along with an improvement in asset quality. Notable ones among them are Asirvad MicroFinance, IIFL Samasta MicroFinance and Muthoot MFI.**

Growth trends recovering; industry size to increase to INR5.1t by FY25

The microfinance industry reported a healthy 24% CAGR over FY18-23 despite high inherent business cyclicality. Industry growth further improved in FY23, with total disbursements amounting INR3.0t of microfinance loans in FY23. Growth was driven by improving penetration in existing states and the expansion into new states. As per CRISIL, the microfinance industry is likely to post a CAGR of 18-20% over FY23-25 to INR5.1t, with NBFC-MFIs set to grow at a faster pace.

Microfinance – the fastest-growing retail product

Among major retail segments, microfinance loans have grown at a faster pace compared to other categories such as credit cards, housing loans and auto loans (see Exhibit 19). We believe that a large untapped market presents a significant growth opportunity for the industry. The share of microfinance loans within total credit stood at 1.3% as of FY23, up from 0.9% in FY18. Within retail loans, the mix of microfinance loans stood at 4.3% as of Mar'23, down from 4.6% as of Mar'22.

NBFC-MFIs to maintain growth leadership

NBFC-MFIs witnessed the fastest growth over FY18-23 with a 24% CAGR to INR1.4t as of FY23. Loans from banks/SFBs saw a CAGR of 9%/13% over FY20-FY23. Accordingly, the share of NBFC-MFIs in total microfinance loans improved to 40% in Mar'23 from 31% in Sep'19, while the share of banks/SFBs moderated to 34%/17%. As per CRISIL, the gross loan portfolio (GLP) of NBFC-MFIs is expected to grow at a faster pace of ~20-22% to ~INR2t by FY25.

Increasing penetration to further augment loan growth

Growth in the microfinance industry has been driven by an increase in the number of unique borrowers and a rise in the ticket size. We note that the number of loan accounts more than doubled to ~130m in FY23 from 57m in FY18, while the number of unique borrowers increased to 66m as of FY23 from 49m in FY19. We further note that MFIs' presence in the fast-growing regions of North, Central and West remains considerably lower compared to other geographies; hence, we believe increasing penetration in these regions provides significant opportunities for growth and geographical diversification. Penetration remains low in key states, UP, Gujarat, Maharashtra and Rajasthan, and these markets can provide healthy growth opportunities over the medium to long term.

PAR-30 book moderates steadily; profitability set to improve

The microfinance industry witnessed a sharp deterioration in asset quality due to Covid-19. The PAR-30+ book, which stood at ~1.3% before Covid (Dec'19), increased to 14.8% in Jun'21 (2nd Covid wave). However, with improvement in the macro environment and the collection run rate, the PAR >30 book improved to 2.2% as of FY23. While NBFC-MFIs have taken a lead in the asset quality turnaround, we saw broad-based improvements in PAR-30 portfolios for most MFIs in FY23. A recovery in the profitability of the industry, a sustained uptick in collection efficiency and improvements in PAR ratios should help MFIs lower credit costs and drive healthy profitability over the medium term.

INITIATING COVERAGE WITH BUY RATING

TP of INR1,550 (CreditAccess Grameen)

TP of INR720 (Fusion Microfinance)

TP of INR865 (Spandana)

Initiating coverage on CREDAG, Fusion and Spandana with a BUY rating

CREDAG, Fusion and Spandana together account for 27% of NBFC-MFI loan book. As the industry recovers from a cyclical downturn, we believe these MFIs are well positioned to deliver robust growth and profitability. Thus, we are deepening our coverage of the industry and initiating coverage on CREDAG, Fusion and Spandana with a BUY rating.

- **CREDAG:** With a strong rural focus (>80% of GLP) and robust process discipline, we estimate CREDAG to deliver AUM/PAT CAGRs of 23%/32% over FY23- 25. Robust technology infrastructure would drive operational efficiencies and enable the company to deliver 4.9% RoA by FY25E. **We initiate coverage on the stock with a BUY rating and a TP of INR1,550 (premised on 3.2x FY25E P/BV).**
- **Fusion:** It is the second largest NBFC-MFI with AUM of ~INR93b as of Mar'23. It has seen a 43% CAGR in AUM over FY18-FY23 (vs. industry CAGR of 21%). The company has a strong rural presence, with its portfolio comprising ~93% of rural loans. We estimate Fusion to deliver a 28%/37% CAGR in AUM/PAT over FY23-FY25, with RoA/RoE of 5.0%/22%. **We initiate coverage on the stock with a BUY rating and a TP of INR720 (premised on 2.0x FY25E P/BV).**
- **Spandana:** The company has a strong rural footprint, with the rural portfolio accounting for ~87% of total AUM. We estimate a ~34% CAGR in AUM over FY23-FY25 and believe that the company will pivot from consolidation to a growth phase as the new management has successfully handled various disruptions in prior quarters. Spandana currently trades at 1.5x FY24E P/BV for estimated RoA/RoE of 4.3%/15% in FY25E. **We initiate coverage on the stock with a BUY rating and a TP of INR865 (based on 1.5x FY25E P/BV).**

Exhibit 1: Valuation matrix for Microfinanciers

Peers	CMP	TP	MCap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR)	(INR b)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CREDAG	1,270	1,550	201.8	397	488	3.2	2.6	75.3	91.2	16.9	13.9	4.9	4.9	21.0	20.6
Spandana	720	865	51.1	495	577	1.5	1.2	58.7	81.7	12.3	8.8	3.9	4.3	12.6	15.2
Fusion MF	596	720	59.9	287	359	2.1	1.7	55.2	72.5	10.8	8.2	5.2	5.5	21.3	22.5

Source: MOFSL, Company

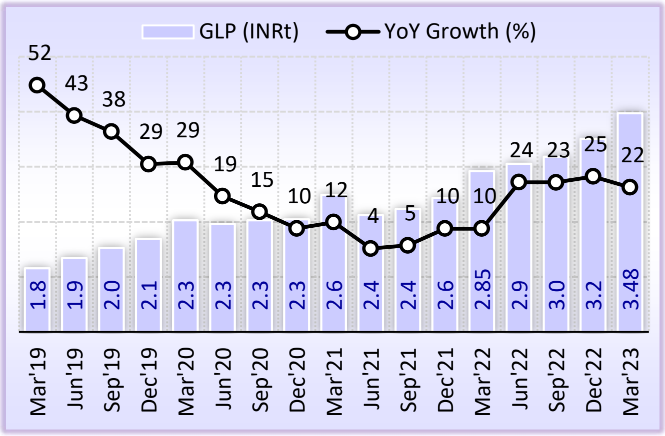
Exhibit 2: Du-Pont analysis for our coverage NBFC-MFI players and Bandhan Bank (%)

DupOnt Analysis	FUSION			SPANDANA			CREDAG			BANDHAN		
Y/E March	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Interest Income	19.2	19.9	20.2	15.5	19.4	20.3	17.0	18.3	18.5	10.8	12.2	12.1
Interest Expended	7.7	7.6	7.5	5.6	8.4	8.8	6.2	7.0	7.1	4.5	5.7	5.6
Net Interest Income	**11.5**	**12.3**	**12.7**	**10.0**	**11.0**	**11.6**	**10.8**	**11.3**	**11.4**	**6.3**	**6.5**	**6.5**
Other Operating Income	1.7	1.5	1.3	1.5	1.5	1.2	1.1	1.0	0.9	1.6	1.4	1.4
Other Income	0.7	0.6	0.5	0.9	0.8	0.7	0.0	0.0	0.0	0.1	0.1	0.1
Net Income	**13.9**	**14.4**	**14.5**	**12.4**	**13.3**	**13.4**	**11.9**	**12.3**	**12.3**	**8.0**	**8.0**	**7.9**
Operating Expenses	**5.3**	**5.4**	**5.3**	**5.6**	**5.7**	**5.5**	**4.2**	**4.2**	**4.2**	**3.1**	**3.4**	**3.5**
Operating Profit	**8.6**	**9.0**	**9.1**	**6.8**	**7.6**	**7.9**	**7.7**	**8.1**	**8.1**	**4.8**	**4.6**	**4.5**
Provisions/write offs	2.4	2.0	1.8	6.6	2.3	2.2	2.0	1.5	1.6	**2.8**	**1.6**	**1.4**
PBT	**6.1**	**7.0**	**7.4**	**0.2**	**5.3**	**5.8**	**5.6**	**6.6**	**6.5**	**2.0**	**3.0**	**3.1**
Tax	1.5	1.8	1.9	0.1	1.4	1.5	1.4	1.7	1.7	0.5	0.7	0.8
RoA	**4.6**	**5.2**	**5.5**	**0.2**	**3.9**	**4.3**	**4.2**	**4.9**	**4.9**	**1.5**	**2.3**	**2.3**
Leverage (x)	4.6	4.1	4.1	2.7	3.2	3.6	4.3	4.3	4.2	8.0	8.2	8.6
RoE	**21.2**	**21.3**	**22.5**	**0.4**	**12.6**	**15.2**	**18.2**	**21.0**	**20.6**	**11.9**	**18.6**	**20.0**

Source: MOFSL, Company

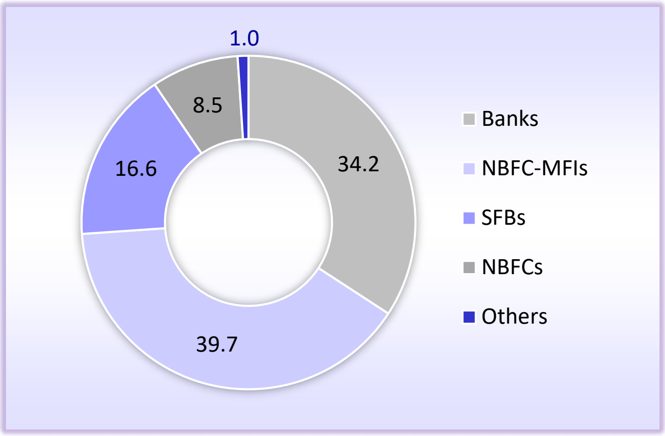
STORY IN CHARTS

Growth in microfinance picking up in the past few quarters



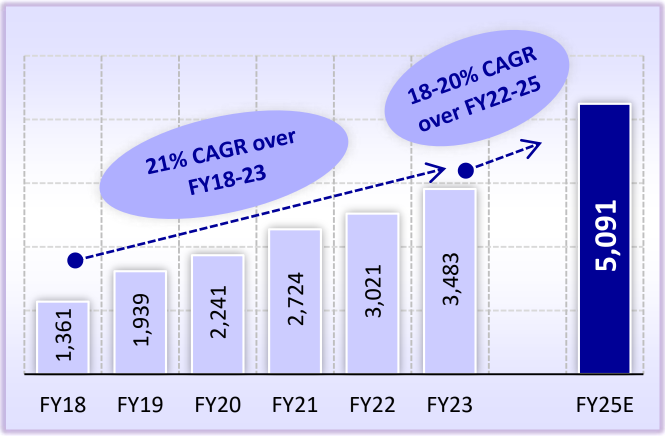
Source: MOFSL, MFIN

Banks and NBFC-MFI's have ~74% of total MFI loans outstanding (%)



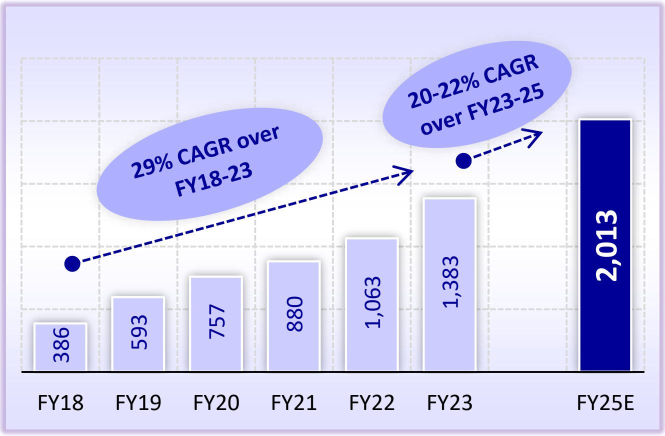
Source: MOFSL, MFIN

MFI loans to reach INR5.1t by FY25E – GLP (INR b)



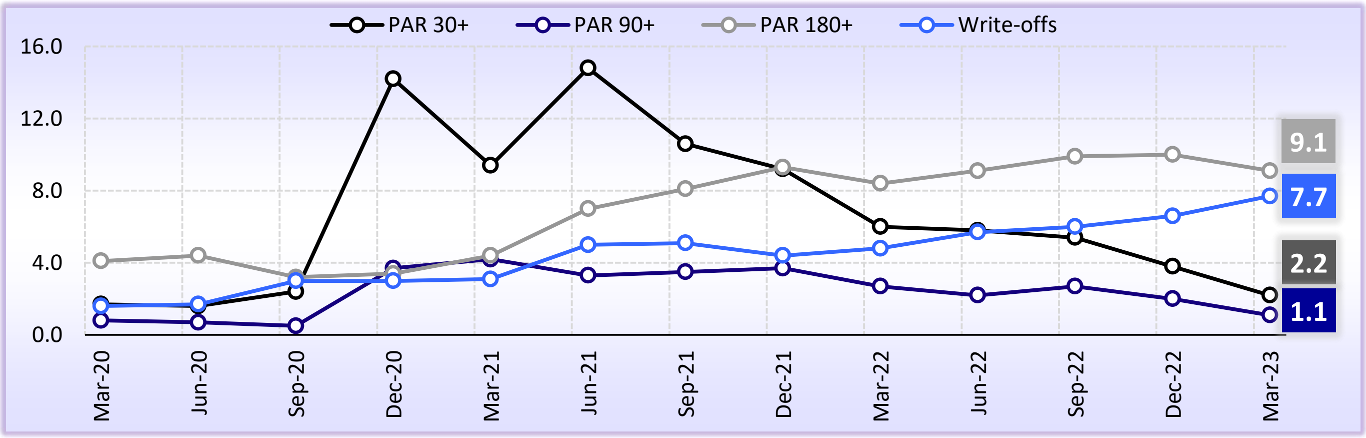
Source: CRISIL Research, MOFSL

NBFC-MFI to touch ~INR2.0t by FY25E – GLP (INR b)



Source: CRISIL research, MOFSL

Asset quality improving; PAR-30 at 2.2%, PAR 90/180 at 1.1%/9.1% as of FY23*

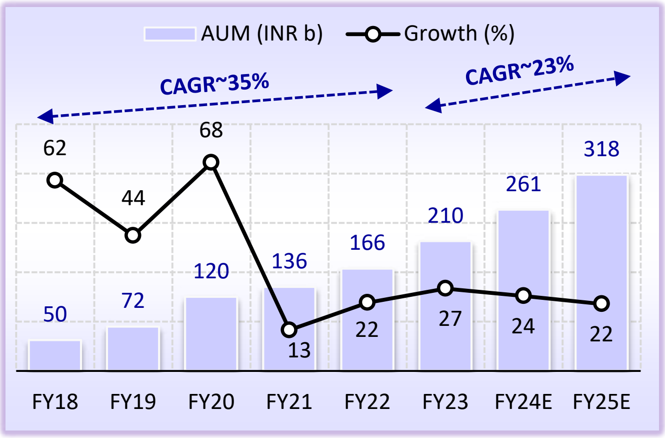


Note: *CRIF defines PAR 30+ as portfolio delinquent by 31-180 dpd, PAR 90+ as 91-180 dpd and PAR 180+ as >180 dpd (excluding write-offs)

Source: MOFSL, CRIF High Mark

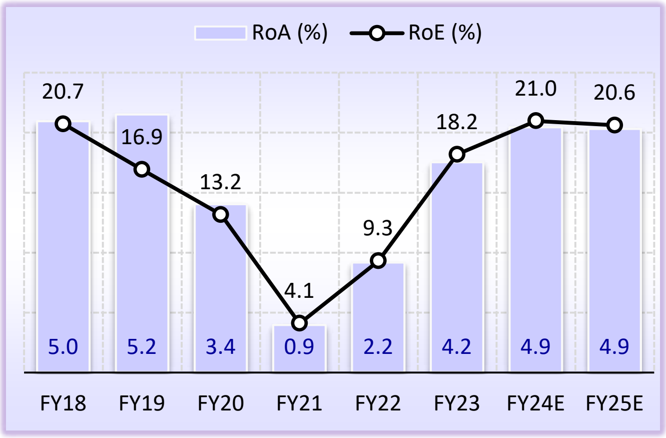
STORY IN CHARTS

CREDAG: ~23% AUM CAGR likely over FY23-FY25



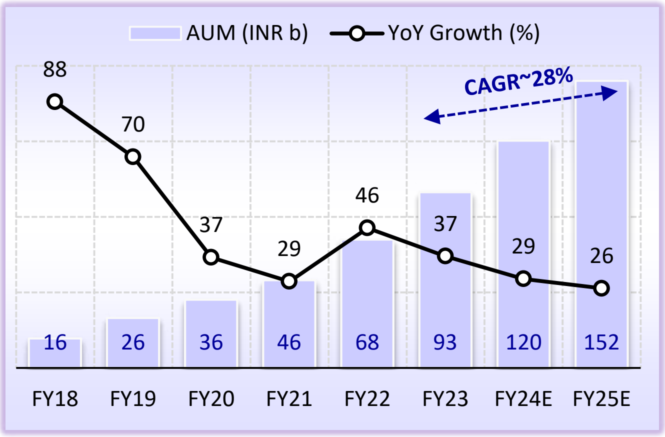
Source: Company, MOFSL

CREDAG: Strong RoA expansion imminent



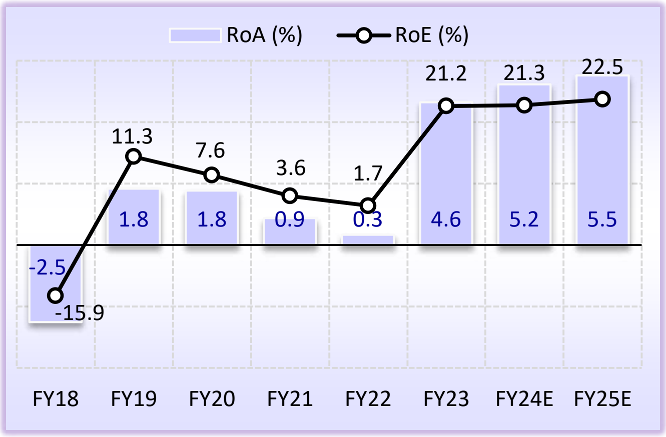
Source: Company, MOFSL

FUSION: ~28% AUM CAGR likely over FY23-FY25



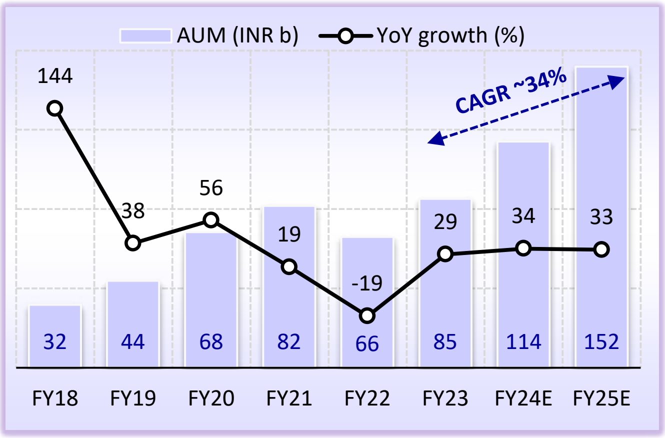
Source: Company, MOFSL

FUSION: Healthier RoA/RoE of 5.5%/22.5% in FY25



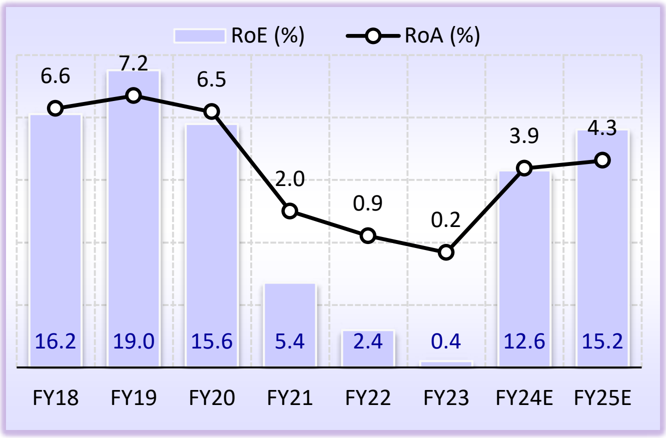
Source: Company, MOFSL

SPANDANA: ~34% AUM CAGR likely over FY23-FY25



Source: Company, MOFSL

SPANDANA: Significant improvement in return ratios



Source: Company, MOFSL

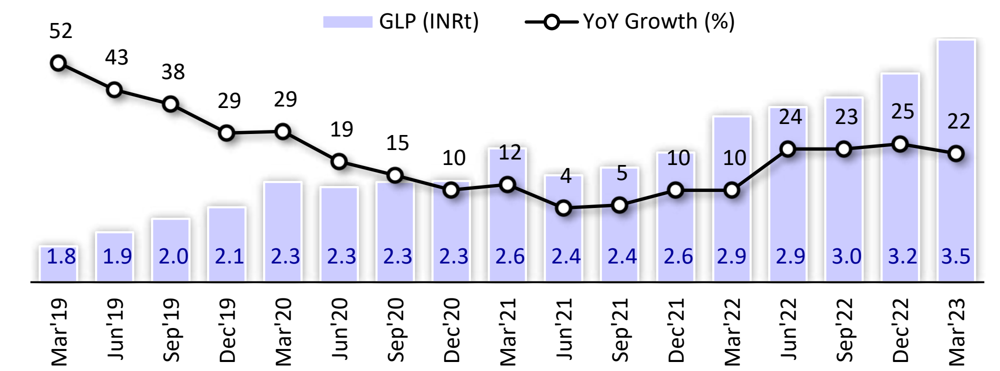
MFIs – Market expansion provides huge growth opportunity

Lower penetration across key geographies to aid growth momentum

- The microfinance industry recorded a healthy 25% CAGR over FY18-22 to a GLP of INR2.85t in FY22 vs. INR1.18t in FY18. After witnessing moderation due to Covid-19 (single-digit industry growth), the industry started to see a gradual recovery in FY23, with healthy 22% YoY growth in loans in FY23 to ~INR3.5t.
- Growth was led by an increase in the number of loan accounts and unique borrowers, along with a rise in the ticket size as the customer profile matures. We note that the number of loan accounts more than doubled to ~130m as of FY23 from 57m in FY18, while the number of unique borrowers increased to 66m as of FY23 from 49m in FY19.

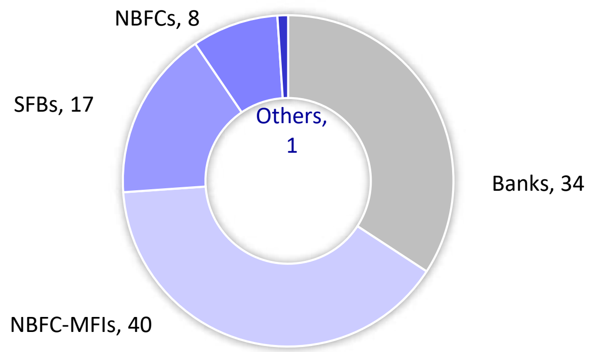
GLP saw a healthy 25% CAGR over FY18-22 and was up 22% in FY23.

Exhibit 3: Growth in microfinance loans picking up and likely to remain healthy going ahead



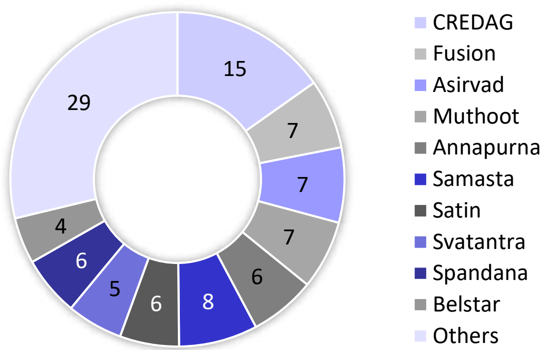
Source: MOFSL, MFIN

Exhibit 4: Loan mix (%)



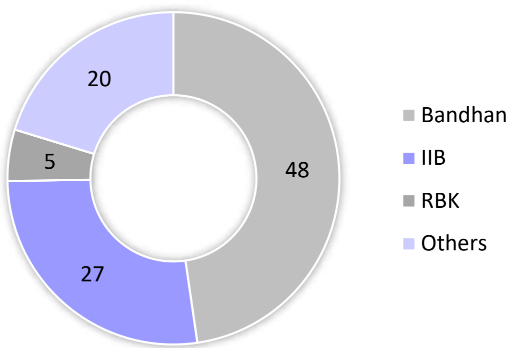
Source: MOFSL, Company

Exhibit 5: Top NBFC-MFI players constitute ~75% of total NBFC-MFI portfolio (%)



Source: MOFSL,MFIN

Exhibit 6: Top 3 banks form ~80% of total banks' microfinance loans (%)



Source: MOFSL,MFIN

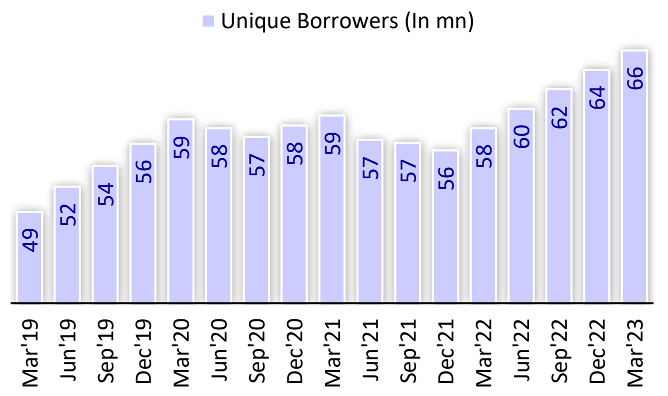
Top 10 NBFC-MFIs form ~28% total GLP, while top 3 banks form ~27%

Exhibit 7: Top players and their market shares as of FY23

INR b	FY23	% of total GLP
CREDAG	210	6
Samasta MFI	106	3
Asirvad	100	3
Fusion	93	3
Muthoot Microfin	92	3
Annapurna Fin	88	3
Spandana	80	2
Satin Creditcare	79	2
Svantantra Microfin	75	2
Belstar	62	2
Top 10 NBFC-MFIs	**985**	**28**
Others	326	9
Total NBFC-MFIs	**1,383**	**40**
Bandhan	568	16
IIB	322	9
RBK	60	2
Top 3 Banks	**950**	**27**
Others	241	7
Total Banks	**1,191**	**34**
Ujjivan SFB	174	5
Equitas SFB	52	1
Suryoday SFB	37	1
Top 3 SFBs	**263**	**8**
Others	315	9
Total SFBs	**578**	**17**
NBFCs - Others	**294**	**8**
Others	**36**	**1**
Total GPL	**3,483**	**100**

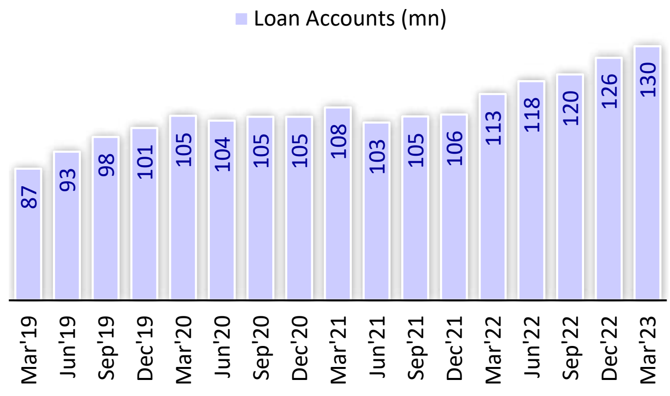
Source: MOFSL, Company

Exhibit 8: No. of unique borrowers rose over the period



Source: MOFSL, MFIN

Exhibit 9: No. of loan accounts increased over the period



Source: MOFSL, MFIN

Exhibit 10: Top 10 NBFC-MFIs – witnessing healthy traction in terms of number of clients

Clients (in millions)	FY19	FY20	FY21	FY22	FY23
CREDAG	2.5	2.9	2.9	2.9	4.3
Fusion	1.6	1.9	2.1	2.7	3.5
Asirvad	1.8	2.4	2.4	2.6	3.3
Muthoot MFI	1.6	1.9	1.9	2.1	2.8
Satin Creditcare	3.2	3.1	2.7	2.5	2.6
Annapurna Fin	1.5	1.8	1.9	2.3	2.5
Samasta MFI	1.0	1.5	1.6	1.8	2.4
Svatantra MFI	0.6	1.0	1.3	1.7	2.2
Spandana	2.5	2.6	2.5	2.3	2.1
Belstar	0.7	1.2	1.4	1.8	2.1

Source: CRISIL Research, MOFSL

Exhibit 11: No. of clients across key microfinance-focused banks and SFBs

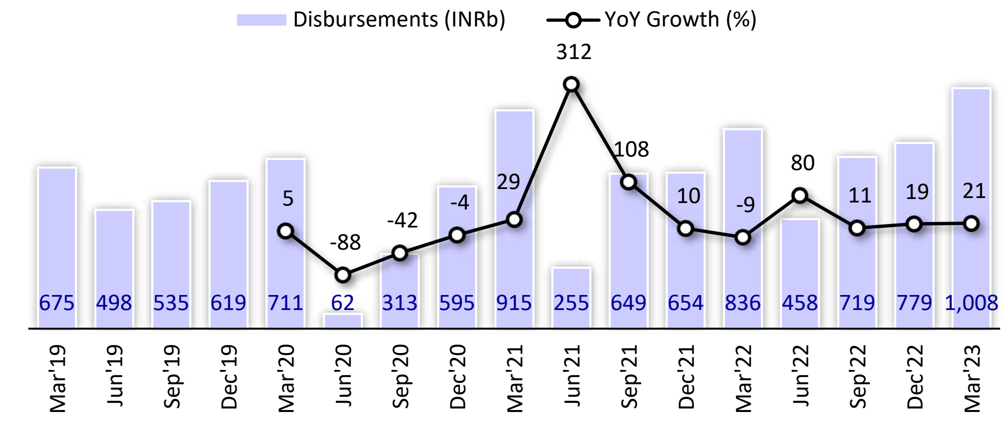
Clients (in millions)	FY19	FY20	FY21	FY22	FY23
Bandhan Bank	16.6	20.1	23.0	26.0	30
Equitas SFB	NA	2.4	3.9	5.7	NA
Ujjivan SFB	4.6	5.3	5.9	6.5	NA
Jana SFB	2.3	3.1	NA	NA	NA
ESAF SFB	3.3	4.1	NA	NA	NA
Utkarsh SFB	2.0	2.5	NA	3.0	NA
Fincare SFB	1.6	2.6	NA	3.2	NA
Suryoday SFB	1.2	1.5	NA	1.9	2.3

Source: CRISIL Research

- After Covid-related disruption in FY21 and FY22, disbursements recovered and exceeded the pre-Covid levels in FY23, with the industry clocking disbursements of INR2.96t in FY23.
- While the industry saw a moderation in disbursements over 1QFY23 as lenders adjusted to adopt new RBI guidelines, disbursements saw a healthy uptick to ~INR1t by 4QFY23 and we expected it to continue to improve from hereon.
- We also note that the average ticket size increased to ~INR41k in FY23 from ~INR26k in FY19. This was primarily led by an increase in customer vintage as disbursements were largely given to existing clients. As per CRISIL research, the ticket size is expected to be higher in new regions, while growth in ticket size is expected to be lower in regions with higher penetration. This, coupled with faster growth in rural areas, would result in a modest increase in the ticket size.

We expect disbursements to pick up, led by improving operating environment and deeper penetration

Exhibit 12: Disbursements recording healthy pick up; expect steady trends



Source: MOFSL, MFIN

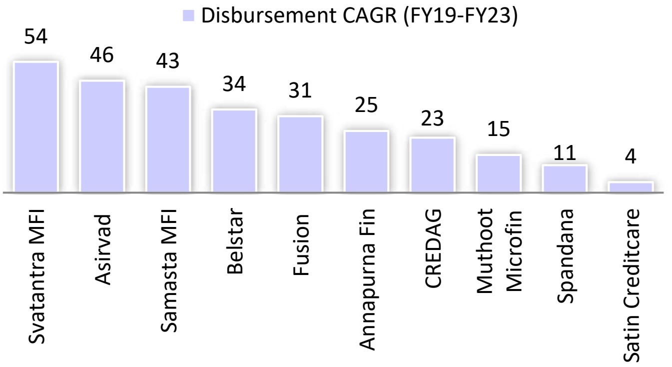
Exhibit 13: Disbursement trends across top 10 NBFC-MFIs

Disbursements (INR b)	FY19	FY20	FY21	FY22	FY23
Asirvad	43	48	36	86	194
CREDAG	82	108	110	154	188
Samasta MFI	24	31	37	57	102
Fusion	28	36	37	61	84
Muthoot MFI	46	41	26	47	81
Annapurna Fin	31	40	31	53	77
Spandana	50	80	64	31	76
Satin Creditcare	63	80	44	40	74
Svatantra MFI	11	25	24	47	63
Belstar	18	26	24	36	58

Source: Company DRHP, MFIN, MOFSL

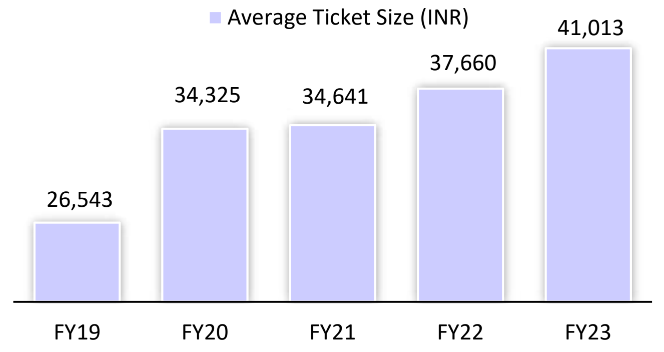
Note: Disbursements include non-MFI disbursements as well

Exhibit 14: Svatantra, Asirvad, Samasta and Fusion witnessing higher disbursement CAGR



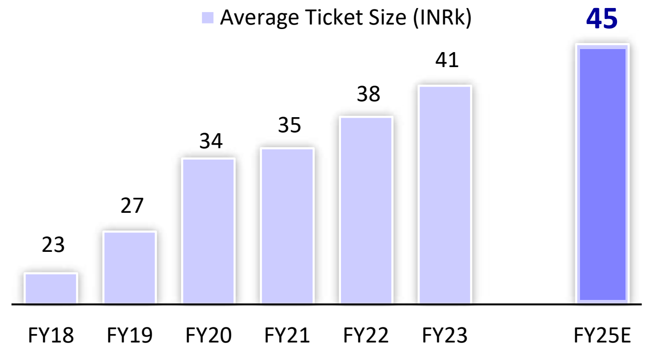
Source: Company DRHP

Exhibit 15: Average ticket size rose during FY19-23…



Source: CRISIL Research, MOFSL, MFIN

Exhibit 16: …and likely to increase gradually in FY24-25



Source: CRISIL Research, Company

Exhibit 17: ATS – Disbursements for top 10 NBFC-MFIs increasing gradually; highest for Annapurna, Asirvad and Spandana

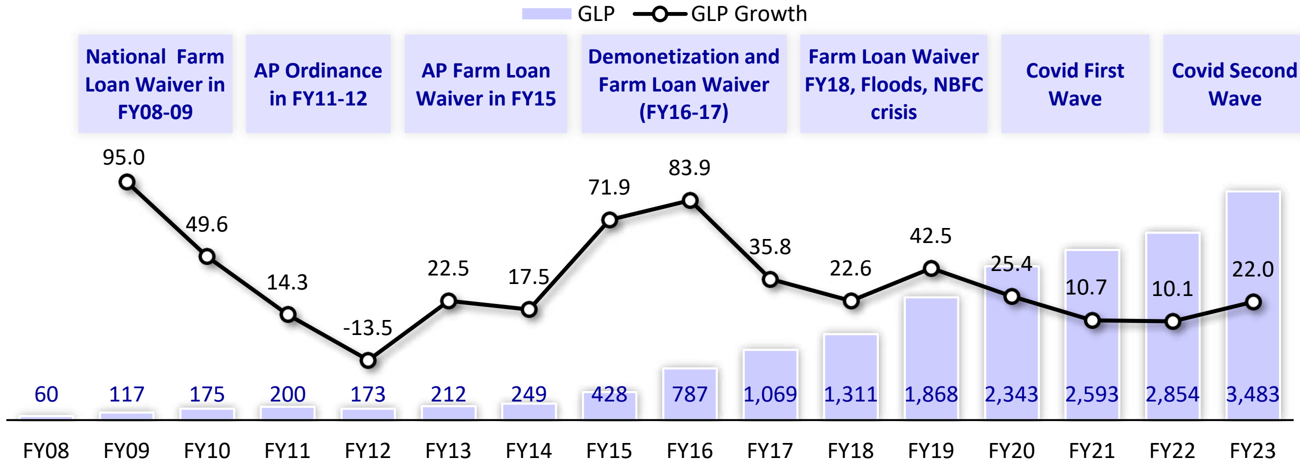
ATS – Disbursements (INR)	FY19	FY20	FY21	FY22	FY23
Annapurna Fin	31,338	35,207	35,989	40,198	51,436
Asirvad	20,466	22,628	29,268	39,070	49,234
Spandana	26,279	34,308	45,318	45,025	46,256
Belstar	29,355	30,747	34,430	35,025	43,051
Samasta MFI	27,072	27,279	33,900	39,294	43,038
Satin Creditcare	26,723	31,486	33,113	42,110	42,276
Svatantra MFI	29,995	36,252	36,517	37,399	38,252
Muthoot MFI	31,161	33,164	33,855	34,252	37,985
CREDAG	21,379	20,000	35,938	37,576	37,965
Fusion	26,427	29,801	32,113	35,668	37,922

Source: MOFSL, Company

- Among major retail segments, the microfinance sector has grown at a faster pace compared to other categories such as credit cards, housing loans and auto loans (see Exhibit 10). We believe that untapped markets present a significant opportunity for the industry to report a healthy growth going ahead.
- Penetration is gradually increasing in the existing states, while MFIs are expanding into new states and witnessing faster growth in rural areas, which should drive overall loan growth. Moreover, easing MFI guidelines and the use of credit bureaus will also support the growth momentum while maintaining tight control on credit costs, in our view.

- We note that after witnessing moderation, disbursements tend to pick up quickly and the industry has demonstrated strong resilience during various cycles in the past (see Exhibit 7). As per CRISIL, GLP is expected to see a CAGR of 18-20% over FY23-25 to INR5.1t, with NBFC-MFIs expected to grow at a faster pace of ~20-22% to ~INR2t by FY25.

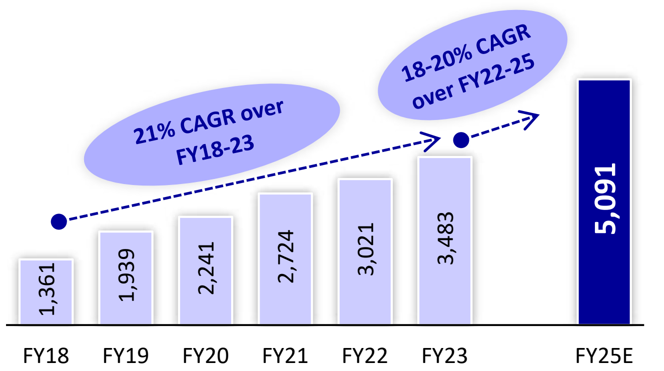
Exhibit 18: Resilience demonstrated over the past decade



GLP: INR m; GLP Growth (%)

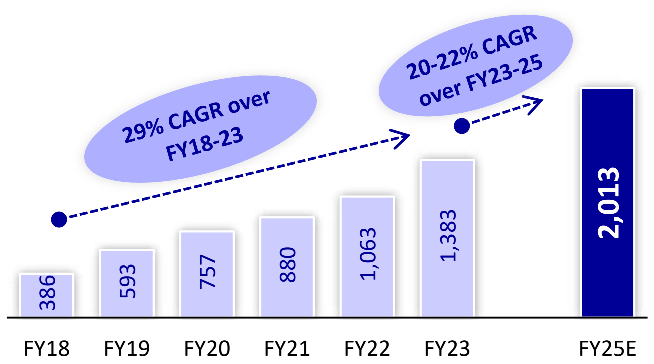
Source: MOFSL, MFIN

Exhibit 19: MFI loans to reach INR5.1t by FY25E - GLP (INR b)



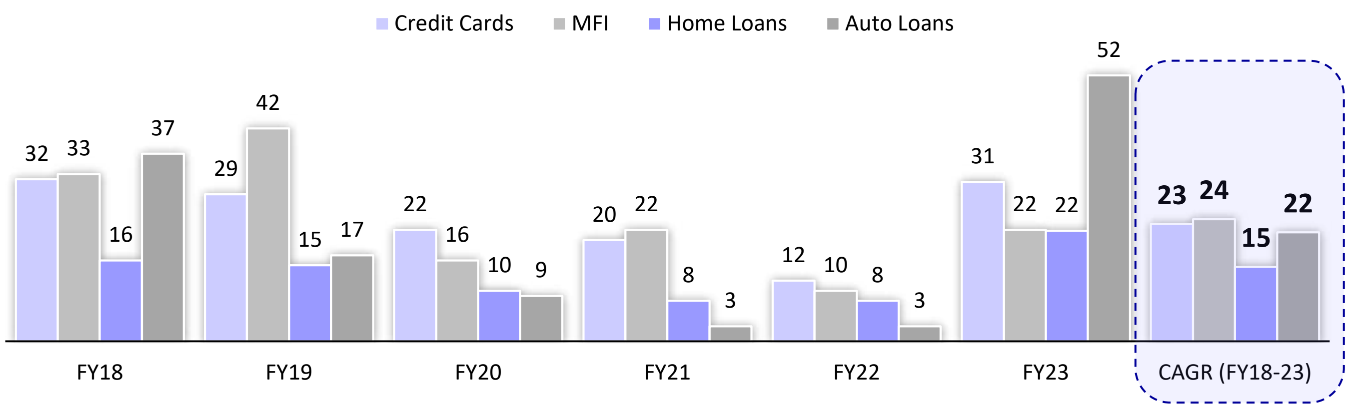
Source: CRISIL Research, MOFSL

Exhibit 20: NBFC-MFI to touch INR2.0t by FY25E - GLP (INR b)



Source: CRISIL research, MOFSL

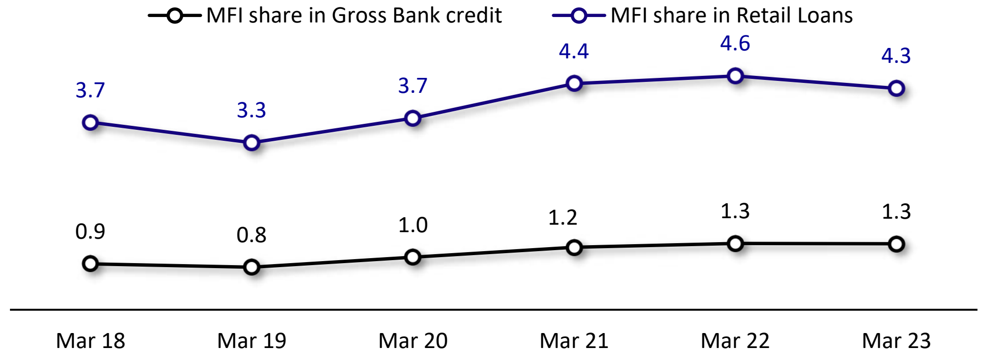
Exhibit 21: Microfinance – the fastest-growing retail product during FY18-23 (%)



Source: MOFSL, MFIN

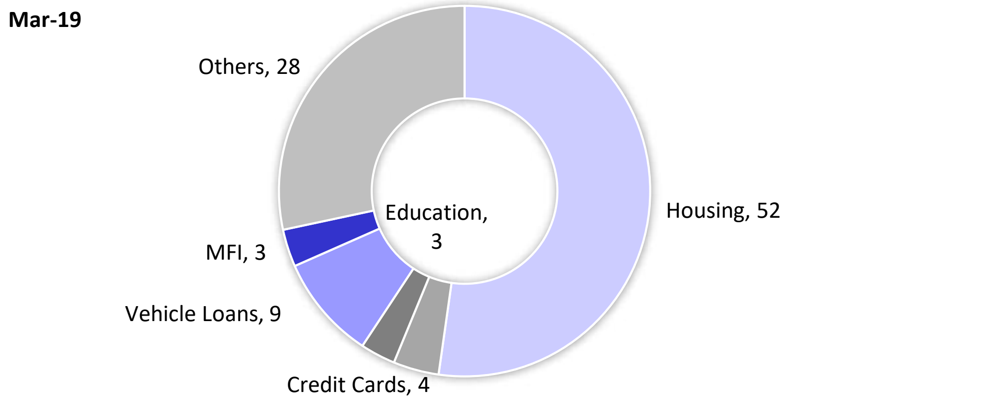
- The mix of microfinance loans within total credit stood at 1.3% as of Mar'23, up from 0.9% in FY18. Within retail loans, the mix of microfinance loans stood at 4.3% in Mar'23, down from 4.6% in Mar'22 but up from 3.3% in FY19. Within retail loans, home loans make up ~47%, while vehicle loans form 12%. Credit cards form 5%, followed by microfinance loans at 4%. Other miscellaneous items, including personal loans, form ~29% of total retail loans.

Exhibit 22: MFIs' share in gross bank credit and retail loans (%)



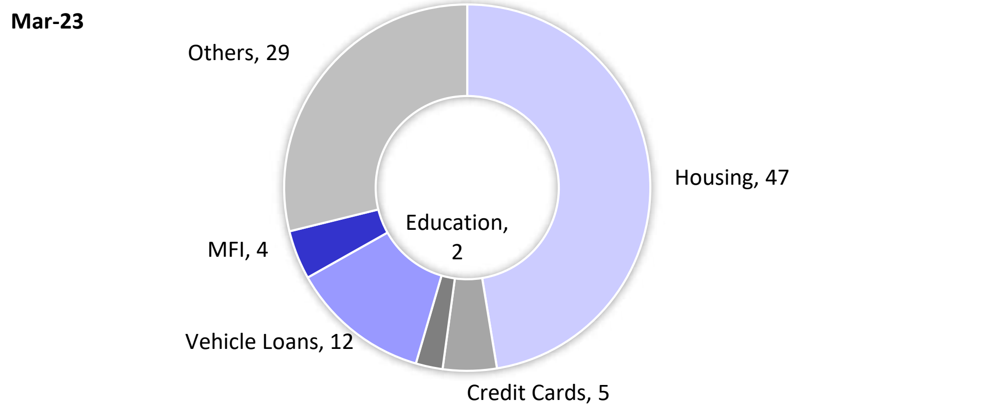
Source: MOFSL, MFIN

Exhibit 23: Retail loan mix (%)



Source: CRISIL Research, MOFSL

Exhibit 24: Retail loan mix: MFI mix increased to ~4% of retail loans (%)



Source: CRISIL research, MOFSL

Momentum for NBFC-MFIs to remain healthy

East, Northeast and South regions form 63% of total loans

NBFC-MFIs to continue to grow at a faster pace, thereby gaining market share

NBFC-MFIs form the largest share at 40%, followed by banks at 34%

- For key lenders, loans from NBFC-MFIs grew at the fastest pace over the past three years, with a 23% CAGR to INR1.4t as of FY23, while loans from banks saw a 9% CAGR to INR1.19t over the similar period. Loans from SFBs witnessed a 13% CAGR, while loans from other NBFCs saw a 14% CAGR. As per CRISIL, GLP for NBFC-MFIs is expected to grow at a faster pace of ~20-22% to ~INR2t by FY25.
- As a result, NBFC-MFIs have gained market share, while other players have witnessed moderation. The mix of NBFC-MFIs in total microfinance loans improved to 40% in Mar'23 from 31% in Sep'19, while the share of banks moderated to 34%. The share of SFBs moderated slightly to 16-17%. Other NBFCs witnessed moderation and now form 8% of total microfinance loans.

Exhibit 25: GLP Mix — NBFC-MFIs grew at the fastest pace over the past three years

GLP (INR b)	Sep'19	Mar'20	Sep'20	Mar'21	Sep'21	Mar'22	Sep'22	Dec'22	Mar'23	3 Year CAGR (%)
Banks	806	923	944	1,133	1,012	1,141	1,136	1,145	1,191	8.9
NBFC-MFIs	630	738	699	805	827	1,004	1,104	1,234	1,383	23.3
SFBs	348	406	431	412	405	483	500	522	578	12.6
NBFCs	214	227	221	217	167	197	238	271	294	9.0
Others	20	25	23	27	26	30	32	33	36	13.9
Total	**2,017**	**2,318**	**2,318**	**2,594**	**2,437**	**2,854**	**3,010**	**3,206**	**3,483**	**14.5**

Exhibit 26: GLP mix: Share of NBFC-MFIs increased to 40% in FY23 from 31% in Sep'19 (%)

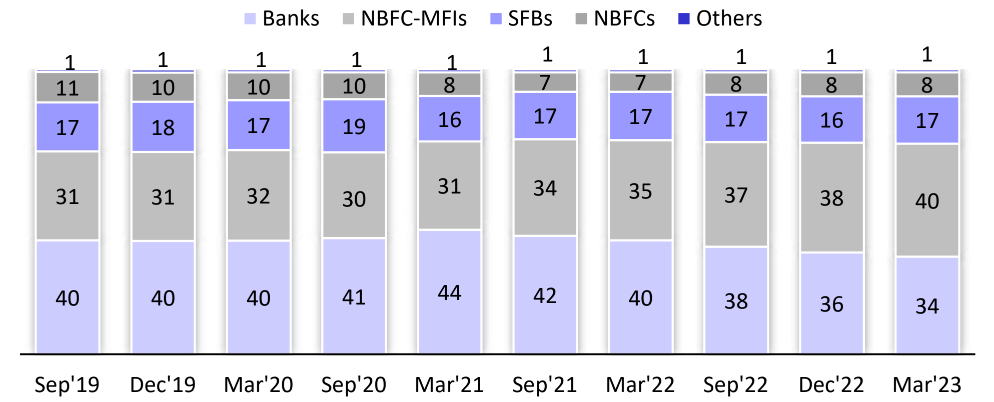


Exhibit 27: Total AUM growth of microfinance-focused banks and SFBs

AUM (INR b)	FY19	FY20	FY21	FY22	FY23	FY19-FY23 CAGR (%)
IndusInd Bank	1,864	2,068	2,126	2,391	2,899	11.7
Bandhan Bank	396	719	870	940	1,048	27.5
RBL Bank	543	580	586	600	702	6.6
Equitas SFB	116	154	179	194	258	22.1
Ujjivan SFB	111	142	151	163	213	17.7
Jana SFB	62	113	116	130	178	30.1
ESAF SFB	46	68	84	116	140	32.0
Utkarsh SFB	47	67	84	106	131	29.1
Fincare SFB	28	53	53	70	87	32.8
Suryoday SFB	27	37	42	51	61	22.6

Source: MOFSL, Company

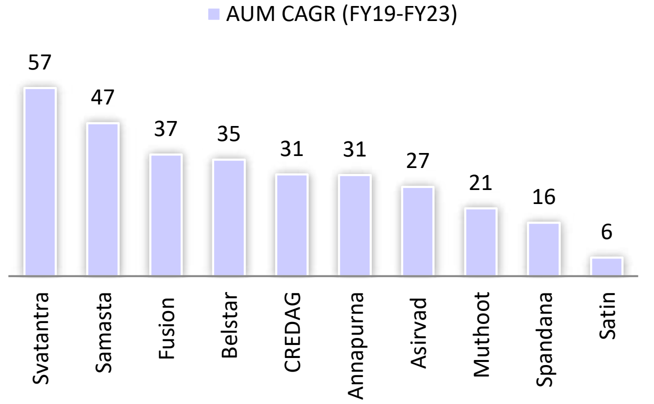
Exhibit 28: AUM trends of Top 10 NBFC-MFIs over the period

AUM (INR b)	FY19	FY20	FY21	FY22	FY23
CREDAG	72	120	136	166	210
Samasta MFI	23	34	47	65	106
Asirvad*	38	55	60	70	100
Fusion	26	36	46	68	93
Muthoot Microfin	44	49	50	66	92
Annapurna Fin	30	40	48	66	88
Spandana	44	68	81	66	80
Satin Creditcare	64	72	73	64	79
Svatantra Microfin	12	26	36	55	75
Belstar	18	24	33	44	62

Source: CRISIL Research, MOFSL

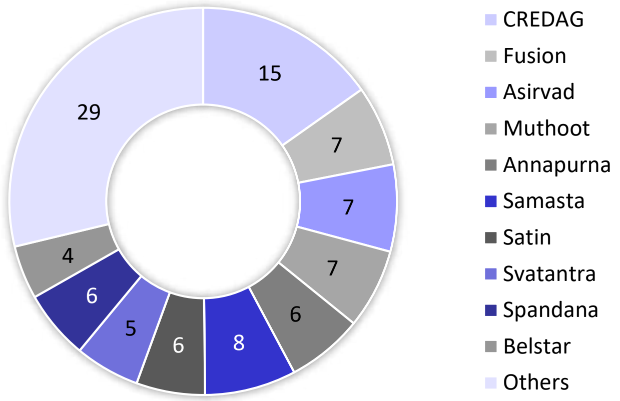
Note: *Asirvad AUM also includes non-MFI AUM of ~INR7.5b

Exhibit 29: …Svatantra, Samasta, Fusion and Belstar recording higher AUM CAGR



Source: CRISIL Research

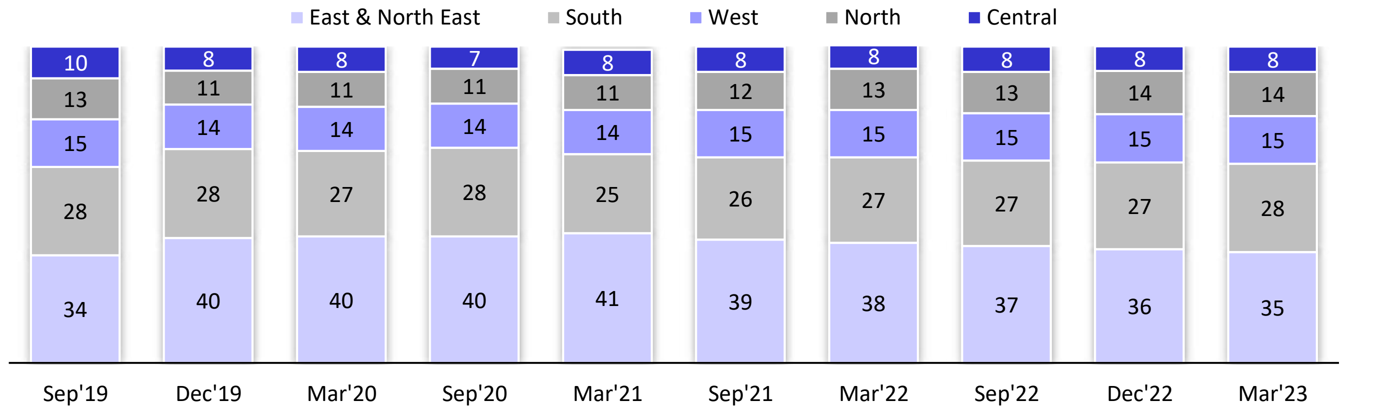
Exhibit 30: Top 10 NBFC-MFIs constitute ~70% of total NBFC-MFI loans (%)



Source: MOFSL, Company

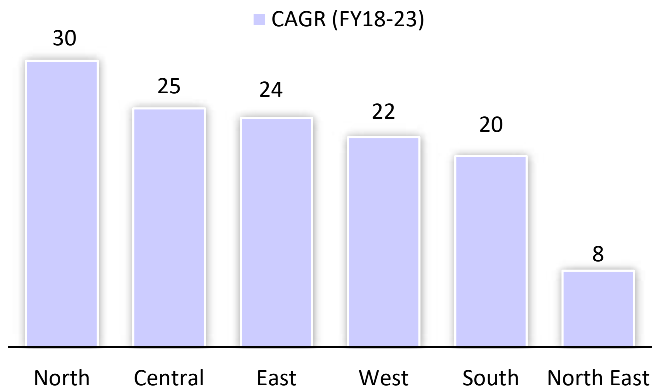
- The loan portfolio of MFIs is largely concentrated in the Eastern/ Northeastern and Southern regions, which made up 35% and 28% of the GLP, respectively, as of FY23. Western/Northern regions formed 15%/14%, while the Central region formed 8%.
- We note that over FY18-23, the Northern region grew at the fastest rate of ~30%, followed by Central (25%) and Eastern (24%) regions. The Northeastern region grew at the slowest rate of ~8% as the region was affected by several factors, such as loan waivers, floods, elections and CAA protests. We further note that penetration in fast-growing regions of North, Central and West remains considerably lower compared to other geographies, which provides significant opportunities for growth and geographical diversification.

Exhibit 31: East/Northeast formed 35% of total MFI loans, followed by South at 28%



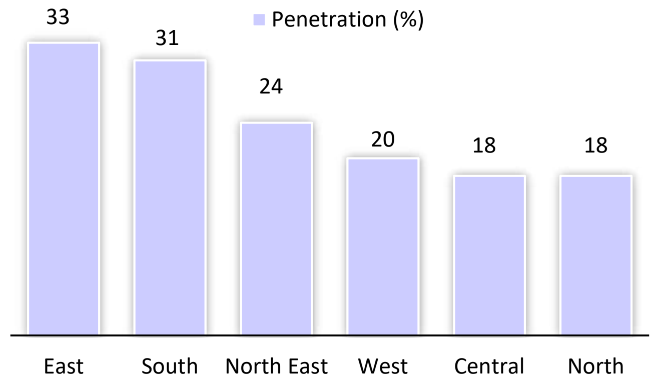
Source: MOFSL, Company

Exhibit 32: North region grew the fastest followed by Central and East; Northeast grew at the slowest rate (%)



Source: CRISIL Research, MOFSL

Exhibit 33: Northern, Central and Western regions provide significant growth opportunities going ahead



*Penetration is defined as no of unique active MFI borrowers divided by estimated no of households Source: CRISIL Research

- We note that the top 10 states account for ~83% of total loans, with Bihar constituting the highest share at 14%, followed by Tamil Nadu at 13% and West Bengal at 9%. Karnataka, UP and Maharashtra form 9%, 10% and 8%, respectively. Among key states, UP/Bihar have grown at the fastest rate with a 29%/23% CAGR since Dec'19 and gained market share. Maharashtra, MP, Odisha and Karnataka have grown at a ~16-18% CAGR, while Tamil Nadu and West Bengal have seen 13% and 1% growth over the similar period.
- Penetration among key states, such as UP, Gujarat, Maharashtra and Rajasthan, remains low, while in Assam, MP and West Bengal, it remains moderate, which provides significant growth opportunities over the medium to long term.

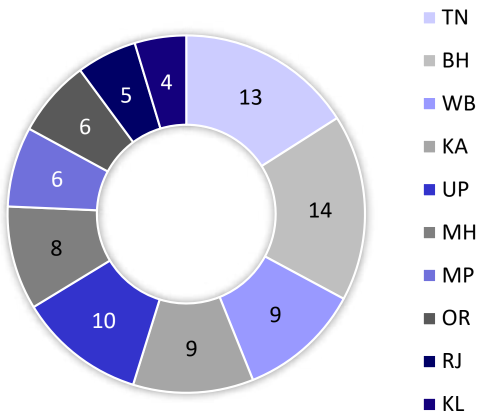
UP/Bihar saw a healthy 29%/23% CAGR in microfinance loans since Mar'20

Exhibit 34: UP/Bihar grew at the fastest pace, followed by Mah, MP, Odisha & Karnataka

GLP (INR b)	Dec'19	Mar'20	Sep'20	Mar'21	Sep'21	Mar'22	Dec'22	Mar'23	3 Year CAGR (%)
TN	309	325	341	321	308	368	434	467	12.8
BH	229	265	250	294	277	359	425	493	23.0
WB	291	318	329	391	322	340	326	323	0.5
KA	182	194	185	211	207	245	284	318	18.0
UP	134	155	146	184	185	238	293	336	29.3
MH	152	167	169	185	182	218	249	274	18.1
MP	121	136	132	157	149	173	195	212	16.0
OR	120	134	129	150	149	169	187	204	15.0
RJ	NA	NA	NA	113	109	128	148	160	NA
KL	87	96	95	NA	NA	112	122	136	12.5
AS	118	116	124	125	101	NA	NA	NA	NA
Total	**2,113**	**2,318**	**2,318**	**2,594**	**2,437**	**2,854**	**3,206**	**3,483**	**14.5**

Source: MOFSL, Company

Exhibit 35: Tamil Nadu forms the highest share at 14%, followed by Bihar at 13% and UP at 10%



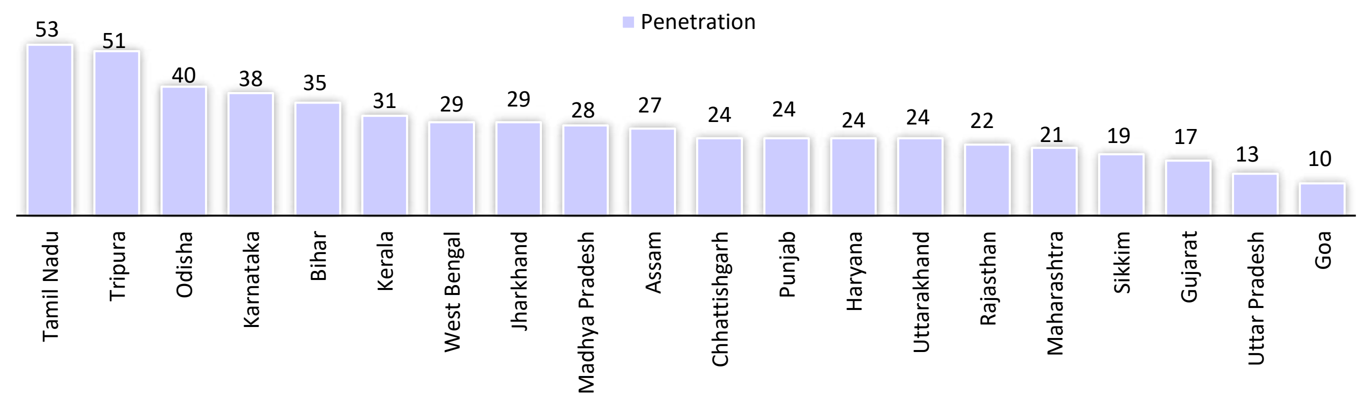
Source: CRISIL Research, MOFSL

Exhibit 36: UP and Bihar gaining market share, while others have been stable; West Bengal has lost share (%)

GLP	Mar'20	Sep'20	Mar'21	Sep'21	Mar'22	Dec'22	Mar'23
TN	14	15	12	13	13	14	13
BH	11	11	11	11	13	13	14
WB	14	14	15	13	12	10	9
KA	8	8	8	8	9	9	9
UP	7	6	7	8	8	9	10
MH	7	7	7	7	8	8	8
MP	6	6	6	6	6	6	6
OR	6	6	6	6	6	6	6
RJ	NA	NA	4	4	4	5	5
KL	4	4	NA	NA	4	4	4
AS	5	5	5	4	NA	NA	NA

Source: MOFSL, Company

Exhibit 37: UP, Maharashtra, Rajasthan and MP offer significant growth opportunities (%)



Source: CRISIL Research, Company

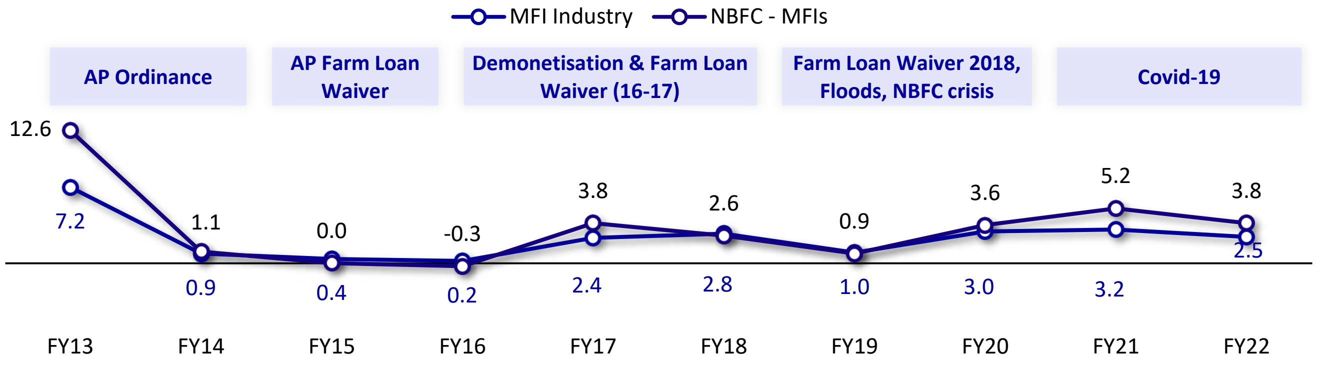
Improved outlook on asset quality

Moderation in PAR30; Credit cost to witness a steady decline

PAR-30+ witnessing a significant improvement, while PAR-90+/PAR-180+ remain elevated

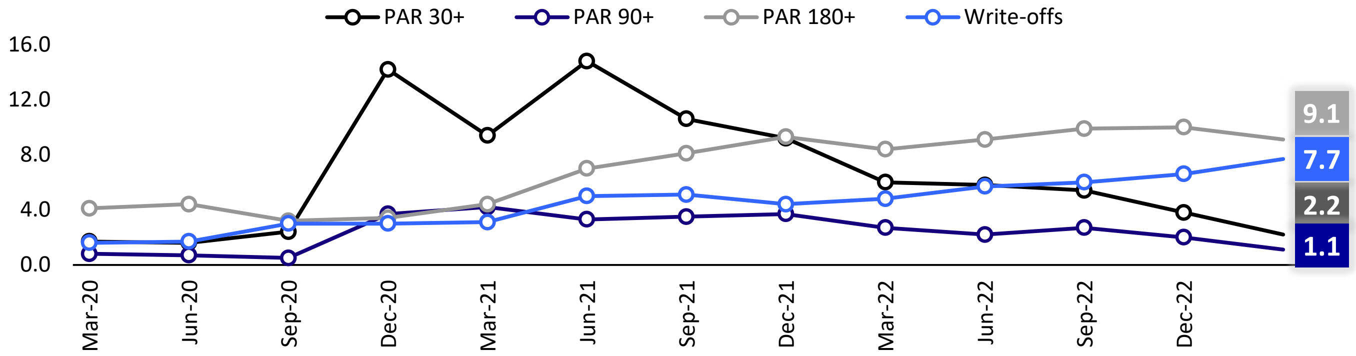
- Microfinance industry caters to a vulnerable segment, which keeps the performance of the industry highly volatile. The industry has seen several crises, such as farm loan waivers, demonetization, NBFC liquidity issues, CAA agitation, floods and Covid-19, which caused a significant deterioration in the asset quality. However, recoveries were also equally quick (see Exhibit 20) and thus the industry has been able to maintain healthy profitability during such cycles.
- Over FY20-1HFY22, the asset quality witnessed a sharp deterioration due to Covid-19. The PAR-30+ book, which stood at ~1.3% during pre-Covid (Dec'19), witnessed a sharp increase to 14.8% in Jun'21 (Covid 2nd wave). However, with the economic environment improving, collections started to improve, which led to a significant moderation in the PAR-30+ book to 2.2% as of FY23.
- Similarly, the PAR-90+ book rose to 4.2% in FY21 vs. ~0.5% during pre-Covid. The PAR-90+ book is gradually inching towards the pre-Covid levels and saw substantial improvement to ~1.1% as of FY23. The PAR-180+ book has been under pressure and witnessing a constant increase over the past few quarters. It demonstrated QoQ improvement to 9.1% in FY23 (vs. 10% as of 9MFY23) but remained elevated vs. 7% in Jun'21 and ~1.6-1.7% pre-Covid.
- We, however, note that asset quality improved for most players in 4QFY23 and believe that the bulk of the stress is likely to be recognized by 1QFY24. Accordingly, we expect the credit cost to moderate over the medium term, thereby aiding overall profitability.

Exhibit 38: Credit cost for MFIs across various cycles; tends to recover quickly (%)



Source: CRISIL Research, MFIN

Exhibit 39: Asset quality improving: PAR-30 at 2.2%, PAR 90/180 at 1.1%/9.1% as on FY23*



Note: *CRIF defines PAR 30+ as portfolio delinquent by 31-180 dpd, PAR 90+ as 91-180 dpd and PAR 180+ as >180 dpd (excluding write-offs)

Source: MOFSL, CRIF High Mark

- Among key segments, NBFC-MFIs have witnessed an improvement in asset quality, with PAR-30+ and PAR-90+ moderating to 1.8% and 1.0%, respectively, as of FY23 from the peak of 13.5% and 4.0% in Jun'21 and Sep'21 respectively. SFBs have also seen improvement to 2.4% and 1.0%, respectively, from the peak of 20.3% and 4.1% in Jun'21.
- Asset quality of banks has also exhibited significant improvement with the PAR-30+ book moderating to 2.7% as on FY23 vs. 8% in Jun'22 and the PAR-90+ book to 1.1% vs. 2.6% in Jun'22. Asset quality across lenders has moderated from the Covid-peak and is showing signs of healthy recovery.
- Most states witnessed a constant improvement in asset quality in its PAR 1-30 book in 4QFY23, especially West Bengal, Kerala and TN, which saw a significant improvement. Similarly, healthy improvement was seen in PAR-30+ and PAR-90+ book in 4QFY23, led by West Bengal, Maharashtra and MP.
- Unlike the previous quarter, PAR-180+ book as on Mar'23 displayed signs of improvement across all states, driven by better economic environment and enhanced collection efficiency.

Exhibit 40: GNPA ratio has moderated across NBFC-MFIs since the beginning of Covid-19

Top 10 NBFC-MFIs (%)	FY19	FY20	FY21	FY22	FY23
CREDAG	0.6	1.6	4.4	3.1	1.2
Fusion	1.6	1.1	5.5	5.7	3.5
Asirvad	0.5	1.6	2.5	1.7	2.8
Muthoot Microfin	2.0	5.7	8.0	6.8	3.0
Annapurna Fin	1.2	1.4	8.3	10.0	3.8
Samasta Microfinance	0.4	1.5	1.8	3.0	2.1
Satin Creditcare	4.0	3.3	8.4	8.0	3.3
Svatantra Microfin	2.4	1.3	2.1	3.8	NA
Spandana	0.9	0.5	3.1	17.7	2.1
Belstar	1.3	1.1	2.8	6.0	2.4

Source: CRISIL Research, MOFSL

Exhibit 41: Most SFBs witnessed moderation in GNPA ratio, BANDHAN also saw an improvement in asset quality

Banks and SFBs (%)	FY19	FY20	FY21	FY22	FY23
Bandhan Bank	2.0	1.5	6.8	6.5	4.9
Equitas SFB	2.5	3.0	3.7	4.1	2.8
Ujjivan SFB	0.9	1.0	7.1	7.1	2.6
Jana SFB	8.1	2.7	6.7	5.7	NA
ESAF SFB	1.6	1.5	6.7	7.8	2.5
Utkarsh SFB	1.4	0.7	3.8	6.1	3.2
Fincare SFB	1.3	0.9	6.4	7.8	3.3
Suryoday SFB	1.8	2.8	9.4	11.8	3.1

Source: CRISIL Research, MOFSL

Exhibit 42: NNPA ratio has seen stable to improving trends across NBFC-MFIs since Covid-19

Top 10 NBFC-MFIs (%)	FY19	FY20	FY21	FY22	FY23
CREDAG	0.2	0.4	1.3	0.9	0.4
Fusion	0.6	0.4	2.2	1.6	0.8
Asirvad	NA	NA	NA	0.3	1.1
Muthoot Microfin	1.2	4.1	NA	1.9	0.6
Annapurna Fin	0.7	0.8	4.2	2.9	1.4
Samasta Microfinance	NA	NA	NA	NA	1.8
Satin Creditcare	2.3	-0.1	3.3	2.4	2.4
Svatantra Microfin	0.6	0.7	1.0	1.6	1.6
Spandana	0.0	0.1	1.4	9.7	0.6
Belstar	0.1	0.1	0.6	1.5	0.7

Source: CRISIL Research, MOFSL,
Note: Data for Samasta, Satin and Svatantra as of 9MFY23

Exhibit 43: Most SFBs have witnessed a moderation in NNPA ratio with Ujjivan's NNPA declining to a mere 4bp

Banks and SFBs (%)	FY19	FY20	FY21	FY22	FY23
Bandhan Bank	0.6	0.6	3.5	1.7	1.2
Equitas SFB	1.4	1.7	1.6	2.4	1.2
Ujjivan SFB	0.3	0.2	2.9	0.6	0.0
Jana SFB	4.4	1.3	4.8	3.9	NA
ESAF SFB	0.8	0.6	3.9	3.9	1.1
Utkarsh SFB	0.1	0.2	1.3	2.3	0.4
Fincare SFB	0.3	0.4	2.8	3.6	1.3
Suryoday SFB	0.4	0.6	4.7	6.0	1.5

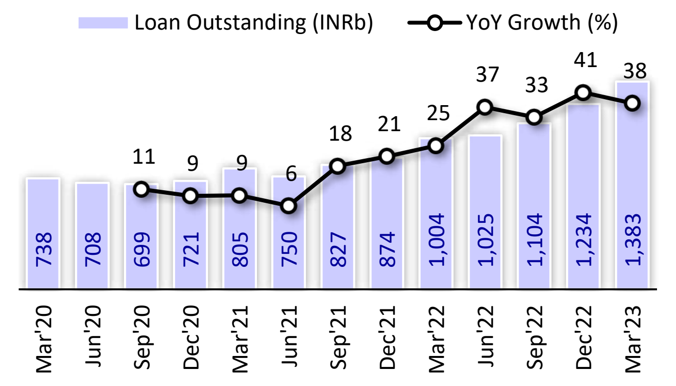
Source: CRISIL Research, MOFSL

NBFC-MFIs: Stronger growth and robust asset quality trends

Growth outlook remains healthy; asset quality showing signs of pre-Covid level recovery

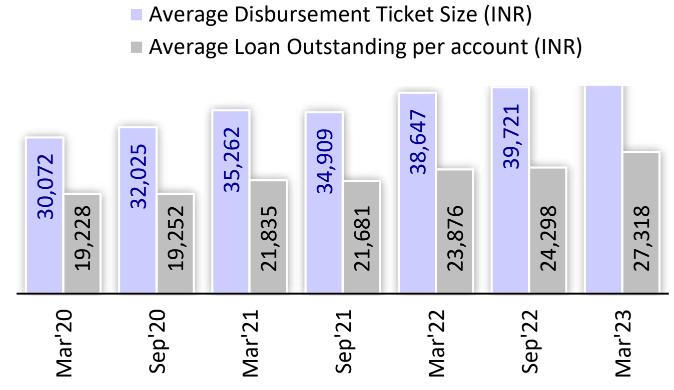
- As of FY23, NBFC-MFIs have a portfolio of ~INR1.4t with a presence in 717 districts of 35 states and union territories. They have clocked a ~23% CAGR over the past three years and have been witnessing robust 33-41% growth over the past three quarters. Total active loan accounts increased to 51m in FY23, with 29m unique borrowers.
- There has been a constant increase in the average ticket size and outstanding loans per account. The ticket size within this segment increased to INR43.0k in Mar'23 from INR27.2k in Sep'19, while the outstanding loans per account increased to INR27.3k from INR18k over the similar period.
- On the asset quality front, the PAR-30+ has witnessed a constant moderation since the outbreak of Covid-19 and stood at 1.8% as of 4QFY23. Further, the PAR-90+ also witnessed an improvement to 1.0% in 4QFY23 from 3.2% in 3QFY22. As collection improves further, we expect a gradual improvement in asset quality to continue.

Exhibit 44: Total loans posted 23% three-year CAGR



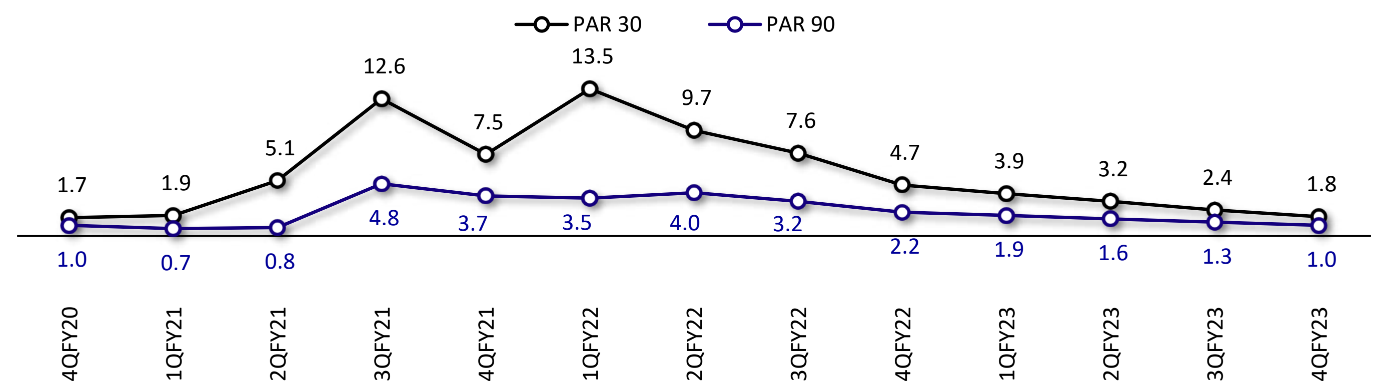
Source: CRISIL Research, MOFSL

Exhibit 45: Ticket size/loans outstanding rising gradually



Source: MOFSL, Company

Exhibit 46: Asset quality improving — PAR-30 at 1.8%, while PAR-90 at 1.0% as of FY23 (%)



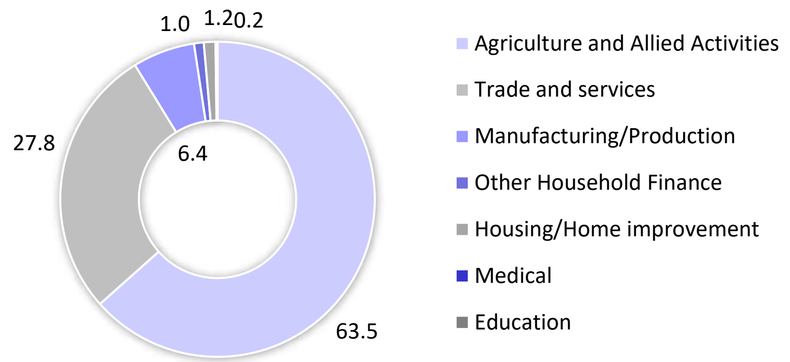
Source: MOFSL, CRIF High Mark

Key operating parameters for the microfinance industry

Profitability for the industry to pick up, led by moderation in credit costs and a slight uptick in margin

- We note that the majority of loans are disbursed to the Agriculture and allied services, which constituted ~64% of total microfinance loans as of FY23, as demand for microcredit is very high in this segment because of working capital needs during the sowing and harvesting periods. Among other segments, trade services formed 28%, while manufacturing and production constituted 6% as of FY23.
- Over the past few quarters, yields have started to pick up, while the cost of funds too has been increasing, which has kept the margin profile modest. We note that average interest charge has increased to 24.2% from 21.4% in Dec'21, which is lower than the pre-Covid level of 24.5-25%, while the cost of funds stands in the 11-13% range. We believe that the recent guidelines of removing the maximum capping on interest rates will enable the lenders to appropriately factor the risk profile and raise the cost of funds, which should support margins over the medium term.

Exhibit 47: Majority of the lending is towards Agri and allied services (4QFY23, %)



Source: MOFSL, MFIN

- We note that profitability of the industry has declined since FY19 owing to a moderation in yields and elevated credit costs over FY20-21 due to the Covid outbreak and various other events. However, most players have reported a sharp uptick in collection, which will result in a gradual decline in credit costs. Thus, healthy loan growth, coupled with sharp moderation in credit costs and a slight uptick in margins, would enable a healthy recovery in profitability over the medium term.

Exhibit 48: Profitability of the industry to improve gradually going ahead (%)

RoA tree	FY18	FY19	FY20	FY21	FY22	FY23
Interest income	17.7	19.1	18.4	17.5	17.3	18.0
Interest expense	8.6	8.4	7.7	7.7	7.7	8.3
Net interest income	9.1	10.6	10.7	9.8	9.6	9.7
Opex	5.3	5.5	5.4	5.1	5.1	5.4
Other income	1.2	2.0	2.5	1.2	1.5	1.9
PPOP	5.0	7.1	7.8	5.9	6.0	6.2
Credit cost	1.5	1.0	2.7	5.0	4.2	3.0
Tax	1.2	2.1	1.6	0.2	0.5	1.0
RoA	2.3	4.1	3.5	0.7	1.3	2.2

* Includes data of ~68% of total NBFC-MFIs

Source: MOFSL, CRISIL Research

Exhibit 49: FY23 RoA exhibited healthy improvement across most NBFC-MFIs

Top 10 NBFC-MFIs (%)	FY20	FY21	FY22	FY23
Fusion	1.8	0.9	0.3	4.6
CREDAG	3.4	1.0	2.8	4.2
Satin Creditcare	2.3	-0.2	0.5	3.5
Asirvad	4.6	0.3	0.2	2.6
Belstar	4.3	1.6	1.1	2.4
Muthoot Microfin	0.5	0.2	1	2.3
Svatantra Microfin	1.5	0.9	1	1.9
Samasta Microfinance	4.7	1.9	0.9	1.7
Annapurna Fin	2.0	NM	0.3	0.4
Spandana	6.4	2	0.6	0.2

Source: CRISIL Research, MOFSL

Exhibit 50: RoA across banks and SFBs witnessing gradual improvement

Banks and SFBs	FY20	FY21	FY22	FY23
Bandhan Bank	4.1	2.1	0.1	1.5
Equitas SFB	1.4	1.8	1.1	1.9
Ujjivan SFB	2.2	0.4	-1.9	3.9
Jana SFB	0.3	NM	0.0	1.1
ESAF SFB	2.3	1.0	0.4	1.6
Utkarsh SFB	2.4	1.0	0.5	2.4
Fincare SFB	2.5	1.5	0.1	1.0
Suryoday SFB	2.4	0.2	-1.3	0.9

Source: CRISIL Research

Exhibit 51: RoE witnessed healthy improvement across most NBFC-MFIs

Top 10 NBFC-MFIs (%)	FY20	FY21	FY22	FY23
Fusion	7.6	3.6	1.7	21.2
CREDAG	12.9	4.0	10.1	18.2
Asirvad	25.5	1.6	1.3	16.7
Satin Creditcare	12.0	-0.9	2.6	15.0
Svatantra Microfin	11.4	5.9	6.5	12.9
Belstar	22.0	9.0	6.5	11.9
Samasta Microfinance	27.7	11.5	6.1	11.4
Muthoot Microfin	2.0	0.8	4.3	11.1
Annapurna Fin	12.0	NM	2.2	3.3
Spandana	15.6	5.4	1.6	0.4

Source: CRISIL Research, MOFSL

Exhibit 52: RoE across banks and SFBs witnessing gradual improvement

Banks and SFBs	FY20	FY21	FY22	FY23
Bandhan Bank	22.9	13.5	0.7	11.9
Equitas SFB	9.8	12.5	7.4	12.2
Ujjivan SFB	14.0	0.3	-14.0	31.4
Jana SFB	3.5	NM	0.5	17.1
ESAF SFB	19.3	8.7	4.0	19.4
Utkarsh SFB	20.8	9.4	4.2	22.6
Fincare SFB	18.3	11.8	0.8	8.3
Suryoday SFB	11.4	0.9	-6.0	5.0

Source: CRISIL Research

Exhibit 53: Du-Pont analysis for our key coverage MFI players (%)

DuPont Analysis	FUSION			SPANDANA			CREDAG			BANDHAN		
Y/E March	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Interest Income	19.2	19.9	20.2	15.5	19.4	20.3	17.0	18.3	18.5	10.8	12.2	12.1
Interest Expended	7.7	7.6	7.5	5.6	8.4	8.8	6.2	7.0	7.1	4.5	5.7	5.6
Net Interest Income	**11.5**	**12.3**	**12.7**	**10.0**	**11.0**	**11.6**	**10.8**	**11.3**	**11.4**	**6.3**	**6.5**	**6.5**
Other Operating Income	1.7	1.5	1.3	1.5	1.5	1.2	1.1	1.0	0.9	1.6	1.4	1.4
Other Income	0.7	0.6	0.5	0.9	0.8	0.7	0.0	0.0	0.0	0.1	0.1	0.1
Net Income	**13.9**	**14.4**	**14.5**	**12.4**	**13.3**	**13.4**	**11.9**	**12.3**	**12.3**	**8.0**	**8.0**	**7.9**
Operating Expenses	**5.3**	**5.4**	**5.3**	**5.6**	**5.7**	**5.5**	**4.2**	**4.2**	**4.2**	**3.1**	**3.4**	**3.5**
Operating Profit	**8.6**	**9.0**	**9.1**	**6.8**	**7.6**	**7.9**	**7.7**	**8.1**	**8.1**	**4.8**	**4.6**	**4.5**
Provisions/write offs	2.4	2.0	1.8	6.6	2.3	2.2	2.0	1.5	1.6	**2.8**	**1.6**	**1.4**
PBT	**6.1**	**7.0**	**7.4**	**0.2**	**5.3**	**5.8**	**5.6**	**6.6**	**6.5**	**2.0**	**3.0**	**3.1**
Tax	1.5	1.8	1.9	0.1	1.4	1.5	1.4	1.7	1.7	0.5	0.7	0.8
RoA	**4.6**	**5.2**	**5.5**	**0.2**	**3.9**	**4.3**	**4.2**	**4.9**	**4.9**	**1.5**	**2.3**	**2.3**
Leverage (x)	4.6	4.1	4.1	2.7	3.2	3.6	4.3	4.3	4.2	8.0	8.2	8.6
RoE	**21.2**	**21.3**	**22.5**	**0.4**	**12.6**	**15.2**	**18.2**	**21.0**	**20.6**	**11.9**	**18.6**	**20.0**

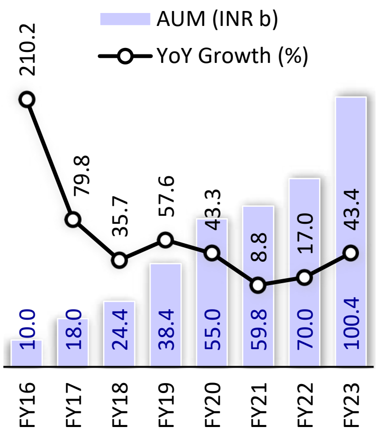
Source: MOFSL, Company

Company overview

ASIRVAD MICROFINANCE

- **Asirvad is an NBFC-MFI which is a subsidiary of Manappuram Finance (Stake of 97.6%) Mr. V.P. Nandakumar (MD & CEO, MGFL) is the Chairman of the Board of Directors. The company was promoted by Mr. S. V. Raja Vaidyanathan who is an IIT & IIM alumnus. Asirvad was started with the aim of replicating the Grameen Bank model (of lending to women) in the villages of Tamil Nadu.**
- **Asirvad became a subsidiary of Manappuram Finance in FY15 when MGFL acquired the controlling stake of ~85%. Post-acquisition, MGFL had periodically subscribed for rights issue and infused equity in FY17, FY18, FY19 and FY23. In Jun'23, MGFL again announced an equity infusion of ~INR1.5b in Asirvad through a Rights Issue.**
- **In FY23, Asirvad reported the highest annual disbursements (including gold loans) among its NBFC-MFI peers. MFI disbursements in FY23 also grew 60% YoY. Asirvad primarily caters to economically backward sections of society and provides micro credit under the JLG mechanism for income generation.**
- **The company has a strong presence across India with 1,674 branches (~1500 MFI branches) in 22 states and three UTs. AUM crossed ~INR100b in Mar'23 with total AUM of INR100.4b (FY22: INR70b) and total borrower base of 3.3m as of FY23. Asirvad delivered a total AUM CAGR of ~33% and MFI AUM CAGR of ~31% over FY18-23.**
- **Asirvad reported a 4QFY23 PAT of ~INR1b and FY23 PAT of ~INR2.2b. With the asset quality stress and the elevated credit costs behind, earnings momentum would accelerate from here-on driven by expansion in NIM and benign credit costs.**
- Asirvad employs a robust and technology-driven approach to ensure efficient operations and superior customer service. The company leverages innovative digital solutions to streamline loan disbursals, collections, and other financial transactions, making it convenient and hassle-free for customers.
- The organization emphasizes on building relationships with its customers, understanding their unique needs and offering diversified range of products viz. microfinance loans, MSME loans, and gold loans to cater to those needs.
- The company ventured into the MSME business in FY19 and primarily caters to the "Missing Middle" segment, which consists of small businesses such as Kirana shops, small manufacturing units, and Agri & Allied trading. All MSME loans provided by Asirvad are secured with land and building collaterals, providing an additional layer of security for both the company and its borrowers.
- Capitalizing on its extensive captive channel strength and customer base, the company introduced gold loans in Odisha and West Bengal as of FY21 with an aim to provide existing customers the necessary business capital for income generation. The company offers gold loans from 300+ branches across various states
- Through its dedicated team of professionals, Asirvad ensures that financial literacy and awareness programs are conducted regularly, empowering customers with knowledge and skills to take informed financial decisions. This commitment to education and empowerment sets Asirvad apart as a socially responsible institution.

Delivered an AUM CAGR of ~33% over FY18-23



Margins exhibiting gradual improvement

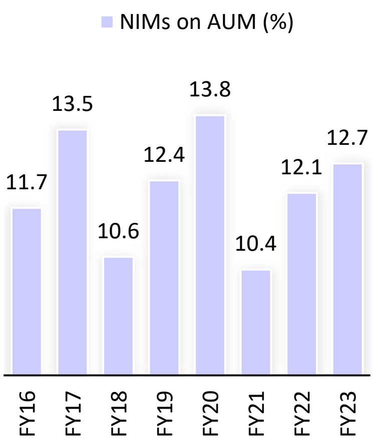


Exhibit 54: Healthy asset quality across credit cycles

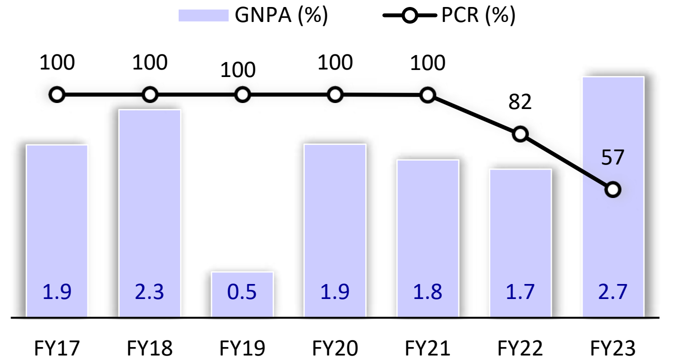


Exhibit 55: Credit costs moderated by ~3pp over the past year

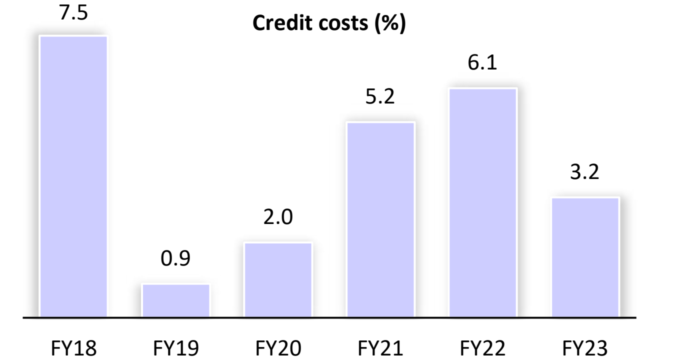
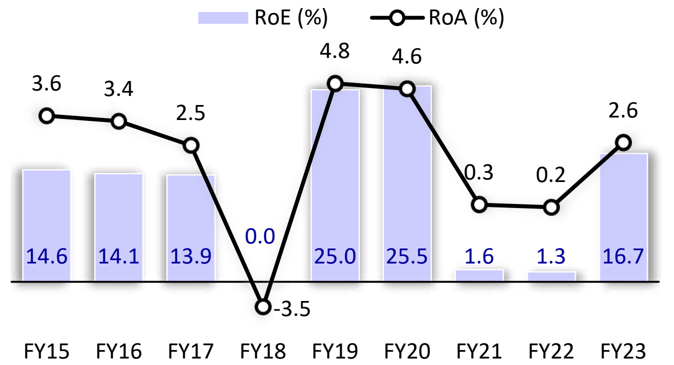
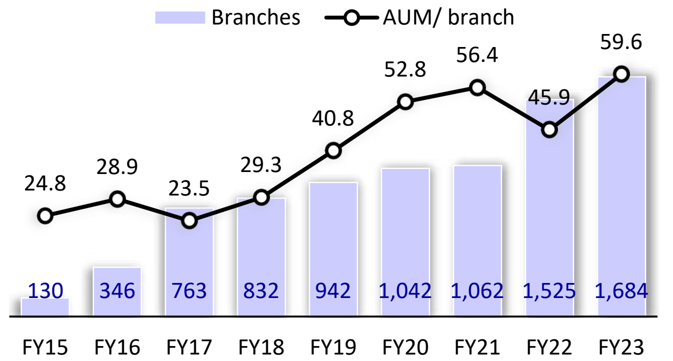


Exhibit 56: Improvement in return ratios driven by lower credit costs



Source: MOFSL, Company

Exhibit 57: Operating efficiency improving gradually



Source: MOFSL, Company

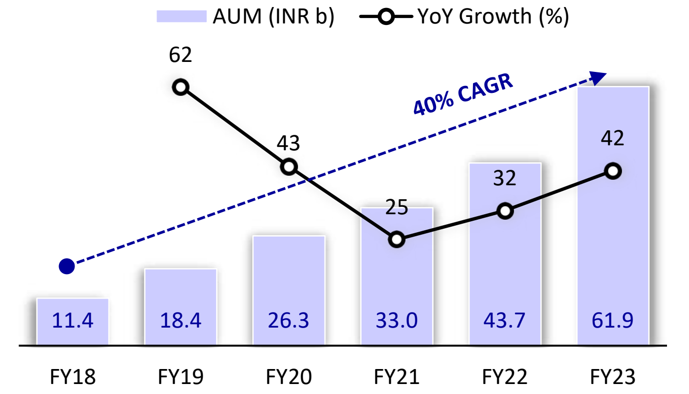
Financials snapshot (INR m)

	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	1,738	3,280	4,840	4,723	5,902	9,154
PPoP	1,084	2,591	4,027	3,305	4,157	5,844
PAT	**(323)**	**1,516**	**2,353**	**169**	**134**	**2,181**
Balance Sheet						
Net-Worth	2,874	8,044	10,395	10,554	10,721	15,439
Borrowings	20,677	34,180	45,006	46,272	55,588	84,261
Total Liabilities	**25,025**	**42,577**	**59,125**	**58,256**	**68,137**	**101,833**
Loans/Advances	21,282	34,990	43,433	47,952	54,261	86,689
Other Assets	3,743	7,587	15,692	10,304	13,876	15,144
Total Assets	**25,025**	**42,577**	**59,125**	**58,256**	**68,137**	**101,833**
Ratios						
AUM (MFIN reported)	24,370	38,410	55,030	59,850	70,020	1,00,410
NIM (%)	8.2	10.4	10.4	8.2	9.1	10.7
Opex (%)	6.9	5.8	5.0	5.0	6.4	6.4
Credit Costs (%)	7.5	0.9	2.0	5.2	6.1	3.2
RoA / RoE (%)	-1.4/-11.7	4.5/27.8	4.6/25.5	0.3/1.6	0.2/1.3	2.6 / 16.7
D/E	7.2x	4.2x	4.3x	4.4x	5.2x	5.5x
GNPA (%)	2.7	0.5	1.8	2.5	3.4	2.8
NNPA (%)	0.2	0.0	0.0	0.0	0.3	1.2
Productivity						
AUM/Branch (INR m)	29	41	53	56	46	60
AUM/Loan Officer (INR m)	11	14	17	13	9	12
Client/Branch	1,805	1,918	2,272	2,273	1,688	1,983
Client/Loan Officer	660	676	709	538	343	382

BELSTAR MICROFINANCE

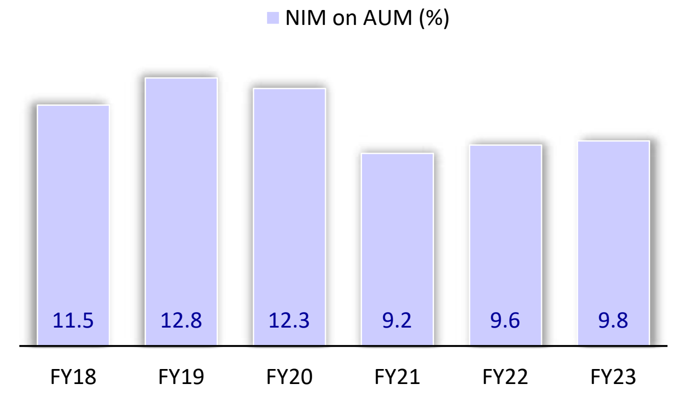
- **Belstar is an NBFC-MFI and a subsidiary of Muthoot Finance Ltd (Stake: 57%). Affirma Capital (~20%) and MAJ Invest (~10%) are the private-equity investors in Belstar.**
- **Sarvam Financial Inclusion Trust along with other group entities of Hand in Hand India (HIHI) held a majority stake in Belstar before Muthoot acquired its holding in FY17. It was incorporated in January 1988 at Bangalore and was reclassified as "NBFC-MFI" by RBI in Dec'13.**
- **Belstar was acquired by the 'Hand in Hand' group in September 2008 to provide scalable microfinance services to entrepreneurs nurtured by 'Hand in Hand's' Self Help Group (SHG) program. Earlier, Belstar primarily relied on taking over the existing groups formed by Hand in Hand India and it predominantly followed the SHG model of lending. Effective Jan'15, it started working under JLG model of lending.**
- **The company has women borrowers who are predominantly engaged in the agriculture and allied sectors. Belstar delivered an AUM CAGR of ~40% over FY18-23, with AUM at ~INR62b as of FY23.**
- **The company offers micro-enterprise loans, SME loans, consumer goods loans and education loans. It has a diversified geographical presence across 13 states and 1UT. It operates 767 branches serving ~1.9m customers.**
- Belstar's customer-centric business strategy entails the development of tailored products to meet the requirements of new-to-credit and early-stage microfinance customers. The company plans to provide complementary secured products to support growing business requirements and asset ownership aspirations of its target segment.
- The company has already made significant technological investments to facilitate the launch of these new products. It intends to leverage its established retail finance branch network and skilled workforce to provide these offerings to existing and new customers.
- Structured reports are presented to both the management and the board-level risk committees for assessment and decision-making. This robust risk management structure ensures diligent risk oversight and mitigation throughout the organization.
- Belstar plans to explore collaborations with fintech startups to offer technologically advanced products that utilize data analytics and customer profiling. This approach will enable it to combine its existing strengths with cutting-edge technology and deliver innovative and customer-centric financial solutions.

Exhibit 58: Delivered AUM CAGR of ~40% over FY18-25



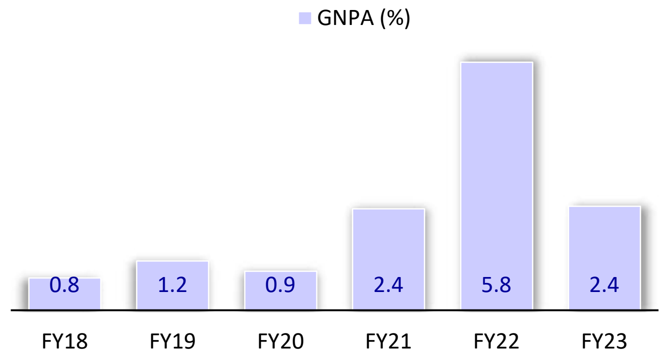
Source: Company, MOFSL

Exhibit 59: Gradual improvement in margins post Covid



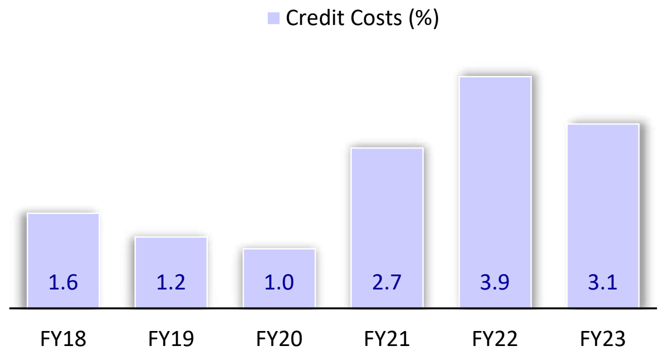
Source: Company, MOFSL

Exhibit 60: Robust risk assessment practices helped maintain healthy asset quality



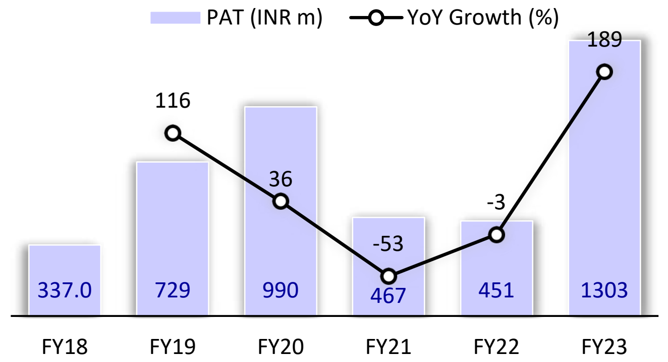
Source: Company, MOFSL

Exhibit 61: Credit costs moderated by ~80bp over the past year



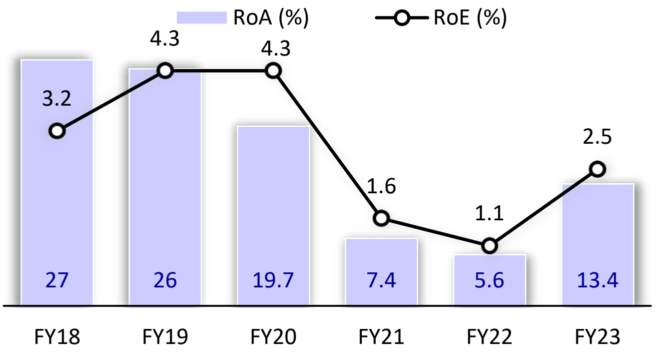
Source: Company, MOFSL

Exhibit 62: Reported PAT CAGR of ~31% over FY18-23…



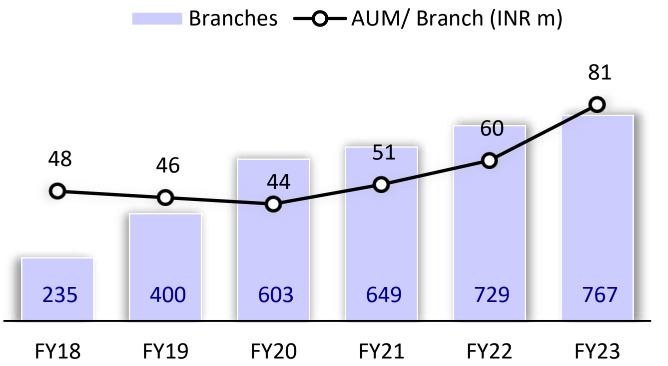
Source: Company, MOFSL

Exhibit 63: …generating RoA of ~2.5% in FY23



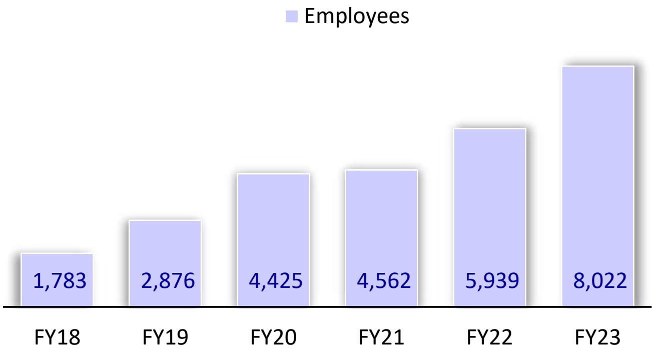
Source: Company, MOFSL

Exhibit 64: Significant improvement in operational efficiency



Source: Company, MOFSL

Exhibit 65: Strong employee base to drive future growth



Source: Company, MOFSL

Financials snapshot (INR m)

	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	983	1,906	2,748	2,722	3,691	5,163
PPoP	634	1,215	1,562	1,378	2,059	3,139
PAT	**337**	**729**	**990**	**467**	**451**	**1,303**
Balance Sheet						
Net-Worth	1,595	4,002	6,068	6,465	9,543	10,923
Borrowings	11,160	15,828	18,956	27,956	35,570	48,371
Total Liabilities	**13,420**	**20,439**	**25,188**	**34,673**	**45,603**	**62,269**
Loans/Advances	11,100	16,388	20,889	27,837	35,543	46,275
Other Assets	23,193	40,511	42,992	68,354	10,060	15,994
Total Assets	**13,420**	**20,439**	**25,188**	**34,673**	**45,603**	**62,269**
Ratios						
AUM (MFIN reported)	11,371	18,406	26,301	32,987	43,649	61,920
NIM (%)	11.5	12.8	12.3	9.2	9.6	9.8
Opex (%)	6.8	6.5	7.4	6.1	6.0	6.4
Credit Costs (%)	1.6	1.2	1.0	2.7	3.9	3.1
RoA / RoE (%)	3.2 / 27.0	4.3 / 26.0	4.3 / 19.7	1.6 / 7.4	1.1 / 5.6	2.5 / 13.4
D/E	7.0x	4.0x	3.1x	4.3x	3.7x	4.4x
GNPA (%)	0.8	1.2	0.9	2.4	5.8	2.4
NNPA (%)	NA	NA	0.1	0.6	2.3	0.7
Productivity						
AUM/Branch	49	46	44	51	60	81
AUM/Loan Officer	12	13	13	16	13	14
Client/Branch	2,077	1,692	1,996	2,127	2,511	2,742
Client/Loan Officer	535	468	579	656	555	464

MUTHOOT MICROFIN

- Muthoot Microfin Ltd (MML) is the microfinance arm of Muthoot Pappachan Group and is focused on providing micro loans to women entrepreneurs with a focus on rural areas of India.
- The company follows a JLG model of microfinance and caters exclusively to women in lower income households, offering them income generating loans.
- MML continues to expand its operations. It opened 260 new branches in FY23, taking the total branch tally to 1,165 spread over 15 states and a union territory.
- As of FY23, AUM stood at ~INR92b (40% YoY growth). As of Mar'23, the company had more than 2.4m women entrepreneurs as active customers.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	2,302	2,752	2,963	3,063	3,538	7,417
PPoP	1,379	2,989	2,844	1,405	1,759	4,362
PAT	**760**	**2,012**	**182**	**71**	**474**	**1,639**
Balance Sheet						
Net-Worth	6,148	8,858	9,070	8,899	13,366	16,259
Borrowings	17,515	24,513	29,214	30,157	39,966	66,231
Total Liabilities	**24,754**	**35,302**	**40,902**	**41,853**	**55,913**	**85,292**
Loans/Advances	17,483	26,993	25,638	32,955	43,990	70,267
Other Assets	7,271	8,309	15,264	8,898	11,923	15,025
Total Assets	24,754	35,302	40,902	41,853	55,913	**85,292**
Ratios						
AUM (MFIN reported)	29,200	43,540	49,320	49,770	65,670	92,080
NIM (%)	9.4	7.6	6.4	6.2	6.3	9.4
Opex (%)	6.4	6.0	6.1	5.2	5.8	5.9
Credit Costs (%)	1.0	0.8	5.7	2.7	2.0	2.8
RoA / RoE (%)	3.9/18.9	6.7/26.8	0.5/2.0	0.2/0.8	1.0/4.3	2.1/11.1
D/E	2.8x	2.8x	3.2x	3.4x	3.0x	4.1x
GNPA (%)	3.1	2.0	5.8	8.1	6.3	3.0
NNPA (%)	2.5	1.2	4.1	1.5	1.6	0.6
Productivity						
AUM/Branch (INR m)	63	78	71	66	73	79
AUM/Loan Officer (INR m)	7	11	10	11	12	15
Client/Branch	2,591	2,855	2,721	2,461	2,266	2,366
Client/Loan Officer	284	404	396	402	364	442

ANNAPURNA FINANCE

- Annapurna Finance, established in FY09, has its roots as a part of not-for-profit entity, Peoples Forum, which worked for the development and welfare of un-served sections of the society.
- Annapurna Finance Pvt Ltd (AMPL) registered itself with the RBI as an NBFC-MFI in 2013. It was established with the purpose of serving the economically backward clients by bringing them to mainstream and providing need-based financial services at their doorsteps.
- In the last 11 years, Annapurna Finance has been able to disburse more than INR120b to more than ~2.3mn clients, comprising 99% women. As of FY23, AUM stood at INR88b with total active loans at ~2.5m. The company has 8,559 employees, including 5,250 field officers, to serve ~2.3m active members.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	1,229	2,071	2,969	3,365	3,700	5,437
PPoP	629	1,102	1,526	1,934	2,177	4,060
PAT	**95**	**625**	**829**	**18**	**172**	**327**
Balance Sheet						
Net-Worth	2,426	6,185	7,656	7,626	7,932	12,083
Borrowings	16,865	27,468	39,074	48,844	62,124	70,485
Total Liabilities	**20,236**	**34,574**	**47,835**	**57,551**	**71,800**	**85,779**
Loans/Advances	15,848	27,000	35,343	38,672	48,882	63,263
Other Assets	4,388	7,574	12,492	18,879	22,918	22,516
Total Assets	**20,236**	**34,574**	**47,835**	**57,551**	**71,800**	**85,779**
Ratios						
AUM (MFIN reported)	19,540	30,180	40,090	48,040	65,490	88,140
NIM (%)	7.8	8.4	8.5	7.6	6.5	7.1
Opex (%)	6.6	7.4	7.1	6.2	6.6	6.5
Credit Costs (%)	3.1	0.6	1.5	4.4	3.4	4.7
RoA / RoE (%)	0.5/4.6	2.3/14.5	2.0/12.0	0.03/0.2	0.3/2.2	0.4/3.3
D/E	7.0x	4.4x	5.1x	6.4x	7.8x	5.8x
GNPA (%)	2.1	1.2	1.4	7.4	9.8	3.8
NNPA (%)	0.3	0.7	0.9	2.8	2.6	1.4
Productivity						
AUM/Branch (INR m)	52	53	56	55	67	75
AUM/Loan Officer (INR m)	8	10	11	11	11	14
Client/Branch	3,298	2,643	2,443	2,126	2,353	2,106
Client/Loan Officer	531	512	494	412	399	383

IIFL SAMASTA

- IIFL Samasta is an IIFL Group company and a microfinance institution committed to working toward women's economic empowerment.
- Since its inception in FY08, the company has been providing innovative and affordable financial products to women from the unbanked sections of society in rural and semi-urban areas. The organization has 1,271 branches in 16 states across India.
- The company manages AUM of INR105.5b and has maintained healthy asset quality with a GNPA ratio of ~2.1% as of FY23.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	430	1,764	3,264	4,258	5,785	9,527
PPoP	239	884	1,869	1,674	1,577	1,629
PAT	24	532	1,073	666	506	1,282
Balance Sheet						
Net-Worth	1,170	2,666	5,092	6,495	9,993	13,222
Borrowings	5,462	15,586	19,409	35,649	52,589	72,795
Total Liabilities	**7,406**	**19,309**	**26,619**	**44,082**	**63,944**	**89,041**
Loans/Advances	6,340	17,898	22,874	39,630	55,186	77,361
Other Assets	1,066	1,411	3,745	4,452	8,758	11,680
Total Assets	**7,406**	**19,309**	**26,619**	**44,082**	**63,944**	**89,041**
Ratios						
AUM (MFIN reported)	8400	22,860	34,000	47,960	64,840	1,05,520
NIM (%)	8.0	11.3	11.5	10.4	10.3	11.2
Opex (%)	7.7	8.5	7.5	6.8	8.3	6.5
Credit Costs (%)	3.7	1.0	1.6	2.1	1.8	5.3
RoA / RoE (%)	0.5/2.6	4.0/27.7	4.7/27.7	1.9/11.5	0.9/6.1	1.5/11.0
D/E	4.7x	5.8x	3.8x	5.5x	5.3x	5.5x
GNPA (%)	0.9	0.3	1.5	1.8	3.1	2.1
NNPA (%)	0.0	0.0	0.0	0.0	0.0	0.8
Productivity						
AUM/Branch (INR m)	49	46	61	78	80	83
AUM/Loan Officer (INR m)	5	8	10	12	11	17
Client/Branch	2,352	2,047	2,750	2,618	2,171	1,858
Client/Loan Officer	246	350	438	398	299	379

SATIN CREDITCARE

- Satin Creditcare is primarily based on the JLG model, providing collateral-free, microcredit facilities to economically active women in rural and semi-urban areas, who otherwise have limited access to mainstream financial service providers. In FY17, It incorporated Satin Housing Finance Ltd, a wholly owned subsidiary with the aim of providing financing in the affordable housing segment and leveraging its rural outreach.
- The company has 1,072 branches in 23 states and focuses on rural and semi-urban areas, ensuring that their services reach to the regions that have low or moderate penetration by other microfinance institutions. The company serves ~2.4m clients and has outstanding AUM of ~INR79.3b.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	4,256	5,405	5,048	4,993	5,685	5,841
PPoP	1,711	3,577	4,020	2,654	2,348	7,433
PAT	**821**	**1,949**	**1,563**	**(136)**	**402**	**2,643**
Balance Sheet						
Net-Worth	10,951	11,514	14,528	14,911	16,062	19,137
Borrowings	44,011	52,351	54,091	60,256	54,628	54,475
Total Liabilities	**58,073**	**66,956**	**71,542**	**78,745**	**73,754**	**76,454**
Loans/Advances	44,323	44,601	47,094	55,150	48,974	56,842
Other Assets	13,750	22,355	24,448	23,595	24,780	19,612
Total Assets	**58,073**	**66,956**	**71,542**	**78,745**	**73,754**	**76,454**
Ratios						
AUM (MFIN reported)	43,040	63,740	72,660	72,750	64,090	79,290
NIM (%)	10.7	10.1	7.4	6.9	8.3	8.2
Opex (%)	6.9	7.0	6.2	5.4	6.2	6.2
Credit Costs (%)	1.1	1.0	2.8	3.8	2.6	5.6
RoA / RoE	2.8 / 15.0	3.1 / 17.4	2.3 / 12.0	-0.2 / -0.9	0.5 / 2.6	3.7 / 15.0
D/E	4.0x	4.5x	3.7x	4.0x	3.4x	2.8x
GNPA (%)	4.4	2.9	2.9	8.4	8.0	3.3
NNPA (%)	1.7	1.8	2.0	4.8	2.5	1.5
Productivity						
AUM/Branch	60	70	64	72	62	74
AUM/Loan Officer	8	11	11	11	9	13
Client/Branch	3,196	3,224	2,704	2,627	2,385	2,374
Client/Loan Officer	454	526	468	408	348	418

SVATANTRA FINANCE

- The company offers micro loans to encourage entrepreneurship among rural women. It extends differentiated financial solutions and enables women to invest for growth in their business.
- These microloans are meted out to rural women customers individually, organized in groups of 5-25 women, with each member of the group providing credit guarantee for the other members.
- The company's active loan clients stood at ~1.9m as of Mar'23, up from ~1.3m as of Mar'21. Growth in active clients during the year was ~32%. The company has 5,957 employees as of Mar'23 across 806 branches in 18 States. During the year under review, the company opened 114 new branches.
- The gross loan portfolio of the company stood at INR75b as of FY23, with ~38% YoY growth.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	408	823	1,547	1,722	2,935	6,839
PPoP	90	287	624	1,156	2,076	5,298
PAT	**(102)**	**167**	**363**	**271**	**473**	**1,298**
Balance Sheet						
Net-Worth	1,182	1,745	3,709	5,720	8,692	11,497
Borrowings	4,555	10,962	20,702	30,650	48,043	62,606
Total Liabilities	**5,997**	**13,214**	**25,391**	**37,476**	**57,898**	**75,447**
Loans/Advances	5,736	11,822	20,499	29,475	47,143	62,674
Other Assets	261	1,391	4,892	8,001	10,754	12,774
Total Assets	**5,997**	**13,214**	**25,391**	**37,476**	**57,898**	**75,447**
Ratios						
AUM (MFIN reported)	5,710	12,320	26,020	35,640	54,470	74,990
NIM (%)	9.9	9.1	8.1	5.6	6.5	10.6
Opex (%)	9.5	8.0	7.2	5.4	5.5	4.9
Credit Costs (%)	5.8	0.5	0.7	2.6	3.2	5.5
RoA / RoE	-2.3/ -9.3	1.7/ 11.4	1.9/ 13.3	0.9/ 5.7	1.0/ 6.6	2.0 / 12.8
D/E	3.9x	6.3x	5.6x	5.4x	5.5x	5.4x
GNPA	3.7	2.4	1.3	2.1	3.4	5.0
NNPA	0.7	0.6	0.3	1.0	1.5	1.9
Productivity						
AUM/Branch (INR m)	44	45	58	70	79	93
AUM/Loan Officer (INR m)	8	8	12	14	16	16
Client/Branch	2,113	2,040	2,269	2,518	2,431	2,770
Client/Loan Officer	371	355	480	522	485	475

AROHAN FINANCE

- Arohan focuses on low-income households that have limited or no access to formal financial institutions. It serves financially underserved households with an annual household income of INR0.3m or less.
- It follows the JLG model, which enables customers, who typically do not have sufficient collateral, to get formal credit.
- Arohan is a part of Aavishkar Group, which provides business solutions to assist sustainable enterprises dedicated to social and environmental changes.
- The company has a diversified presence in 14 states and 225 districts in India. It operates 830 microfinance branches serving 1.9m customers.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	1,668	3,301	4,793	4,778	4,570	4,623
PPoP	940	2,176	3,273	2,861	2,186	2,826
PAT	**297**	**1,276**	**1,268**	**-1,599**	**610**	**707**
Balance Sheet						
Net-Worth	3,820	6,972	9,626	9,586	10,235	13,380
Borrowings	18,701	30,235	41,931	44,152	41,273	45,330
Total Liabilities	**23,038**	**38,531**	**52,804**	**54,812**	**52,292**	**60,182**
Loans/Advances	20,389	35,152	43,472	39,259	37,102	47,822
Other Assets	2,649	3,379	9,332	15,553	15,190	12,360
Total Assets	**23,038**	**38,531**	**52,804**	**54,812**	**52,292**	**60,182**
Ratios						
AUM (MFIN reported)	21,710	40,450	48,540	46,480	41,220	53,990
NIM (%)	10.5	10.6	10.8	10.1	10.4	9.7
Opex (%)	6.9	5.9	5.1	5.5	6.8	7.1
Credit Costs (%)	3.0	1.3	3.6	10.6	3.1	4.1
RoA / RoE	1.9 / 8.2	4.1 / 23.7	2.8 / 15.3	-3.4 / -16.7	1.4 / 6.2	1.5 / 6.0
D/E	4.9x	4.3x	4.4x	4.6x	4.0x	3.4x
GNPA (%)	1.4	0.7	2.5	11.2	4.5	2.7
NNPA (%)	0.4	0.0	0.0	4.0	1.4	0.2
Productivity						
AUM/Branch	50	70	68	63	55	65
AUM/Loan Officer	10	13	12	10	8	9
Client/Branch	2,616	3,145	3,237	2,803	2,489	2,422
Client/Loan Officer	523	605	572	457	373	351

SATYA MICROFINANCE

- SATYA MicroCapital Ltd is a Delhi-based NBFC-MFI, which started its microfinance operations in Jan'17. Establishing its terrestrial presence through a branch network of 449 branches in over 31,651 villages of 21 states, the company has grown exponentially over the last five years.
- The company has evolved as a digitally advanced institution for effective facilitation of affordable and accessible microcredit facilities. It offers income generating loans, insurance and other products to customers who are at the bottom of the pyramid and have limited or no access to formal financial services in India.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	34	280	657	1,050	1,429	2,799
PPoP	-46	38	210	407	606	1,156
PAT	**-64**	**-3**	**75**	**102**	**325**	**530**
Balance Sheet						
Net-Worth	180	865	1,718	4,044	5,523	8,373
Borrowings	2,524	7,424	9,231	11,271	22,789	36,665
Total Liabilities	**2,840**	**8,473**	**11,035**	**15,873**	**28,873**	**46,582**
Loans/Advances	1,756	6,055	9,173	12,146	23,161	37,903
Other Assets	1,084	2,418	1,862	3,727	5,712	8,679
Total Assets	**2,840**	**8,473**	**11,035**	**15,873**	**28,873**	**46,582**
Ratios						
AUM (MFIN reported)	2,188	6,217	10,079	14,762	28,840	47,190
NIM (%)	2.7	6.7	8.1	8.5	6.6	7.4
Opex (%)	12.5	9.0	8.8	7.9	7.8	7.8
Credit Costs (%)	1.4	1.0	1.2	2.1	0.8	1.9
RoA / RoE (%)	-3.8 / -48.8	- 0.05 / -0.5	0.8 / 5.8	0.8 / 3.5	1.5 / 6.8	1.4 / 7.6
D/E	14.0x	8.6x	5.4x	2.8x	4.1x	4.4x
GNPA (%)	-	0.1	1.6	1.5	3.3	1.3
NNPA (%)	-	-	0.6	0.7	2.5	0.5
Productivity						
AUM/Branch	52	74	68	80	86	105
AUM/Loan Officer	7	9	8	9	11	15
Client/Branch	2,079	3,127	2,975	2,819	2,603	3,035
Client/Loan Officer	274	396	358	298	331	426

NAMRA FINANCE
Wholly Owned Subsidiary of Arman Financial Services Ltd

NAMRA FINANCE

- Namra Finance Ltd. is a wholly owned subsidiary of Arman Financial Services Ltd, which manages the microfinance business of the group and is registered as NBFC-MFI with the RBI.
- The company has employed the JLG model with small-ticket loans (avg. ticket size of INR45,000) given to women borrowers for income generating activities such as Livestock, Dairy, Agri allied, Kirana Stores, etc.
- It follows a high-touch monthly collection model with 85% rural and semi-urban portfolio concentration. The company has a well-diversified presence across India and has outstanding AUM of ~INR16b.

Financials snapshot (INR m)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
P&L						
NII	204	428	677	661	878	1,547
PPoP	116	259	462	413	572	1,317
PAT	**41**	**157**	**252**	**49**	**184**	**672**
Balance Sheet						
Net-Worth	391	785	1,139	1,206	1,620	3,256
Borrowings	3,001	4,498	5,296	5,693	8,117	12,925
Total Liabilities	**3,478**	**5,412**	**6,647**	**7,161**	**10,072**	**16,778**
Loans/Advances	3,160	4,727	5,579	5,928	8,693	12,499
Other Assets	318	685	1,068	1,234	1,379	4,279
Total Assets	**3,478**	**5,412**	**6,647**	**7,161**	**10,072**	**16,778**
Ratios						
AUM (MFIN reported)	3,170	4,837	6,215	6,410	10,220	16,140
NIM (%)	9.3	10.7	12.3	10.5	10.6	11.7
Opex (%)	7.1	6.1	6.2	5.3	5.2	4.3
Credit Costs (%)	2.9	0.9	2.4	5.8	3.6	3.2
RoA / RoE (%)	1.6 / 11.3	3.5 / 26.7	4.2 / 26.2	0.7 / 4.2	2.1 / 13.1	5.1 / 27.5
D/E	7.7x	5.7x	4.7x	4.7x	5.0x	4.0x
GNPA (%)	-	-	1.1	4.7	3.7	2.8
NNPA (%)	1.1	0.1	0.2	0.8	0.6	0.1
Productivity						
AUM/Branch	28	35	36	32	43	59
AUM/Loan Officer	5.6	7.1	7.3	7.3	9.2	9.9
Client/Branch	1,894	1,979	1,691	1,573	2,182	2,004
Client/Loan Officer	379	398	437	354	360	336

Initiating Coverage

Company update

CreditAccess Grameen

BSE Sensex	S&P CNX
65,559	19,414

CMP: INR1,270 TP: INR1,550 (+22%) Buy

Stock Info

Bloomberg	CREDAG IN
Equity Shares (m)	158.9
M.Cap.(INRb)/(USDb)	203.7 / 2.5
52-Week Range (INR)	1398 / 834
1, 6, 12 Rel. Per (%)	-2/39/9
12M Avg Val (INR M)	271
Free float (%)	26.3

Financial Snapshot (INR b)

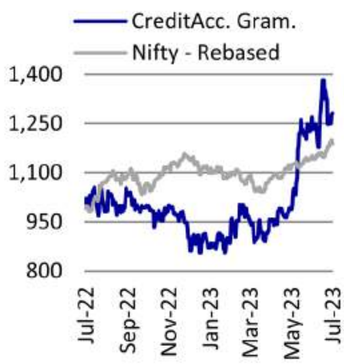
Y/E March	FY23	FY24E	FY25E
NII	21.1	27.7	33.9
Total Income	23.4	30.1	36.6
PPoP	15.1	19.8	24.2
PAT	8.3	12.0	14.5
EPS (INR)	52	75	91
EPS Gr. (%)	127	45	21
BV (INR)	321	397	488
Ratios (%)			
NIM	12.5	12.9	12.9
C/I ratio	35.6	34.2	34.0
Credit cost	2.3	1.7	1.8
RoA	4.2	4.9	4.9
RoE	18.2	21.0	20.6
Valuations			
P/E (x)	24.4	16.9	13.9
P/BV (x)	4.0	3.2	2.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	73.7	73.7	73.9
DII	12.3	12.6	10.9
FII	9.7	9.6	8.2
Others	4.4	4.2	7.0

FII Includes depository receipts

Stock performance (one-year)



Robust execution aided by high process discipline

Customer-centric approach – the foundation of high retention

- **CreditAccess ('CREDAG') is the largest NBFC-MFI in India having a gross loan portfolio (GLP) of ~INR210b and micro credit market share of ~6% as of Mar'23. It caters to the financial needs of low-income rural/semi-urban households, primarily women entrepreneurs. CREDAG has presence across 14 states (and 1 UT) with 1,786 branches. CREDAG is well poised to capture the growth opportunity in the Indian Microfinance (MFI) space driven by its high process discipline, strong customer engagement, deep rural presence and a resilient business model.**
- **CREDAG is strongly placed to capitalize on the growing opportunity by: a) improving ticket-size with customer vintage (~47% borrowers in CREDAG still have a vintage of <3 years); b) adding newer borrowers with a strong rural focus; c) improving branch productivity (~360 branches set-up over the last two years); and d) expanding into newer and relatively less-penetrated geographies.**
- **While we believe that its current valuation of 2.6x FY25E P/BV is not inexpensive, CREDAG will continue to deliver healthy investor returns aided by a strong underlying business model that would result in robust return ratios. We estimate an AUM/PAT CAGR of 23%/32% over FY23-FY25 leading to an RoA/RoE of 4.9%/21% in FY25.**
- **CREDAG is fully aligned to the new harmonized MFI guidelines and ticks all the right boxes. It is primed to dominate the segment by: a) providing the lowest-cost organized financing, b) improving operational efficiency through continuous technology enhancement, and c) integrating risk management in every process to drive superior asset quality and lower credit costs. We initiate coverage on the stock with a BUY rating and a TP of INR1,550 (premised on 3.2x FY25E P/BV).**
- **Key downside risks: a) relatively higher concentration in its Top-3 states, which contributed ~74% to the GLP mix, b) lower entry barriers leading to a surge in MFIs and decline in unique customers and c) macroeconomic uncertainties and external events that may lead to cyclicality in its asset quality.**

Customized offerings; stronger post-merger with Madura Micro Finance

- CREDAG also operates on the JLG model. However, where it differentiates itself is in the flexibility it provides to customers with its more nuanced approach. CREDAG offers different ticket sizes/repayment structures to borrowers within the same group that translates into higher customer retention.
- CREDAG acquired MMFL in FY20 and consolidated its position in its top-3 states of Karnataka, Maharashtra and Tamil Nadu. In Feb'23, NCLT approved the scheme of merger between CREDAG and MMFL and the merged entity is now stronger post-completion of the scheme.

Strong parent – displaying trust in CREDAG across business cycles

- CreditAccess India B. V. (CAI) is the promoter of CREDAG with ~67% stake; post the recent share-swap after Madura merger and promoter block sale. It remains committed to abide by the regulatory requirement.
- CAI provides access to global fundraising opportunities to CREDAG by leveraging its networks and relationships. CAI has a widely held shareholding base (Olympus ACF: 15.4%, ADB: 8.8% and Asia Impact Invest: 8.8% as on Mar'23).

Calibrated growth through deeper penetration and contiguous expansion

- CREDAG delivers loan growth through consistent replication of processes/controls. It penetrates a particular district within three years of commencement of operations and then expands into an adjoining district.
- The company provides a diverse product suite catering to the lifecycle needs of the customer; it provides flexibility to avail multiple loans within the assigned credit limit and gives customers the ability to choose the repayment frequency based on the cash flow cycle. This combined with its offering of lowest-cost credit (among NBFC-MFIs) helps achieve a retention rate of ~88%. **We estimate a disbursement and AUM CAGR of 19% and 23%, respectively, over FY23-FY25.**

Pricing power will lead to a sustained NIM of ~13% under the new regime

- Under the new MFI guidelines, all MFI players (including CREDAG) increased their lending rates to right-price the risk across geographies and product segments. In addition, CREDAG has also passed on the higher borrowing costs allowing it to sustain NIM at a desired level of ~13%.
- CREDAG's liabilities are long term (67% with >2-year tenor) in nature and well diversified across both domestic and foreign borrowings (14% of mix). Weighted average borrowing cost rose ~60bp over FY23. With the merger now effective, even MMFL's liabilities will gradually be re-priced and aid margins.

Strong risk management leads to superior asset quality

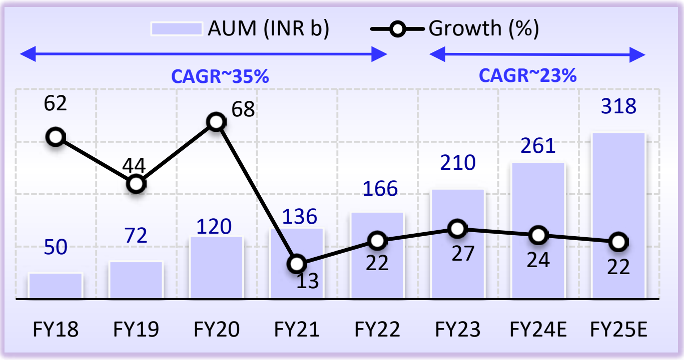
- CREDAG has delivered better asset quality than the industry, which reflects its ability to underwrite, manage risk and collect relatively better than peers. It has demonstrated this amid multiple credit and economic cycles such as Andhra Pradesh crisis in 2011, demonetization in 2016, the IL&FS crisis that led to liquidity issues in 2018 and then Covid-19 in 2020.
- CREDAG uses stringent policies for asset classification and provisioning (early NPA recognition at 60dpd v/s regulatory allowance of 90dpd). With a large part of the Covid-stress now behind, it has a strong provisioning buffer with consolidated ECL/EAD of 1.8 and PCR on Stage 3 at ~66% as of Mar'23. We estimate further asset quality improvement and model credit costs of ~1.8% in FY24/FY25.

Earnings CAGR of 32% over FY23-FY25E; initiate with a BUY

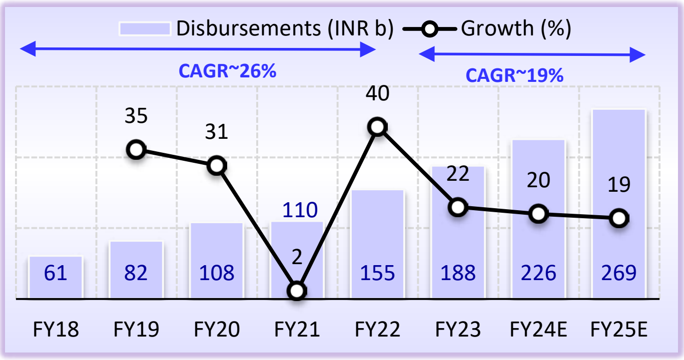
- CREDAG is strongly positioned to capitalize on the opportunities in the rural MFI segment with: 1) its strong rural focus (>80% of GLP); 2) robust process discipline; 3) customized and flexible customer-centric approach; and 4) a robust technology infrastructure that would drive operational efficiencies. These would lead to a 23% and 32% AUM and PAT CAGR over FY23- 25E, respectively.
- CREDAG's robust execution has been vindicated by its resilience across various credit cycles and external disturbances. With strong capital position (Tier-1 of ~23%), the company can very well navigate any potential disruptions in future and also capitalize on the growth opportunity over the medium term. **We initiate coverage on the stock with a BUY rating and a TP of INR1,550 (premised on 3.2x FY25E P/BV).**

STORY IN CHARTS

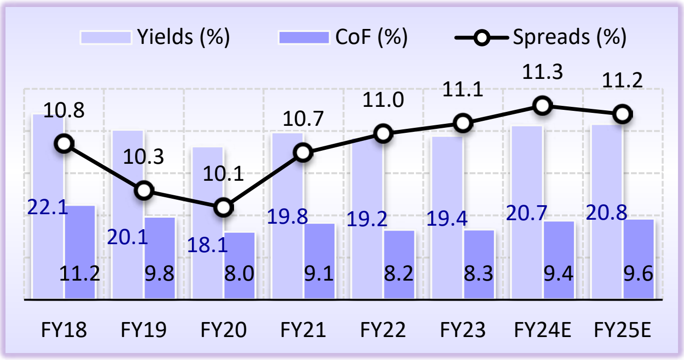
AUM CAGR of ~23% expected over FY23-FY25



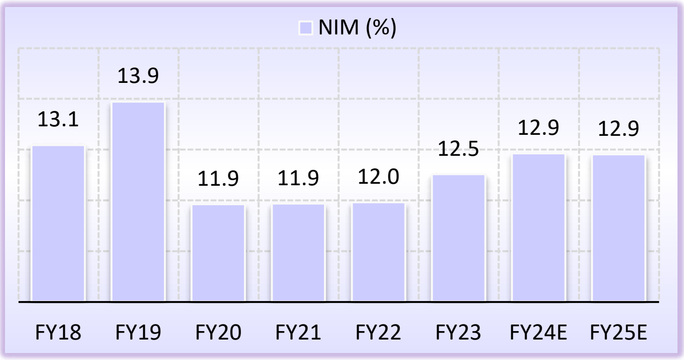
Disbursements too would remain strong



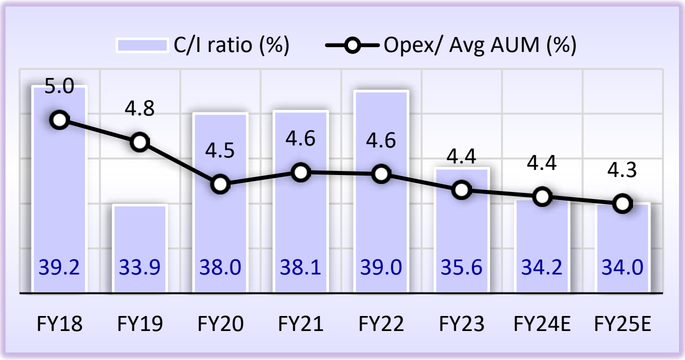
Improvement in yield to drive expansion in spreads



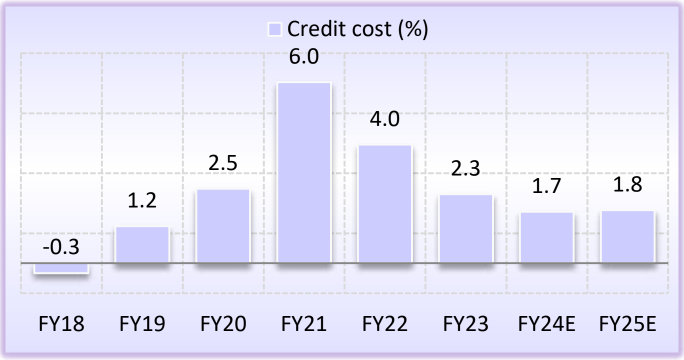
NIMs to improve to ~13% over FY25E



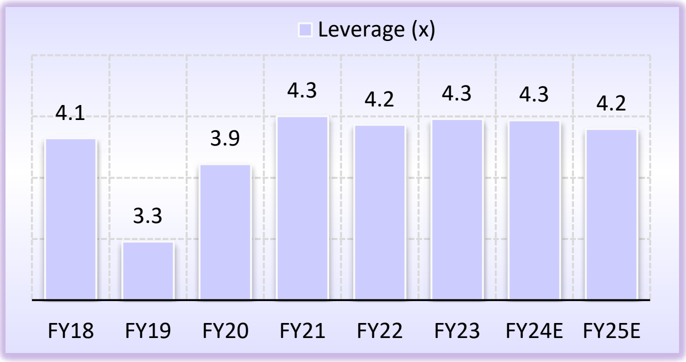
Cost ratios to improve steadily over FY25E



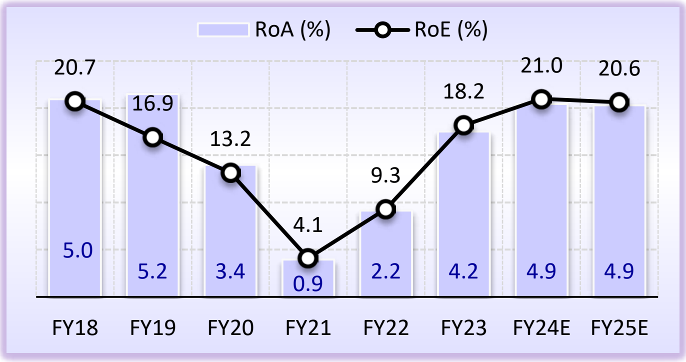
Credit costs to turn benign from hereon



Leverage range-bound at around 4.2x-4.3x…



RoA expansion will lead to improvement in RoE



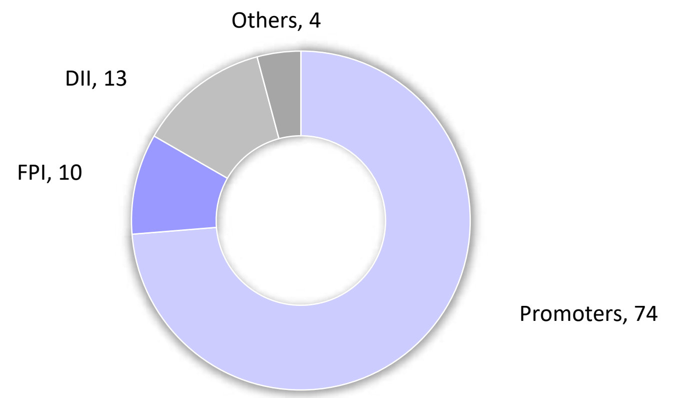
Source: MOFSL, Company

Company overview

CREDAG's GLP stood at ~INR210b and it has a presence across 14 states (and 1 UT)

- CREDAG (erstwhile Grameen Koota) was incorporated in Bengaluru in May'99 as an NGO project under the T. Muniswamappa Trust. Today, it is led by Mr. Udaya Kumar Hebbar, who comes with an extensive experience of over four decades.
- Backed by parentage of Credit Access India B.V. (holding ~67% stake), CREDAG is an NBFC-MFI that specializes in financing of micro and small enterprises.
- CREDAG acquired MMFL (~INR21b GLP) in Nov'19 to diversify, expand and capitalize on its own strengths. As of Mar'23, CREDAG's gross loan portfolio stood at ~INR210b, comprising 96% of income generation loans. It has presence across 14 states (and 1 UT) with a distribution network of ~1,800 branches, supported by >16,700 employees (including >11,400 loan officers). The company caters to ~4.3m borrowers.
- It caters to the financial needs of low-income rural/semi-urban households, primarily women entrepreneurs, and it has efficiently scaled up its loan book at ~33% CAGR over the last five years.

Exhibit 68: Shareholding pattern (%)



Source: Company, MOFSL, Note: Shareholding as on Mar'23;
Promoter shareholding reduced to ~67% post the recent share-swap after Madura merger and promoter block sale

Exhibit 69: Key business parameters for CREDAG (consolidated)

GLP (INR b)	Total CAR/ Tier 1	GNPA/NNPA/ PAR 90	Branches/ State
210	24% / 23%	1.2%/ 0.4%/ 0.9%	1,786 / 15
Emp/ LOs	**Active borrowers ('000)**	**GLP/ branch (INR m)**	**GLP/ Loan officers (INR m)**
16,759 / 11,490	4,264	118	18

Source: Company, MOFSL Note: Data as on Mar'23

Rural focus with a strong operating model

Product suite to cater to customer lifecycle with flexible loans and repayments

Leverages diversified product suite to cater to lifecycle needs of customers

Flexibility to choose the repayment frequency based on the cash flows.

Credit limit is based on customer vintage and consumption loans are provided only after 6 months

- CREDAG places utmost importance on achieving a balanced growth between both its GLP and customer base. The company has successfully scaled up its customer base at a CAGR of ~15% over FY19-23. CREDAG operates on the JLG model and differentiates itself in the flexibility it provides to customers through its nuanced approach.
- CREDAG offers multiple loan products to cater to the lifecycle requirements of the customers. It also provides customers with the flexibility to choose the repayment frequency (weekly/bi-weekly/monthly) based on their cash flows.
- The borrowing limit for the first-cycle (with CREDAG) borrower is decided by the company and is subsequently increased depending upon the credit history and vintage of the customer. To ensure timely repayments and to increase customer engagements, weekly center meetings are held with the customers irrespective of their repayment frequencies.

Exhibit 70: Diversified product mix

Loan type	Customer centric products	Purpose	Ticket Size (INR)	Tenure (months)
Group	Income Generation Loan (IGL)	Business investments and income enhancement activities	5K – 100K	12 - 36
Group	Home Improvement Loan	Water connections, sanitation and home improvements and extensions	5K – 50K	12 - 36
Group	Family Welfare Loan	Festival, medical, education, and livelihood improvement	Upto 20K	3 - 12
Group	Emergency Loan	Emergencies	1K	3
Retail Finance	Retail Finance Loan	Purchase inventory, machine, assets or for making capital investment in business or business expansion	Upto 2m	6 - 180

Source: MOFSL, Company

Exhibit 71: AUM mix predominantly dominated by IGL (%)

	FY19		FY20		FY21		FY22		FY23	
	INR m	YoY (%)	INR m	YoY (%)	INR m	YoY (%)	INR m	YoY (%)	INR m	YoY (%)
IGL	60,880	40	1,05,460	73	1,28,380	22	1,59,480	24	2,00,900	26
Family Welfare	930	408	1,680	81	230	-86	380	65	670	76
Home Improvement	6,430	77	7,700	20	3,110	-60	4,140	33	6,980	69
Emergency Loans	100	102	130	30	20	-85	30	50	90	-
Retail Finance	3,250	856	4,990	54	4,130	-17	1,960	-53	1,690	-14
Total GLP	**71,590**	**50**	**1,19,960**	**68**	**1,35,870**	**13**	**1,65,990**	**22**	**2,10,310**	**27**

- CREDAG never pushes customers to borrow a fixed loan size. By assigning a credit limit, the company allows them to borrow based on their requirements. Credit limit is based on customer vintage and after 10 installments, customers can avail a top-up loan or other loans up-to the credit limit. Consumption loans are provided only after six months and emergency loans of INR1K are pre-approved and disbursed instantly in group meetings.

- Consumption loans – Home improvement, Medical or Educations loans – are provided with very strict loan utilization checks. Education loans are typically provided with school sessions start typically in the months of April/May and medical loans are provided after performing a necessary due diligence.

Customer-centric approach leading to higher retention rates

- The process workflow has been end-to-end digitized leading to an improvement in overall experience for the borrowers. Automation of key internal processes and focus on data analytics has aided the company in expanding its customer base and maintaining higher customer stickiness.
- CREDAG has consistently maintained a borrower retention rate of more than 84% over the past five years. Effective delivery of services along with a diversified product base has helped the company keep a check on customer attrition.
- CREDAG's ability to maintain higher customer stickiness has led to a consistent improvement in the vintage of its borrowers. This favorable trend of having higher vintage borrowers not only enhances the quality of its customer mix but also enables the company to generate sustained business growth from its valued customers.
- Rural India is financially underserved and boasts of a high growth potential. CREDAG continues to focus on deepening its penetration in rural areas with low competitive intensity and decent creditworthiness. The share of rural borrowers has consistently increased over the last five years.
- Average ticket size (ATS) has reported a CAGR of ~15% over FY19-23 driven by: a) general inflation, b) higher vintage customers who are eligible for higher ticket sizes and c) increasing confidence of CREDAG in its underwriting model. This has in-turn led to higher GLP outstanding per borrower. Higher ATS combined with strong new customer additions should aid in delivering a healthy medium-term GLP growth.

Consistent borrower retention rate of >84% over the past five years

Higher vintage borrowers enable CREDAG to generate sustained business growth

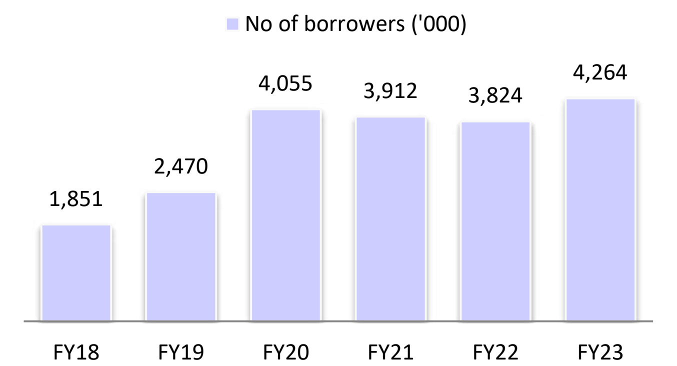
~93% of the districts individually account for <1% of the consolidated AUM

Exhibit 72: Customer retention rate above 84% over the past five years

Standalone (%)	FY18	FY19	FY20	FY21	FY22	FY23
Retention rate	84	87	85	87	84	88

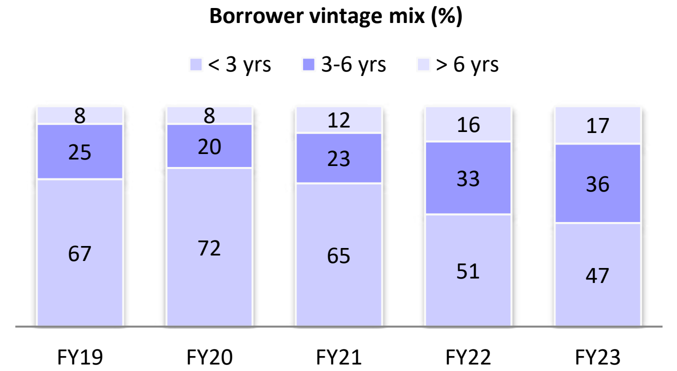
Source: MOFSL, Company

Exhibit 73: No. of borrowers posted ~7% CAGR over FY18-23



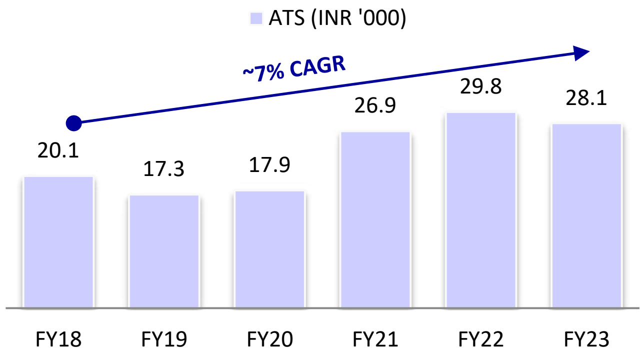
Source: MOFSL, Company

Exhibit 74: Increasing share of vintage borrowers (%)



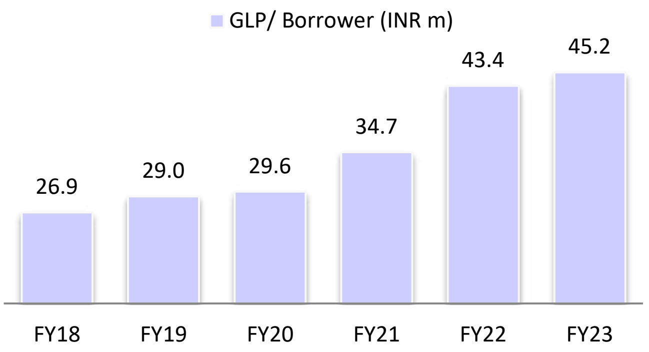
Source: MOFSL, Company

Exhibit 75: ATS posted a CAGR of ~7% over FY18-23



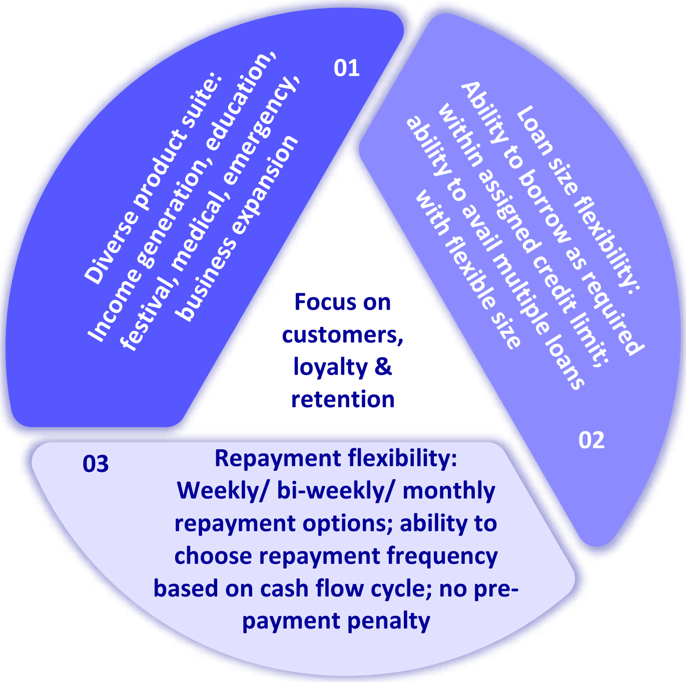
Source: MOFSL, Company

Exhibit 76: Average loan outstanding per borrower



Source: MOFSL, Company

Customer-centric approach is the primary focus of CREDAG



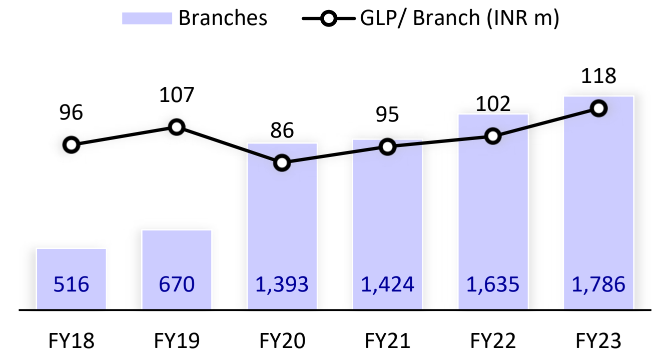
Source: MOFSL, Company

~47% of new borrower additions over the last 12 months were from outside the top three states.

Contiguous district-based expansion strategy

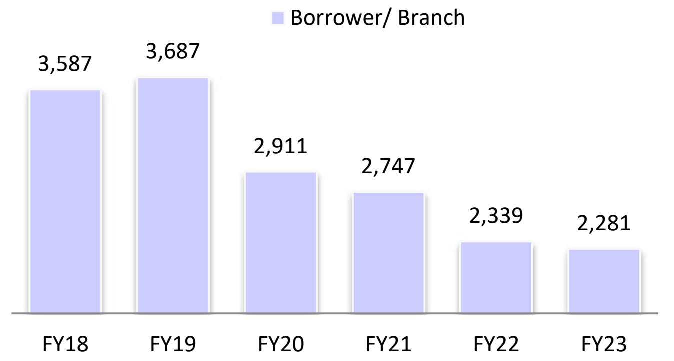
- CREDAG enjoys a high depth of coverage in rural villages with ~5-6 branches per district. Each branch caters to a radius of ~25-30km. The company currently operates in 14 states and one UT, across 352 districts through a distribution network of 1,786 branches.
- This extensive presence ensures that the company does not have a concentrated exposure to any geography, mitigating any adverse impact on asset quality due to unfavorable events in a particular geography. As of Mar'23, no single district contributed more than 4% to the consolidated AUM; ~93% of the districts individually account for <1% of the consolidated AUM and ~99% of the districts individually account for <2% of the consolidated AUM.

Exhibit 77: GLP/ branch showing gradual improvement



Source: MOFSL, Company

Exhibit 78: Expanding branch network to grow borrower base



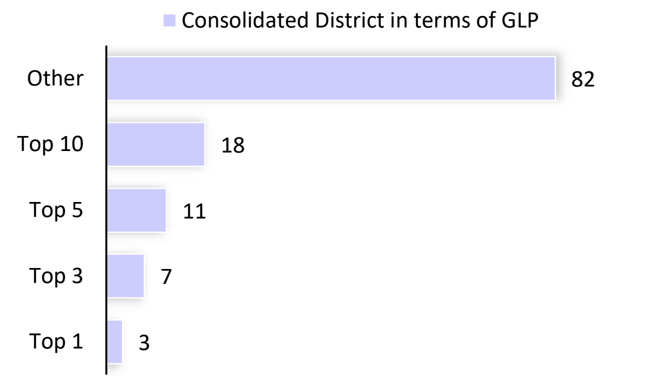
Source: MOFSL, Company

Exhibit 79: No single district has exposure of >4%

Consolidated exposure of districts (%)	No. of districts	% of total districts
<0.5%	290	82
0.5-1%	38	11
1-2%	20	6
2-4%	4	1
>4%	0	0
Total	**352**	**100**

Source: MOFSL, Company

Exhibit 80: Top 10 districts contribute ~18% to the GLP



Source: MOFSL, Company

Efforts ongoing to diversify operations beyond the top three states

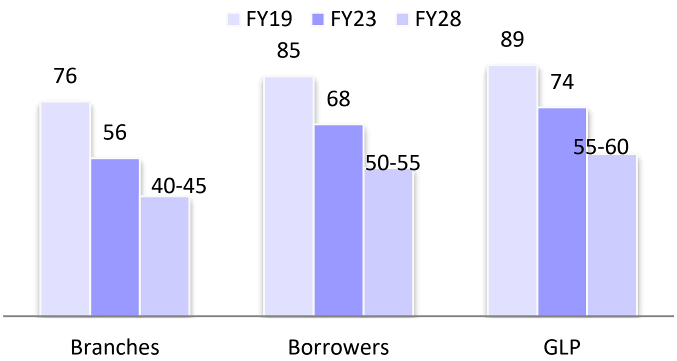
- As of Mar'23, the company has become a market leader in four states, namely, Karnataka, Maharashtra, Tamil Nadu, and Madhya Pradesh.
- With a strong presence in these states, CREDAG is now actively working towards further expanding its footprint in other states including Andhra Pradesh, Telangana, Haryana, Himachal Pradesh, and Uttarakhand.
- CREDAG is actively pursuing efforts to diversify its operations beyond the top three states and position itself as a well-rounded and diversified MFI. The company aims to reduce the share of its top three states to 55-60% over the next five years from 74% in FY23.
- Moreover, the company has targeted to achieve 45-50% of new borrower additions from regions outside the top three states. This initiative aims to foster diversification across emerging markets and expand the company's footprint in untapped geographical pockets over the next five years. To that end, ~47% of new borrower additions over the last 12 months were from outside the top three states.

Exhibit 81: Karnataka has the highest share of borrowers and GLP

% Share	Branches	Borrowers	GLP
Karnataka	17	26	33
Maharashtra & Goa	17	20	21
Tamil Nadu & Puducherry	22	22	20
Other States	44	32	26

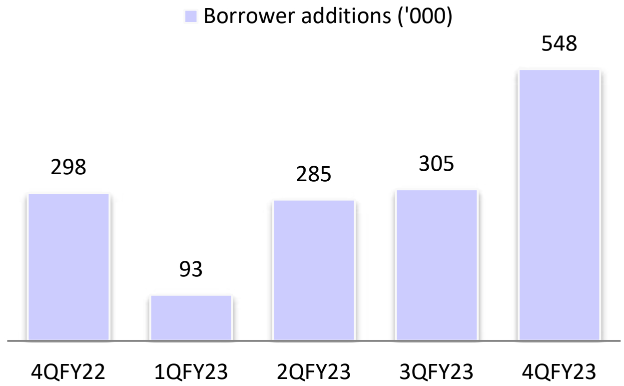
Source: MOFSL, Company

Exhibit 82: Targets to reduce its concentration in the top 3 states via geographical diversification



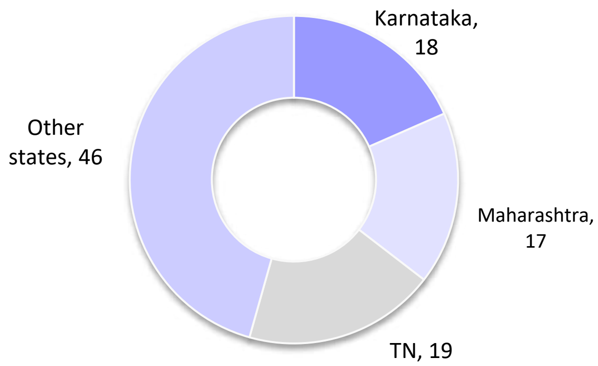
Source: MOFSL, Company

Exhibit 83: Trajectory of new borrower additions



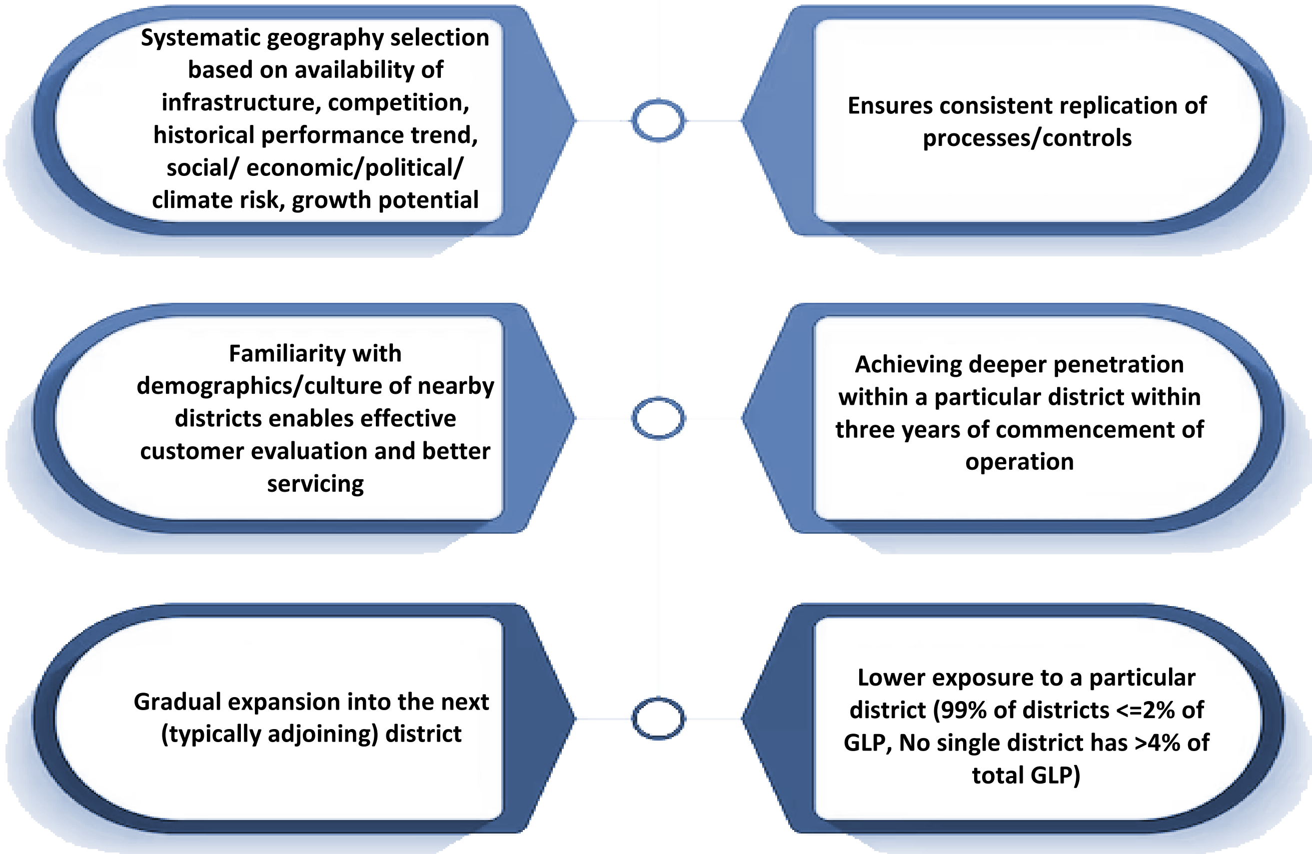
Source: MOFSL, Company

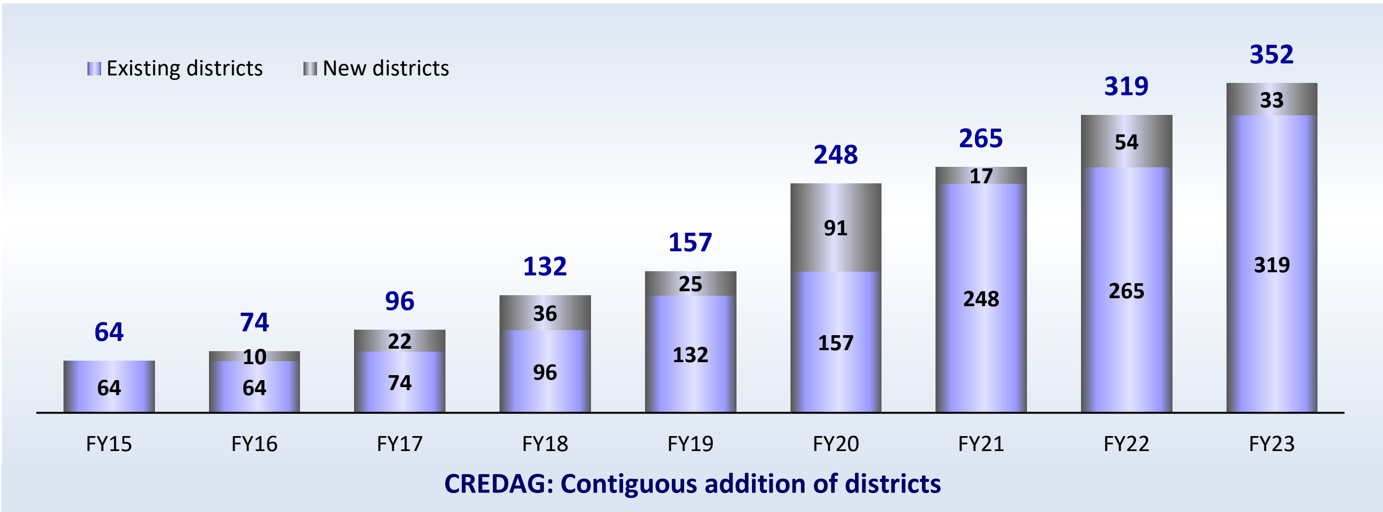
Exhibit 84: State-wise share of borrower additions over the last 12 months



Source: MOFSL, Company

Exhibit 85: Internal controls for improved underwriting practices



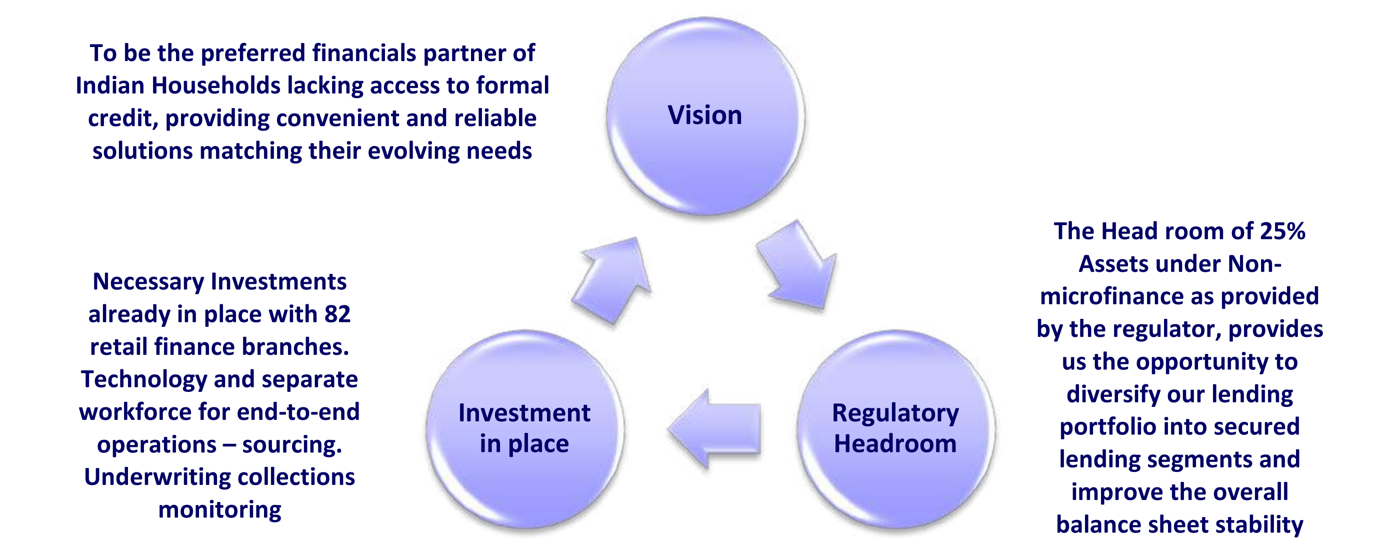


Source: Company, MOFSL

Products beyond MFI to provide newer legs for growth

- There are substantial credit opportunities beyond microfinance in rural areas and we believe CREDAG will capitalize on them. Leveraging its extensive customer base of ~ 4.3m, CREDAG aims to expand its business beyond microfinance and explore additional avenues for growth.
- The company plans to have a presence across five new products apart from microfinance viz. individual unsecured loans, mortgage-backed secured business loans, affordable housing loans, new two wheeler loans and gold loans. More importantly, we believe that the introduction of these new products will not have any detrimental impact on its return profile.

Exhibit 86: Three pillars to support its product portfolio expansion plan



Source: MOFSL, Company

- The company plans to gradually increase the ticket size in these product segments as it gains a better understanding of its customers and the geographical areas where these products are offered. Currently, ~23% of the company's customers have already taken retail loans from CREDAG.

Exhibit 87: Key metrics of new product segments

Product	Target customer	Product features			Tenure	Repayment
		ATS ('000)	RoI (%)	LTV (%)		
Individual Unsecured Loans	❖ Graduated MFI customers with enhanced funding needs ❖ 2+ years of vintage, having multiple sources of income	150	22.5		1-3 years based on loan amount	Repayment flexibility: Weekly/ Bi-weekly/ Four weekly
Mortgage Backed Secured Business Loans	❖ Graduated MFI customers + open market customers ❖ Self-employed individuals	600-800	18-22.5	45-60	<= 15 years	
Affordable Housing Loans	❖ Graduated MFI customers + open market customers ❖ Salaried and Self-employed individuals	600-800		<= 75	<= 20 years	
New Two-wheeler Loans	❖ Existing MFI customers with vintage > 1 year	80	22.5		2/3 years	Repayment flexibility: Weekly/ Bi weekly/ Four weekly
Gold Loans	❖ Existing MFI customers within 50km radius from retail finance branch	36	16-18	75	3/12 months	

Source: MOFSL, Company

Exhibit 88: Sourcing and underwriting strategies for the new product segments

Product	Sourcing strategy	Credit underwriting	Collections
Individual Unsecured Loans	❖ Leads are sourced by MFI branch managers / loan officers	❖ Separate credit appraisal/ sanctioning team at branch/area/ regional levels ❖ Automated credit bureau rules, Income assessment, FOIR computation	❖ Regular collections by MFI loan officers at centre meeting ❖ Various options for cash and digital mode ❖ Cash collections is the preferred repayment option
Mortgage Backed Secured Business Loans	❖ 100% in house customer sourcing ❖ Leads sourced by MFI branch managers / loan officers ❖ Direct sourcing by Retail Finance loan officers	❖ Separate teams for credit, legal, technical, operations ❖ Decentralized underwriting by branch credit team ❖ Personal discussion/ property visit/ employer visit ❖ Cashflow assessment	❖ NACH mandatory for all customers ❖ Various options for digital modes of repayment ❖ Part payment as well as foreclosure options available
Affordable Housing Loans	❖ 100% in house customer sourcing ❖ Leads sourced by MFI branch managers / loan officers ❖ Direct sourcing by Retail Finance loan officers	❖ Separate teams for credit, , technical, operations ❖ Decentralized underwriting by branch credit team ❖ Personal discussion/ property visit/ employer visit ❖ Cashflow assessment	❖ NACH mandatory for all customers ❖ Various options for digital modes of repayment ❖ Part payment as well as foreclosure options available
New Two-wheeler Loans	❖ Pre-approved list of MFI customers ❖ Leads are sourced by MFI field force ❖ Simplified process making product adoption easier	❖ Pre-approved customer base, basis pre-set parameters ❖ Decentralized verification, approval process at branch ❖ MFI branch managers to sanction all loans	❖ Regular collections in cash by MFI loan officers at designated centre meeting ❖ Various options for cash and digital mode ❖ Part payment as well as foreclosure options available
Gold Loans	❖ MFI customers ❖ Leads are sourced by MFI branch managers / loan officers	❖ Approved by BM/BCMs in RF branches ❖ Certified employees for Gold Appraisal	❖ Bullet and quarterly repayment at the branch ❖ No part payment & pre closure charges

Source: MOFSL, Company

Exhibit 89: New products growth strategy

Product	Pilot launch date	Current status	Future plans
Individual unsecured loans	❖ Launched in 1QFY22	❖ Successful Pilot Completion In FY23	❖ Scale-up In FY24 Across 500+ MFI Branches
Mortgage-Backed Secured Business Loan	❖ Launched in 4QFY22	❖ Successful Pilot Completion In FY23	❖ Scale-up In FY24 Across 82 Retail Finance Branches
Affordable Housing Finance	❖ To be launched in 2HFY24		
New 2W loans	❖ Launched in 3QFY23	❖ Pilot to be continued in FY24	❖ Scale-up in FY24 To 400+ MFI Branches
Gold loans	❖ Launched in 3QFY22	❖ Pilot to be continued in FY24	

Source: MOFSL, Company

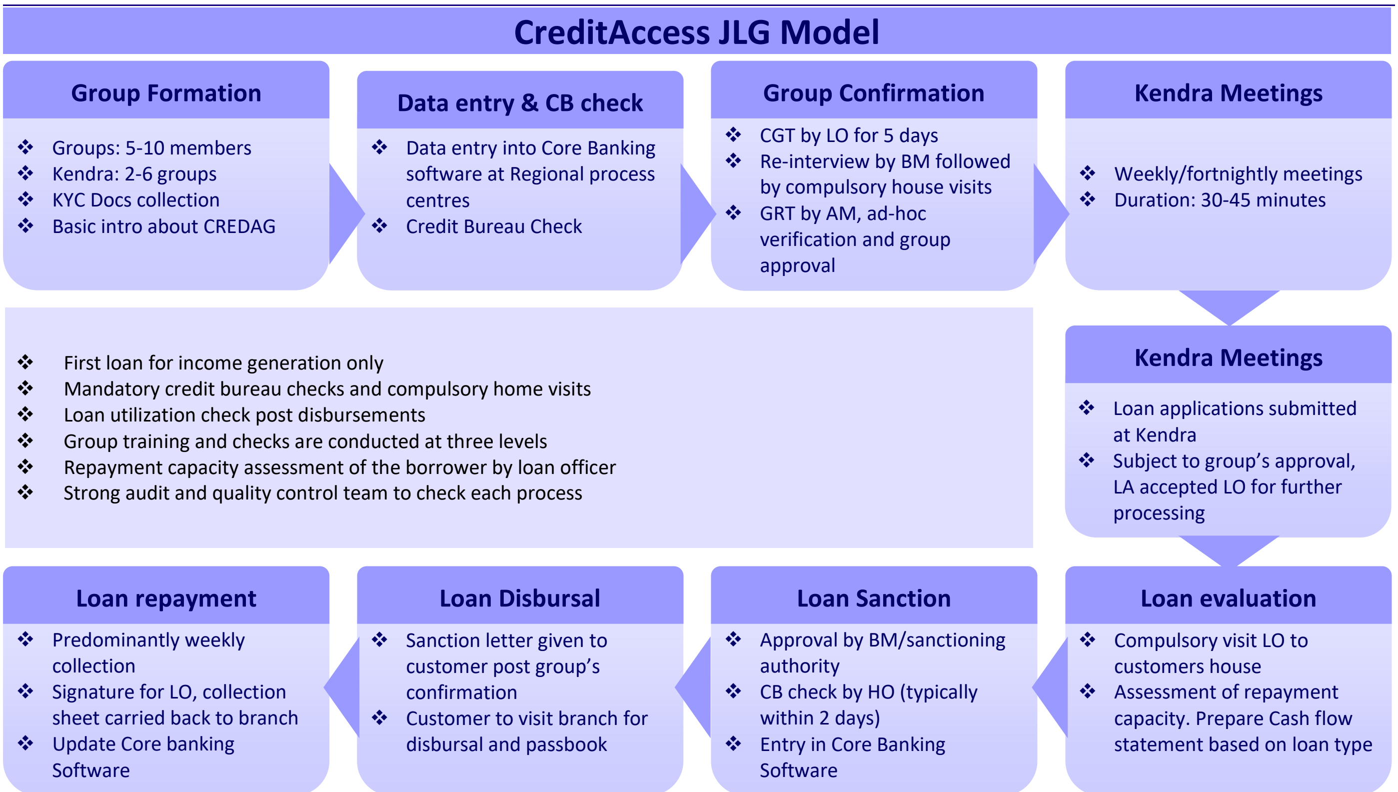
JLG operating model with strong checks and balances

Helps reduce process, frauds and overleveraging risks

Committed to the classical JLG model, which is a pseudo security/collateral

- CREDAG has fully aligned itself with the new harmonized MFI guidelines by training all its employees in the necessary process changes and making the requisite underwriting changes including the technology-related changes in its core banking system.
- The company remains committed to the classical JLG model, which is a pseudo security/collateral in an unsecured product segment like MFI loans.
- We strongly believe that MFI lending requires strong process discipline and CREDAG personifies the belief in all the strong checks and balances that it has built and implemented both before and after loan disbursements.
  - The first loan to a new customer is given for income generation purposes only
  - Mandatory home visits and repayment capacity assessments of the customers are done through their cash-flows, income and expenses
  - Credit Bureau checks both at the time of group formation and again at the time of loan approval are carried out
  - Compulsory five-day group training (CGT) conducted by the Loan Officer (LO) has to be re-verified by the Branch Manager and Area Manager
  - Data are entered (through a tab) into the Core Banking Software (CBS) at all times including group formation, loan applications and loan repayments/ collections
  - Loan Utilization Check (LUC) is carried out typically within 5-10 weeks and another follow-up is done within 11-15 weeks.

Exhibit 90: CreditAccess Grameen JLG model with strong checks and balances



Source Company, MOSFL:

Exhibit 91: Multilayered checks both before and after loan disbursement

Group Formation	Data Entry & CB Check	Group Confirmation	Kendra Meeting	Loan Application	Loan Evaluation	Loan sanction & Disbursal	Loan Repayment	Loan Utilization
❖ Self-chosen group within 500m radius ❖ Mutual reliance ❖ Group: 5-10 members ❖ Kendra: 2-6 groups ❖ Digital process to capture KYC & Household income details in Tab	❖ Data entry into CBS at RPCs ❖ KYC verification by RPCs ❖ Comprehensive CB check for all earning family member	❖ 3-days CGT by LO ❖ Re-interview by BM ❖ Compulsory house visits ❖ GRT by AM, ad-hoc verifications, group approval	❖ Weekly/ Fortnightly meetings ❖ Duration 30-45 mins ❖ Act as early warning indicator	❖ New LA is captured in Tab ❖ Subject to group's approval, LA is accepted by the LO for further processing ❖ First loan IGL only	❖ Compulsory house visit ❖ Repayment capacity to be assessed on existing cash flows ❖ Household income assessment	❖ Loan sanction after complying with max 50% FOIR ❖ Group's re-confirmation ❖ Fund transfer to bank a/c ❖ Passbook / repayment schedule & pricing fact sheet	❖ Choice of repayment frequency ❖ Collections updated online on TAB	❖ LUC between 5-10 weeks ❖ Follow-up LUC in 11-15 weeks ❖ LUC recorded in passbook and LUC card

Source: Company, MOFSL

Strong risk management framework

CREDAG's internal controls are enforced by three lines of defense viz. internal audit team, field risk team and quality control team. CREDAG's audit, quality control and risk teams are actively involved in conducting comprehensive audits at the branch, center and customer levels to mitigate any process risk, fraud risk or leveraging risk. Following practices help in putting together a strong risk management framework:

CREDAG rotates the center of the LOs once every year and the branch every two years

- **Employee rotations reduce fraud risks:** LOs are hired locally and are posted 100-150km away from their hometowns to reduce the risk of collusion with the borrowers. Most LOs reside within the branch and for each LO, the company rotates the center once every year and the branch every two years. Even for a branch manager (BM), the branch is rotated every three years. These practices ensure that fraudulent practices (if any) are identified and mitigated before it becomes entrenched.
- **Quality control and field risk teams:** CREDAG has formed over 340 quality control teams to review branch operations and customer on-boarding processes, investigate frauds, monitor portfolio quality and PAR recovery, check loan utilization and verify insurance claims. In addition, the company has formed 67 field risk teams and allotted one field officer for every 20 branches. The field risk officer conducts geographical risk assessments for business operations, monitors risk events (social, political, and industrial) and also monitors operational risks at branches and centers.
- **Process-driven internal branch audits:** The company follows an agile internal audit approach with fully automated audit process and high frequency of audits performed by independent, experienced and trained audit staff.

Branch of the branch manager is rotated every three years

- **Branch grading:** Branches are graded quarterly as per a risk-weighted score and the audit frequency is decided basis the same. Employees at branches with C and D grades face reduced incentives by 50% and 100%, respectively, until their branch grades improve to at least C level.

Exhibit 92: Audit frequency is decided basis the Grade allocated to a branch

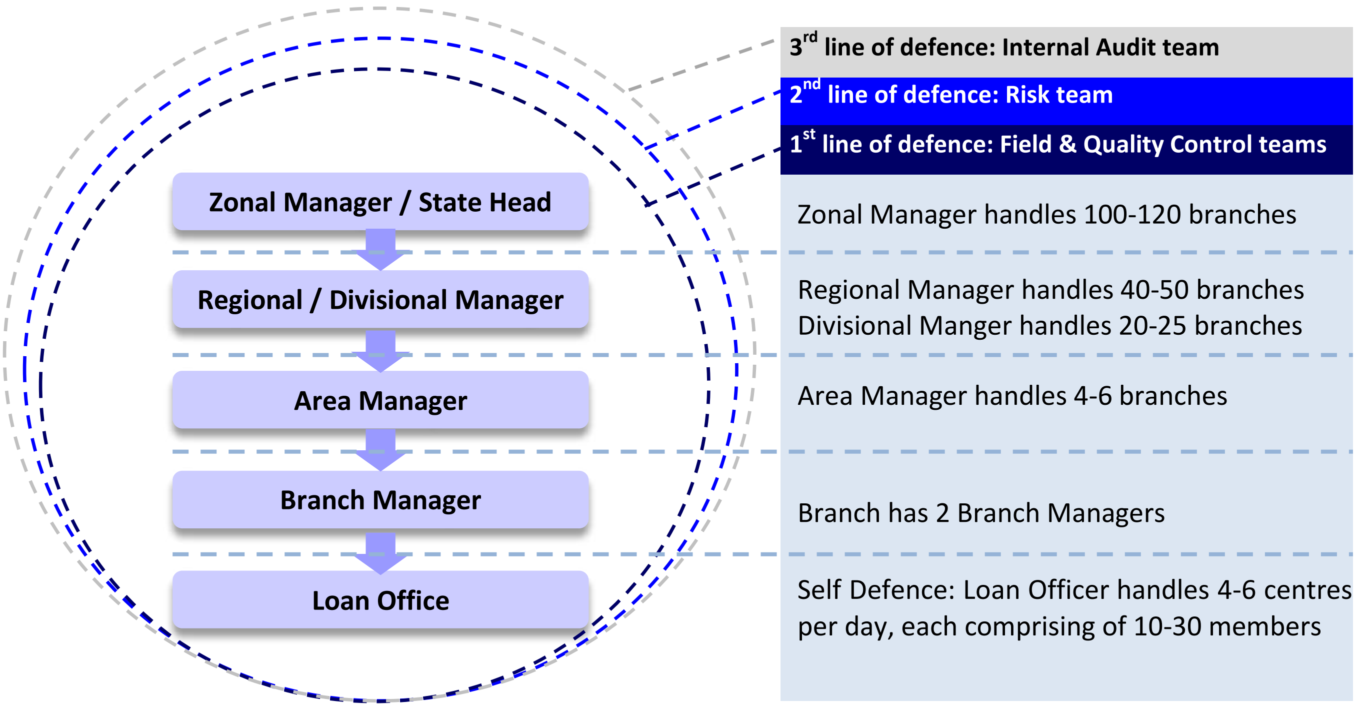
Grade	Risk Weighted Score	Audit Frequency	%Of Branches
A +	> 95	75 days	4.6%
A	85 –95	60 days	42.3%
B	80 –85	60 days	48.1%
C	75 –80	45 days	4.9%
D	< 75	30 days	0.2%

Source: MOFSL, Company

Weekly center meetings irrespective of the repayment frequency

- **Design of the incentive structure minimizes any over-leveraging or ever-greening:** No Loan Officer (LO) is incentivized for loan amount, disbursement, collections or the asset quality. Instead, the incentives of a LO centers around the number of active borrowers, new borrower additions and the audit score. This also incentivizes the employees to deliver growth in the borrower base rather than pursuing ticket size-based growth.
- **Weekly center meetings:** Despite providing borrowers with the flexibility to choose their repayment frequency (weekly, fortnightly or monthly), CREDAG conducts weekly center meetings (despite being relatively more opex intensive) to maintain regular connect with the borrowers, which is highly useful particularly during shock events.

Exhibit 93: Three lines of defense in CREDAG's risk management framework

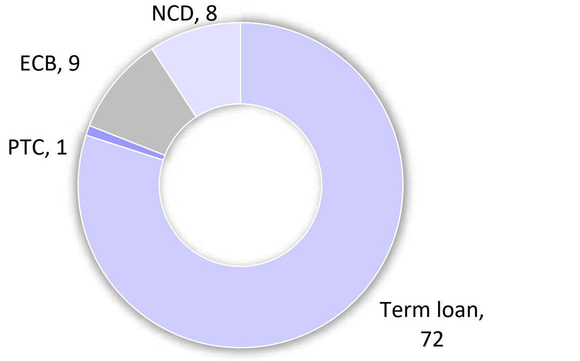


Source:

Liabilities well diversified; will only get better

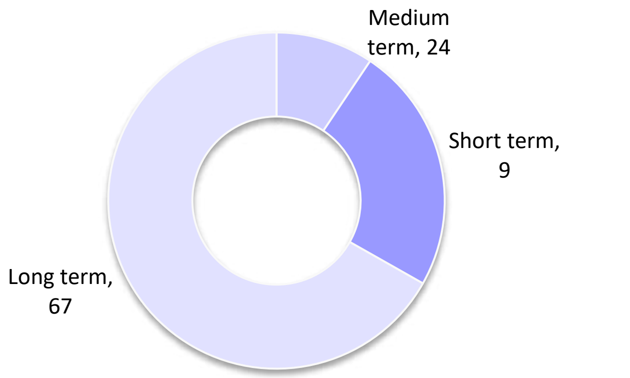
- CREDAG, over the years, has built a very well-diversified liability franchise. Despite a significant portion of its loan portfolio having a relatively short average tenor of less than two years, the company has prioritized long-term borrowings and has also diversified between domestic and foreign sources of borrowings.
- CREDAG's liabilities are long term (~67% with >2-year tenor) in nature and well diversified across both domestic and foreign borrowings (~14% of mix). Weighted average borrowing cost rose ~60bp over FY23.

Exhibit 94: Instrument-wise borrowing mix (%)



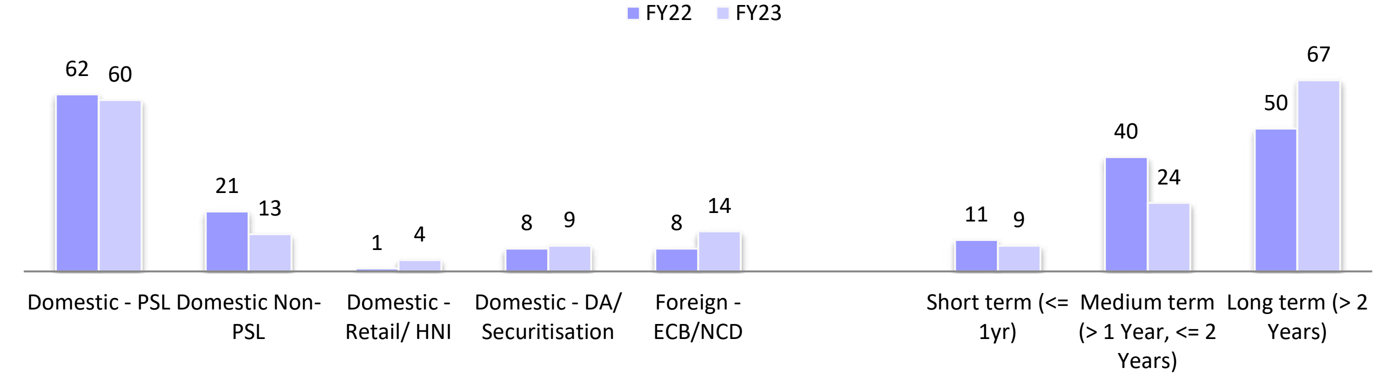
Source: MOFSL, Company

Exhibit 95: Tenure-wise borrowing mix (%)



Source: MOFSL, Company

Exhibit 96: Shift in liabilities mix towards lower PSL loans and higher foreign and long-term borrowings



Source: MOFSL, Company

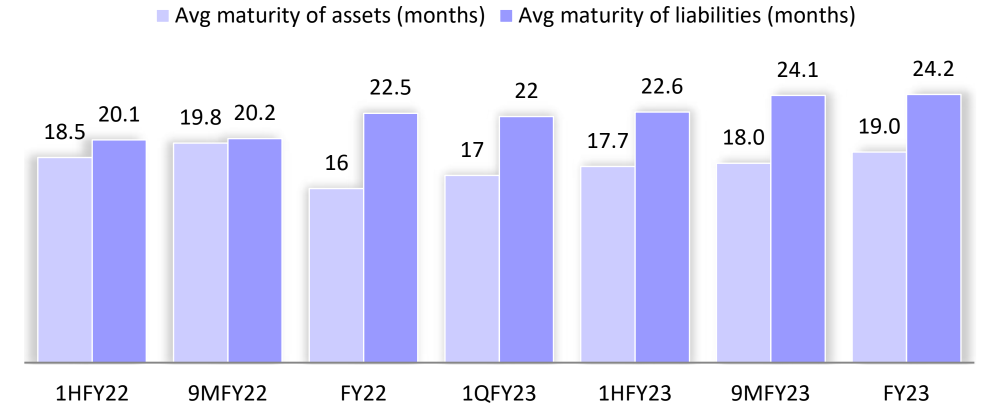
Exhibit 97: Target liability mix over the next five years (%)

	FY23	FY26	FY28
Banks (PSL Funding)	60	50-55	45-50
Foreign Sources (ECB/NCD)	14	20-25	25-30
Domestic NBFCs / FIs	13	5-10	5-10
Domestic Public NCDs	4	5-10	5-10
DA / Securitisation	9	5-10	5-10
Total	**100**	**100**	**100**

Source: MOFSL, Company

CREDAG is rated A+ (Positive) by CRISIL and AA- (Stable) by both ICRA and India Ratings.

Exhibit 98: Positive ALM mismatch



Source: Company, MOFSL

- The company by virtue of its consistent performance and relatively better asset quality outcomes (v/s the industry) has been able to fetch credit rating upgrades over the years. CREDAG is currently rated A+ (Positive) by CRISIL and AA- (Stable) by both ICRA and India Ratings.

Exhibit 99: Evolution of Credit Ratings for CREDAG

CREDAG	FY20	FY21	FY22	FY23
ICRA	A+ (Stable)	A+ (Stable)	A+ (Stable)	AA- (Stable)
Ind-RA	A+ (RWN)	A+ (Stable)	A+ (Stable)	AA- (Stable)
CRISIL	A+ (Stable)	A+ (Stable)	A+ (Stable)	A+ (Positive)

Source: MOFSL, Company

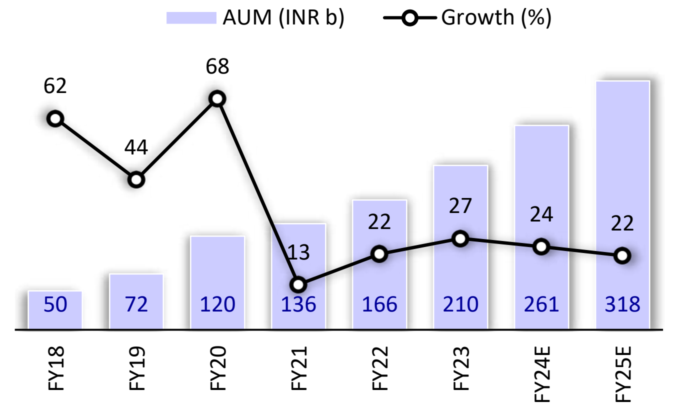
Healthier NIM with a strong grip on asset quality

Expect GLP/PAT CAGR of 23%/32% over FY23-FY25; RoA/RoE at 4.9%/21%

GLP growth momentum would sustain

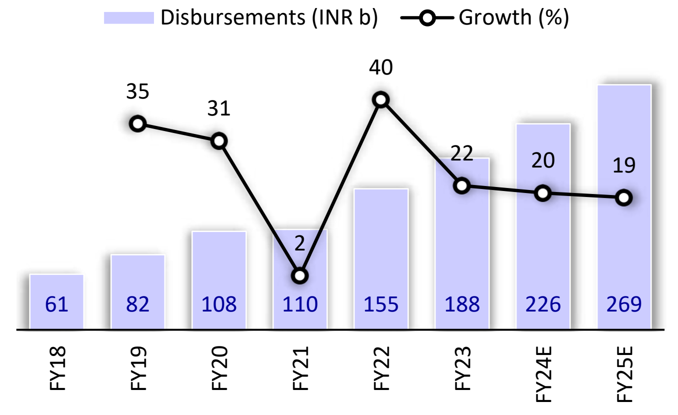
- Tight discipline around processes and practices at CREDAG will ensure strong GLP growth aided by: a) healthy new additions and b) gradual increase in ticket size driven by inflation and borrower vintage.
- We expect GLP growth to sustain and model disbursement and GLP CAGR of 19% and 23%, respectively, over FY23-FY25E.

Exhibit 100: AUM likely to post ~23% CAGR over FY23-25…



Source: MOFSL, Company

Exhibit 101: …driven by disbursement CAGR of 19%

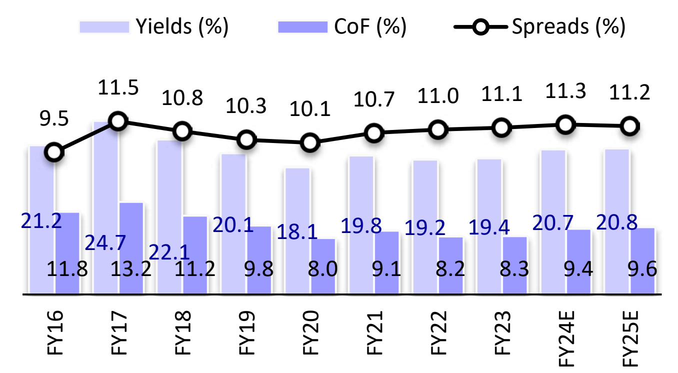


Source: MOFSL, Company

Price leadership to allow sustenance of NIM at desired levels

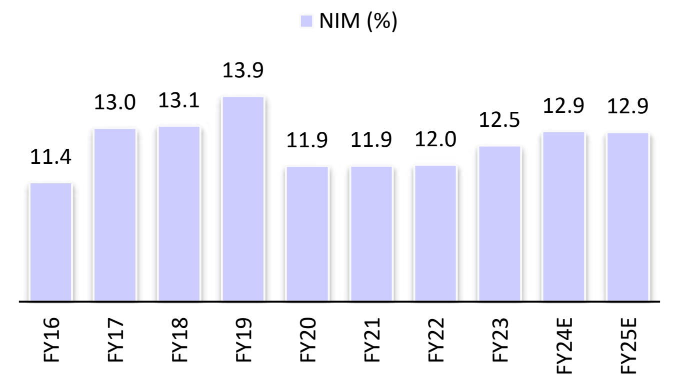
- Under the new MFI guidelines, all MFI players (including CREDAG) increased their lending rates to right-price the risks across geographies and product segments. In addition, CREDAG has also passed on higher borrowing costs that will allow it to sustain NIMs at ~13% level.
- With the merger now effective, even MMFL's liabilities will be gradually re-priced that will subsequently aid margins.

Exhibit 102: Yield expected to improve gradually over FY25…



Source: MOFSL, Company

Exhibit 103: …driving expansion in margins to ~13%



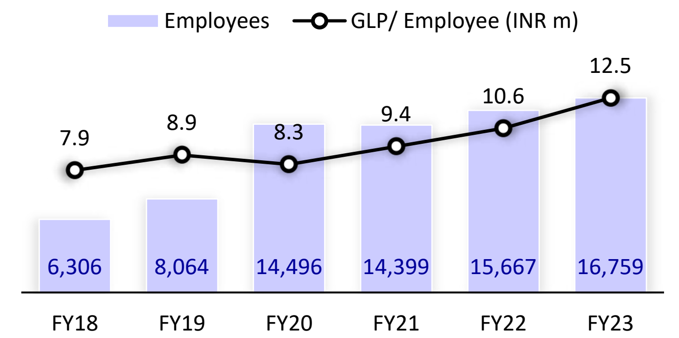
Source: MOFSL, Company

Will continue to invest in expanding distribution over the next two years

Productivity improvements help maintain a tight control over opex

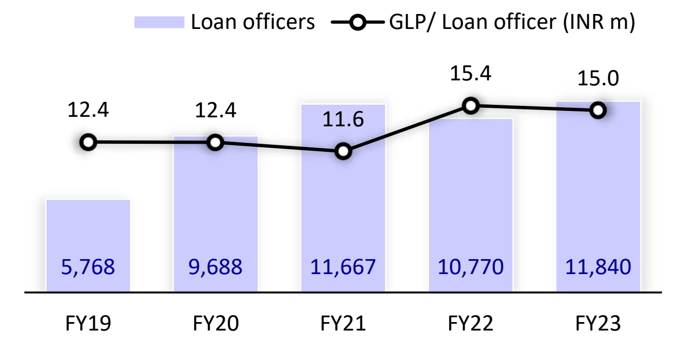
- CREDAG has an opex-intensive business model because of strong processes, multiple audits and quality checks as well as continuous investments in branches/LOs.
- The company has added 362 branches over the last two years. These branches will reach the optimum productivity level in the next two years and contribute to cost efficiencies. Merger-led efficiency gains will also contribute to the productivity improvement.
- While we do estimate an improvement in the cost-income ratio in FY24, we are not building in any significant decline in the cost to average assets ratio since we believe that CREDAG will continue to invest in expanding its distribution over the next two years, which will keep the cost ratio elevated.

Exhibit 104: Employee efficiency improving gradually



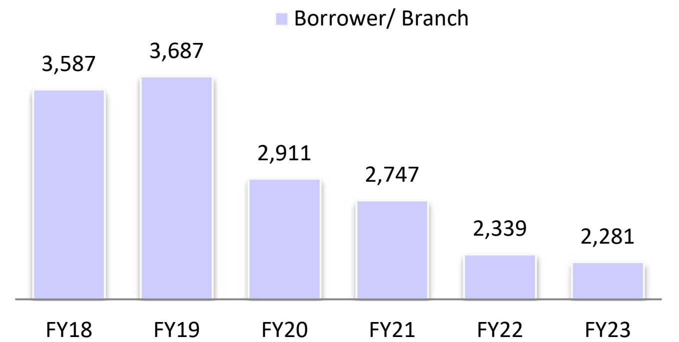
Source: MOFSL, Company

Exhibit 105: GLP per loan officer to improve with productivity



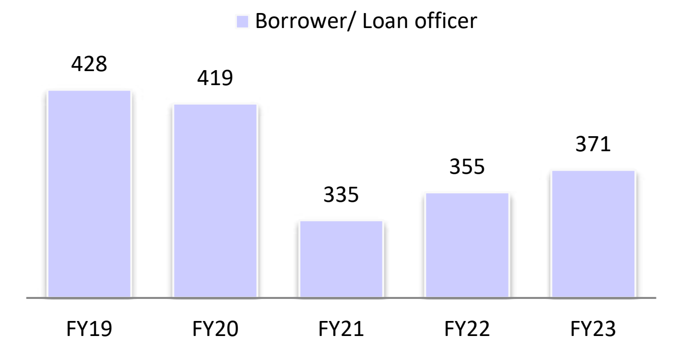
Source: MOFSL, Company

Exhibit 106: Added ~340 branches over the last two years



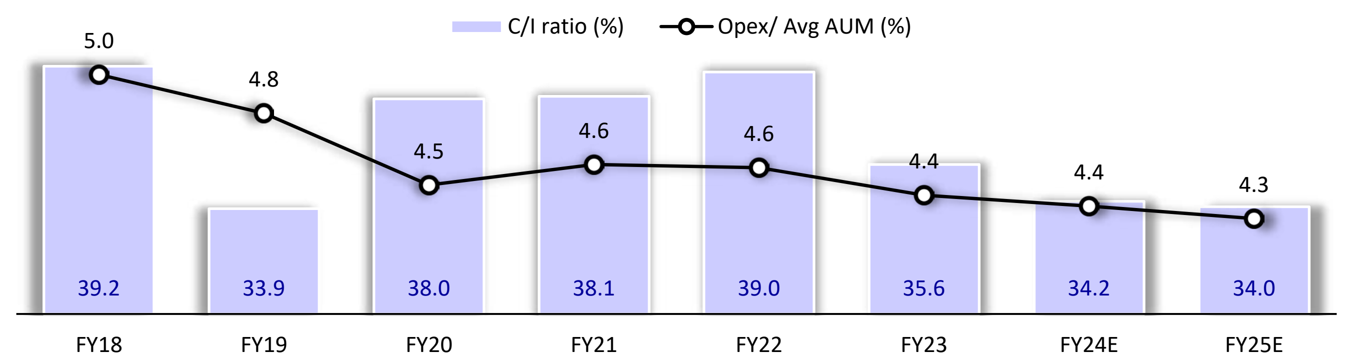
Source: MOFSL, Company

Exhibit 107: Trend in borrowers per loan officer



Source: MOFSL, Company

Exhibit 108: Opex ratios to continue at similar levels because of investments in capacity



Source: MOFSL, Company

Anticipated asset quality improvement to drive moderation in credit costs

Credit costs to revert to normalized levels of ~1.8% over FY24-FY25

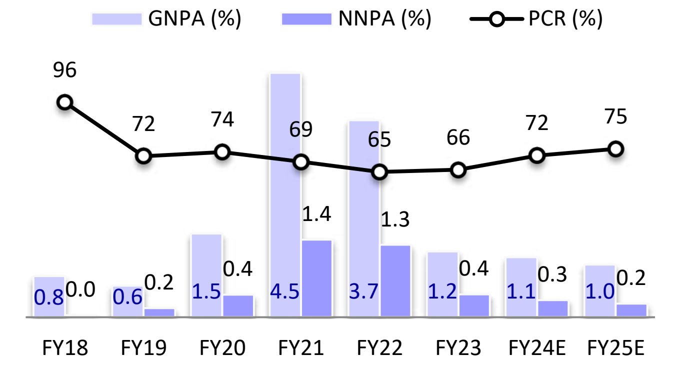
- CREDAG has demonstrated superior resilience compared to its peers during stress events such as Demonetization and Covid-19. With the impact of Covid largely behind, we expect FY24 to be the first fiscal year where baggage from the pandemic will not inflate credit costs.
- Further, the company follows a conservation approach in following the asset classification and provisioning norms vis-à-vis the industry. For the group lending segment, it recognizes Stage 2 at >15dpd (v/s regulatory guidelines of >30dpd) and Stage 3 at >60dpd (v/s regulatory guidelines of >90dpd). It also writes-off all borrowers, where dues are greater than 270dpd.
- We believe that incremental slippages will moderate significantly and estimate credit costs to revert to normalized levels of ~1.8% over FY24-FY25 driven by focused efforts of the company to arrest slippages to higher buckets.

Exhibit 109: CREDAG's asset classification and provisioning norms

	RBI norms	Industry (IND-AS)	CREDAG Policy (IND-AS)
Asset classification	**Standard Assets - 0-90 days**	**Stage I - 0-30 days**	**0-15 days**
	Sub-standard Assets - 91-180 days	Stage II - 31-90 days	16-60 days
	Loss Assets - > 180 days	Stage III - > 90 days	> 60 days
Provisioning norms	Higher valuation among the following: - 1% of on-book Loan Assets; or - [50% of aggregate overdue loan instalments in respect of sub-standard loan assets; and - 100% of aggregate overdue loan instalments in respect of Loss Loan Assets]	Stage I, II and III - ECL Methodology	FY23 Provisioning - 1.78% ECL Write-offs - > 270 days

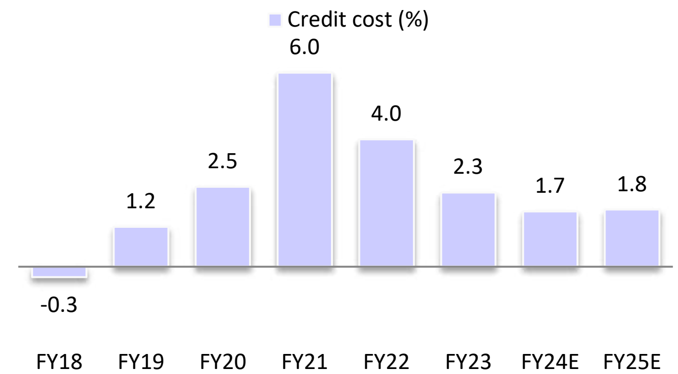
Source: MOFSL, Company

Exhibit 110: Asset quality to improve over FY25…



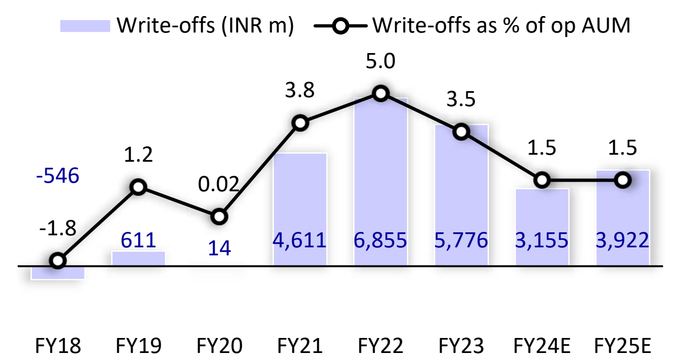
Source: MOFSL, Company

Exhibit 111: …leading to moderation in credit costs



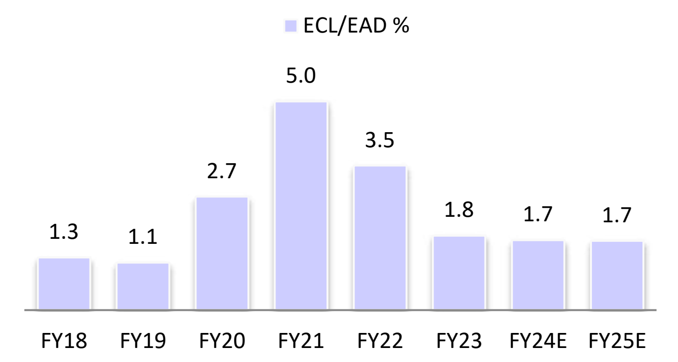
Source: MOFSL, Company

Exhibit 112: Write-offs to decline with Covid stress behind



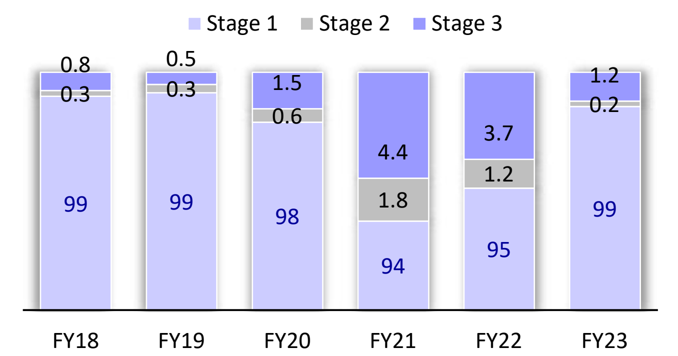
Source: MOFSL, Company

Exhibit 113: ECL/EAD likely to normalize to 1.7% over FY25



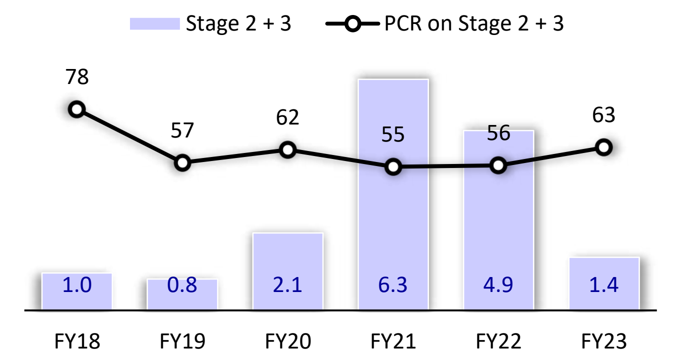
Source: MOFSL, Company

Exhibit 114: Controlled flows to higher buckets



Source: MOFSL, Company

Exhibit 115: 30+ dpd at 1.4% as of Mar'23



Source: MOFSL, Company

- CREDAG has implemented guiding parameters to reinforce its risk management practices and uphold prudent lending standards. These parameters include specific thresholds to ensure responsible lending practices. For instance, the unsecured loan exposure for customers with household monthly obligation exceeding INR9k should be <=50%.
- The company also targets to limit its exposure to individual states to a maximum of 30% and individual districts at a maximum of 2% by FY24, in order to minimize potential risks associated with regional concentration.
- CREDAG looks at risk management from both geographical and customer segment perspectives. Customer risk profile is bifurcated between customers with vintage of > 4 years and those with vintage of <= 4 years.

Exhibit 116: Group lending ECL matrix

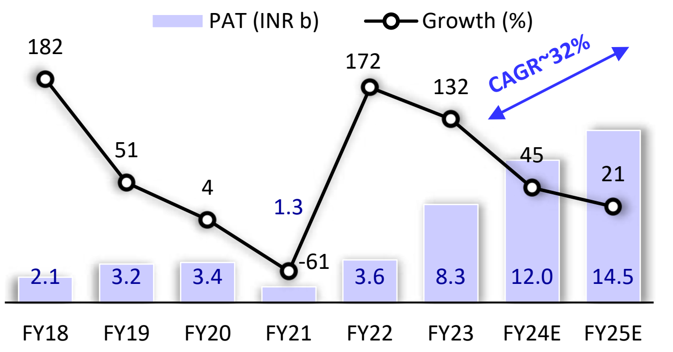
	Customer Vintage					
Group lending ECL matrix as on Mar'23	<= 4 years			> 4 years		
	Stage I	Stage II	Stage III	Stage I	Stage II	Stage III
High Risk	**1.7%**	**73.1%**	**84%**	**0.7%**	**58.8%**	**74%**
Medium Risk	1.0%	61.5%	75%	0.5%	50.2%	66%
Low Risk	0.6%	56.4%	71%	0.3%	46.9%	63%

Source: MOFSL, Company

Return ratios healthy and sustainable; estimate 32% PAT CAGR over FY23-FY25

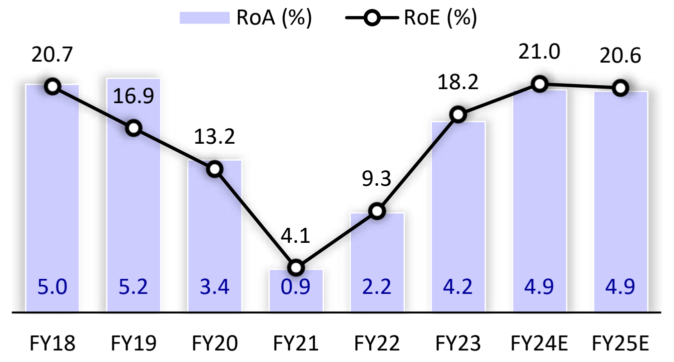
- With the completion of the MMFL merger, we expect CREDAG to become even stronger and emerge as a dominant player in the NBFC-MFI sector. Just before the pandemic in 1HFY20, CREDAG expanded into five new states to broaden its geographical reach.
- With expectations of credit cost moderation over FY24-FY25, we estimate a PAT CAGR of 32% over FY23-FY25. CREDAG can deliver a RoE of ~21% in a steady state with sustainable leverage of 4.2x-4.3x.

Exhibit 117: PAT CAGR of 32% over FY23-25



Source: MOFSL, Company

Exhibit 118: RoA/RoE of 4.9%/21% over FY24 and FY25



Source: MOFSL, Company

Exhibit 119: DuPont for the Microfinanciers

DuPont Analysis	FUSION			SPANDANA			CREDAG			BANDHAN		
Y/E March	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Interest Income	19.2	19.9	20.2	15.5	19.4	20.3	17.0	18.3	18.5	10.8	12.2	11.9
Interest Expended	7.7	7.6	7.5	5.6	8.4	8.8	6.2	7.0	7.1	4.5	5.5	5.5
Net Interest Income	**11.5**	**12.3**	**12.7**	**10.0**	**11.0**	**11.6**	**10.8**	**11.3**	**11.4**	**6.3**	**6.7**	**6.4**
Other Operating Income	1.7	1.5	1.3	1.5	1.5	1.2	1.1	1.0	0.9	1.7	1.7	1.7
Other Income	0.7	0.6	0.5	0.9	0.8	0.7	0.0	0.0	0.0	0.1	0.1	0.1
Net Income	**13.9**	**14.4**	**14.5**	**12.4**	**13.3**	**13.4**	**11.9**	**12.3**	**12.3**	**7.9**	**8.4**	**8.4**
Operating Expenses	**5.3**	**5.4**	**5.3**	**5.6**	**5.7**	**5.5**	**4.2**	**4.2**	**4.2**	3.1	3.4	3.4
Operating Income	**8.6**	**9.0**	**9.1**	**6.8**	**7.6**	**7.9**	**7.7**	**8.1**	**8.1**	**4.8**	**5.0**	**4.7**
Provisions/write offs	2.4	2.0	1.8	6.6	2.3	2.2	2.0	1.5	1.6	2.8	1.7	1.4
PBT	**6.1**	**7.0**	**7.4**	**0.2**	**5.3**	**5.8**	**5.6**	**6.6**	**6.5**	**2.0**	**3.3**	**3.3**
Tax	1.5	1.8	1.9	0.1	1.4	1.5	1.4	1.7	1.7	0.5	0.8	0.8
RoA	**4.6**	**5.2**	**5.5**	**0.2**	**3.9**	**4.3**	**4.2**	**4.9**	**4.9**	**1.5**	**2.5**	**2.5**
Leverage	4.6	4.1	4.1	2.7	3.2	3.6	4.3	4.3	4.2	8.0	8.2	8.5
RoE	**21.2**	**21.3**	**22.5**	**0.4**	**12.6**	**15.2**	**18.2**	**21.0**	**20.6**	**11.9**	**20.4**	**21.2**

Source: MOFSL, Company

Valuation and key risks

CREDAG has proven its resilience across various credit cycles and external disturbances

- We expect CREDAG would continue to deliver strong profitability aided by its inherent strengths in delivering healthy GLP CAGR, ability to sustain NIM at desired levels and capability to keep a tight leash on the operating cost ratios through productivity and efficiency improvements.
- CREDAG is well positioned underpinned by its dominance in the core markets, strong parentage of CreditAccess India B.V., and diversified liability profile. After the merger with MMFL, we expect the combined entity to gain market share leading to stronger GLP growth through additions of new borrowers.
- Notwithstanding multiple uncertain events in the past, the MFI sector stood resilient on each occasion. CREDAG's robust execution has been vindicated by its resilience across various credit cycles and external disturbances.
- With strong capital position (Tier-1 of 24%), the company can very well navigate any potential disruptions in future and also capitalize on the growth opportunity over the medium term. **We initiate coverage on the stock with a BUY rating and a TP of INR1,550 (premised on 3.2x FY25E P/BV).**

Exhibit 120: Valuation matrix for Microfinanciers

Peers	CMP	TP	MCap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR)	(INR b)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CREDAG	1,270	1,550	201.8	397	488	3.2	2.6	75.3	91.2	16.9	13.9	4.9	4.9	21.0	20.6
Spandana	720	865	51.1	495	577	1.5	1.2	58.7	81.7	12.3	8.8	3.9	4.3	12.6	15.2
Fusion MF	596	720	59.9	287	359	2.1	1.7	55.2	72.5	10.8	8.2	5.2	5.5	21.3	22.5

Source: MOFSL, Company

Key downside risks

- Relatively higher concentration in Karnataka, Tamil Nadu and Maharashtra, which contributed ~74% to the GLP mix. CREDAG is making measured progress in diversifying outside its top-3 states but any natural calamity or political interference could lead to a significant disruption in its portfolio.
- Lower entry barriers may lead to a surge in MFIs and decline in unique customers.
- Macroeconomic uncertainties and external events may lead to cyclicality in its asset quality.

ESG initiatives

Environmental initiatives

- The credit line extended to customers is used to finance livelihood generation activities in climate smart agriculture, agroforestry, natural resource management, and water conservation. About 99.9% of the credit portfolio has positive socio environmental impact.
- As part of the long-term strategy to become a climate positive NBFC-MFI institution, the company has created GHG inventory, which covers Scope 1, Scope 2, and Scope 3 – employee commute (business travel) categories.
- The scope 1/2/3 emissions stand at 30/3,350/7,049 tCO2e in FY22. DEFRA and India GHG emissions factors, Central Electricity Authority, and India GHG emission factors have been considered for Scope 1, Scope 2, and Scope 3 calculations, respectively.

CSR initiatives

- Launched the rural development program initiative that focuses on inspecting the local Anganwadis and primary schools, understanding their basic needs such as availability of toilets, provision for safe drinking water, furniture, painted walls, toys, sports items, etc., and fulfilling the basic requirements of the educational institutes.
- Through humanitarian aid and disaster relief activities, CREDAG provides need-based support for relief activities due to damages caused by cyclones, floods, earthquakes, fire incidents, etc.
- The company hires field forces from the local community, especially from customer families, and provides them with multiple learning and development opportunities within the organization. About 97.27% of CACL employees and 98.87% of MMFL employees are from local community (hired from the native state).

Governance

- As of Mar'23, the Board comprised eight Directors that included four independent Directors and two women Directors.
- The Non-executive Directors are eminent professionals who bring the wealth of their professional expertise and experience in managing the company.
- A customer grievance redressal system is set in place, which is managed by the Grievance Redressal Cell of the company. A total of 5,244 customer calls were received in FY22, which included 3,189 grievances. Overall, 99.9% of grievances were resolved, of which around 92% were resolved within seven days.

Bull and Bear cases

Bull Case

- ☑ In our bull case, we assume a 37% AUM CAGR driven by a 24% disbursement CAGR over FY23-FY25E
- ☑ We expect spreads and margins to improve by ~30bp/50bp respectively to ~11.4%/13% by FY25E
- ☑ NII and PPOP CAGR of ~31%/ 34% respectively over FY23-25E on account of higher loan growth and ability to deliver operating efficiencies.
- ☑ We estimate cost ratios to improve over the next three years. Decline in average credit costs to ~1.6% can lead to PAT CAGR of 42% over FY23-FY25E.

Bear Case

- ☑ In our bear case, we assume a 17% AUM CAGR over FY23-FY25E
- ☑ We expect spreads and margins to decline by 20bp/40bp respectively by FY25E
- ☑ NII and PPOP CAGR of ~22%/ 20% respectively over FY23-25E
- ☑ Average credit costs of ~2% to drive PAT CAGR of 23% over FY23-FY25E

Exhibit 121: Bull case scenario

INR m	FY23	FY24E	FY25E
AUM	2,10,320	2,68,986	3,37,982
Growth (%)	27	28	26
NIM (%)	12.5	13.0	13.0
NII	21,050	28,457	36,264
PPoP	14,629	20,218	26,081
Credit Costs	3,909	3,655	4,441
PBT	10,720	16,563	21,640
PAT	8,008	12,339	16,122
Growth (%)	124	54	31
RoA (%)	4.1	5.0	5.2
RoE (%)	18.0	22.4	23.2
BV (INR)	314	393	496
Target PV multiple (FY25E)			**3.5**
Target price (INR)			**1,740**
Upside (%)			37%

Source: MOFSL, Company

Exhibit 122: Bear case scenario

INR m	FY23	FY24E	FY25E
AUM	2,10,320	2,48,205	2,88,511
Growth (%)	27	18	16
NIM (%)	12.3	12.7	12.7
NII	20,994	26,805	31,456
PPoP	14,573	18,392	20,988
Credit Costs	3,984	4,578	4,959
PBT	10,589	13,814	16,029
PAT	7,910	10,291	11,942
Growth (%)	122	30	16
RoA (%)	4.0	4.3	4.2
RoE (%)	17.9	19.1	18.4
BV (INR)	312	378	454
Target PV multiple (FY25E)			**2.0**
Target price (INR)			**910**
Upside (%)			-28%

Source: MOFSL, Company

SWOT analysis

- ☑ Has built streamlined and adept operating systems that integrate risk management activities across stages and control cost as well as delinquencies leading to improved profitability.
- ☑ Has an integrated digital network to complement its physical infra and grow customer base.

- ☑ Majority of the book is unsecured posing risk of higher delinquencies.
- ☑ Top three states contributed 74% to the AUM mix leading to geographical concentration risk
- ☑ MFI business is prone to higher delinquencies in case of occurrence of any inadvertent event that can lead to higher NPAs.

- ☑ The Indian MFI industry has grown multifold over the last two decades and yet only one-third of the market has been penetrated.
- ☑ Sustainable growth in rural areas is likely to continue in the coming years driven by large unmet credit demands and growing aspirations.

- ☑ External forces tend to cause repayment disruptions in the MFI industry (whether it be the pandemic, demonetization, natural disasters or any other local event).
- ☑ Given strong industry growth prospects and steady-state repayment rates, the MFI industry has been witnessing intensified competition over the past several years.

Management team

Udaya Kumar Hebbar
MD & CEO

Served as Head, Commercial and Banking operations at Barclays Bank PLC for three years; was earlier associated with ICICI Bank for 11 years and served as the Director of Madura MFIN

Ganesh Narayanan
Deputy CEO and Chief Business Officer

Has 24+ years of experience in strategic planning at ICICI Bank, Fullerton India and Yes Bank.

Balakrishna Kamath
Chief Financial Officer

Has 30+ years of experience in finance, treasury, fundraising, corporate governance and compliance in TATA Group. Earlier, he served as the CFO and Compliance Officer at Tata Capital Housing Finance Ltd.

Gururaj K S Rao
Chief Audit Officer

Has 20+ years of auditing experience in the Middle East and India. Before joining CREDAG, he was associated with Yusuf Bin Ahmed Kanoo W.L.L and Mallya Hospital, Bangalore.

Sudesh Puthran
Chief Technology Officer

He has 25+ years of experience in the IT industry and worked in leadership roles in companies (including CRISIL and Aditya Birla Group) as CTO, and in HDFC Bank as Executive VP.

Firoz Anam
Chief Risk Officer

His expertise spans financial products including MFI and small business loans. Has prior experience with institutions such as IDFC Bank, JP Morgan, and Citibank

Financials and valuations

Income Statement								(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Interest Income	8,597	12,183	16,334	22,900	25,673	33,271	44,685	55,116
Interest Expended	3,537	4,168	5,783	9,287	9,841	12,129	17,019	21,209
Net Interest Income	**5,060**	**8,016**	**10,551**	**13,613**	**15,832**	**21,143**	**27,666**	**33,907**
Change (%)	46.3	58.4	31.6	29.0	16.3	33.5	30.9	22.6
Other Income	118	650	721	1,760	1,825	2,237	2,428	2,736
Net Income	**5,179**	**8,666**	**11,271**	**15,373**	**17,657**	**23,379**	**30,094**	**36,644**
Change (%)	34.5	67.3	30.1	36.4	14.9	32.4	28.7	21.8
Operating Expenses	2,031	2,940	4,283	5,856	6,885	8,315	10,289	12,455
Operating Income	**3,148**	**5,726**	**6,989**	**9,517**	**10,772**	**15,064**	**19,805**	**24,189**
Change (%)	39.8	81.9	22.1	36.2	13.2	39.8	31.5	22.1
Provisions and W/Offs	-134	749	2,373	7,714	5,968	4,010	3,736	4,728
PBT	**3,282**	**4,977**	**4,616**	**1,803**	**4,805**	**11,054**	**16,069**	**19,461**
Tax	1,157	1,760	1,261	490	1,237	2,794	4,098	4,963
Tax Rate (%)	35.3	35.4	27.3	27.2	25.7	25.3	25.5	25.5
PAT	**2,125**	**3,218**	**3,355**	**1,313**	**3,568**	**8,261**	**11,971**	**14,498**
Change (%)	182.2	51.4	4.3	-60.9	171.7	131.5	44.9	21.1

Balance Sheet								(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	1,284	1,436	1,440	1,556	1,559	1,589	1,589	1,589
Reserves & Surplus	13,091	22,215	25,902	35,360	38,218	49,481	61,452	75,950
Net Worth	**14,375**	**23,651**	**27,342**	**36,916**	**39,777**	**51,070**	**63,041**	**77,539**
Borrowings	**36,235**	**48,666**	**95,397**	**109,413**	**129,207**	**163,123**	**200,915**	**241,853**
Change (%)	34.9	34.3	96.0	14.7	18.1	26.2	23.2	20.4
Other liabilities	526	1,257	3,163	4,264	4,964	4,389	5,230	6,235
Total Liabilities	**51,136**	**73,574**	**125,902**	**150,592**	**173,948**	**218,581**	**269,186**	**325,628**
Cash and bank balances	1,431	6,156	7,176	24,844	17,614	14,364	15,261	18,517
Loans and Advances	**48,955**	**66,028**	**110,989**	**117,205**	**147,653**	**190,433**	**237,770**	**287,920**
Change (%)	72.4	34.9	68.1	5.6	26.0	29.0	24.9	21.1
Fixed Assets	95	187	5,793	5,734	5,739	968	1,162	1,394
Investments	2	2	456	5	5	4,545	5,909	7,681
Intangible Assets			4,931	4,817	4,673	5,061	5,061	5,061
Other Assets	655	1,202	1,943	2,810	2,942	3,208	4,023	5,054
Total Assets	**51,136**	**73,574**	**125,902**	**150,592**	**173,948**	**218,581**	**269,186**	**325,628**

E: MOFSL Estimates

Financials and valuations

Ratios								(%)
AUM and Disbursements (INR m)	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
AUM	**49,750**	**71,590**	**119,960**	**135,870**	**165,990**	**210,320**	**261,462**	**318,270**
YoY growth (%)	61.8	43.9	67.6	13.3	22.2	26.7	24.3	21.7
Disbursements	**60,817**	**82,212**	**108,040**	**110,104**	**154,670**	**188,090**	**225,708**	**268,593**
YoY growth (%)		35.2	31.4	1.9	40.5	21.6	20.0	19.0

Ratios								(%)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Spreads Analysis (%)								
Yield on Portfolio	22.1	20.1	18.1	19.8	19.2	19.4	20.7	20.8
Cost of Borrowings	11.2	9.8	8.0	9.1	8.2	8.3	9.4	9.6
Interest Spread	10.8	10.3	10.1	10.7	11.0	11.1	11.3	11.2
Net Interest Margin	13.1	13.9	11.9	11.9	12.0	12.5	12.9	12.9
Profitability Ratios (%)								
RoE	20.7	16.9	13.2	4.1	9.3	18.2	21.0	20.6
RoA (on balance sheet)	5.0	5.2	3.4	0.9	2.2	4.2	4.9	4.9
Debt: Equity (x)	2.5	2.1	3.5	3.0	3.2	3.2	3.2	3.1
Leverage (x)	4.1	3.3	3.9	4.3	4.2	4.3	4.3	4.2
Efficiency Ratios (%)								
Int. Expended/Int. Earned	41.1	34.2	35.4	40.6	38.3	36.5	38.1	38.5
Op. Exps./Net Income	39.2	33.9	38.0	38.1	39.0	35.6	34.2	34.0
Empl. Cost/Op. Exps.	64.2	63.3	61.2	64.9	63.6	62.0	60.6	60.1
Other Income/Net Income	2.3	7.5	6.4	11.5	10.3	9.6	8.1	7.5
Asset quality								
GNPA	374	385	1,738	5,487	5,587	2,368	2,681	2,846
NNPA	16	109	458	1,686	1,974	812	751	711
GNPA %	0.8	0.6	1.5	4.5	3.7	1.2	1.1	1.0
NNPA %	0.0	0.2	0.4	1.4	1.3	0.4	0.3	0.2
PCR %	95.7	71.7	73.6	69.3	64.7	65.7	72.0	75.0
Valuation								
Book Value (INR)	112	165	190	237	255	321	397	488
BV Growth (%)	56.4	47.2	15.3	25.0	7.5	25.9	23.4	23.0
Price-BV (x)			**6.7**	**5.4**	**5.0**	**4.0**	**3.2**	**2.6**
EPS (INR)	16.5	22.4	23.3	8.4	22.9	52.0	75.3	91.2
EPS Growth (%)	88.2	35.5	3.9	-63.8	171.2	127.1	44.9	21.1
Price-Earnings (x)			**54.5**	**150.5**	**55.5**	**24.4**	**16.9**	**13.9**
Dividend per share			0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)			**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

E: MOFSL Estimates

Financials and valuations

RoA Tree

Y/E MARCH	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	20.3	19.5	16.4	16.6	15.8	17.0	18.3	18.5
Interest Expended	8.4	6.7	5.8	6.7	6.1	6.2	7.0	7.1
Net Interest Income	**12.0**	**12.9**	**10.6**	**9.8**	**9.8**	**10.8**	**11.3**	**11.4**
Other operating income	0.3	1.0	0.7	1.2	1.1	1.1	1.0	0.9
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	**12.3**	**13.9**	**11.3**	**11.1**	**10.9**	**11.9**	**12.3**	**12.3**
Operating Expenses	4.8	4.7	4.3	4.2	4.2	4.2	4.2	4.2
Operating Income	**7.4**	**9.2**	**7.0**	**6.9**	**6.6**	**7.7**	**8.1**	**8.1**
Provisions	-0.3	1.2	2.4	5.6	3.7	2.0	1.5	1.6
PBT	**7.8**	**8.0**	**4.6**	**1.3**	**3.0**	**5.6**	**6.6**	**6.5**
Tax	2.7	2.8	1.3	0.4	0.8	1.4	1.7	1.7
Reported PAT	**5.0**	**5.2**	**3.4**	**0.9**	**2.2**	**4.2**	**4.9**	**4.9**
Leverage	4.1	3.3	3.9	4.3	4.2	4.3	4.3	4.2
RoE	**20.7**	**16.9**	**13.2**	**4.1**	**9.3**	**18.2**	**21.0**	**20.6**

E: MOFSL Estimates

Fusion Microfinance

BSE SENSEX	S&P CNX
65,559	19,414

CMP: INR596 **TP: INR720 (+21%)** **BUY**

En route to consistent growth and profitability

- Fusion Microfinance (Fusion) is the second largest NBFC-MFI in India having an AUM of ~INR93b as of Mar'23. It's AUM has reported a 43% CAGR over FY18-FY23 (v/s micro-credit industry CAGR of 21%). Fusion has a diversified presence across 20 states (including two UTs) with a distribution network of over 1,086 branches. The company is likely to benefit from the cyclical recovery in the MFI sector and also from the harmonized MFI guidelines, which were published esarlier in Mar'22.
- Fusion has grown its borrower base at a 28% CAGR over FY18-FY23 and enjoyed a strong rural presence with its portfolio comprising ~93% of rural AUM. The company's average ticket size (ATS) of ~INR38K (one of the lowest in the industry) has clocked 10% CAGR during this period. This implies its ability to showcase loan growth through borrower additions.
- Fusion has managed its risks well with less AUM concentration (no state/ district contributed more than 20%/3% of its AUM). It has a strong presence in Bihar, UP, Odisha, MP and Rajasthan that have relatively lower MFI penetration. Fusion has also managed to curb its presence in a few relatively vulnerable states like Assam/West Bengal/Maharashtra to ~4% of its total branches.
- Fusion has managed the Covid-induced stress relatively well with GNPA and the restructured book declining to 3.5% and 0.2%, respectively, in Mar'23. Credit cost, which was at 6.9% in FY22, has moderated to 2.8% in FY23. We expect it to decline sustainably to ~1.9% by FY25.
- Fusion has a strong and diversified liability franchise with relationships across private/PSU banks and foreign institutions. The company should see the benefit of the recent credit rating upgrade (to A Stable) in its borrowing costs. After the equity raise during the IPO, its CRAR stood at ~28% as of Mar'23 and is now strongly capitalized for growth.
- We model an AUM and PAT CAGR of 28% and 37% over FY23-FY25E, respectively, driven by strong borrower additions, NIM improvement, operating leverage and moderation in credit costs. These will also lead to an improvement in the return ratios and we estimate RoA/RoE of ~5.5%/22.5% in FY25. Fusion currently trades at 1.7x FY25E P/BV and we believe its valuations would re-rate as it demonstrates healthy execution on loan growth and asset quality. **Initiate coverage with a BUY rating and a TP of INR720 (based on 2.0x FY25E P/BV).**
- **Key risks include:** a) Political interference, announcement of loan waivers or natural calamity resulting in asset quality deterioration, b) regulatory changes towards asset recognition and provisioning and c) increase in competitive intensity leading to NIM compression.

Stock Info

Bloomberg	FUSION IN
Equity Shares (m)	100.3
M.Cap.(INRb)/(USDb)	58.8 / 0.7
52-Week Range (INR)	588 / 321
1, 6, 12 Rel. Per (%)	6/44/-
12M Avg Val (INR m)	223
Free float (%)	31.8

Financial Snapshot (INR b)

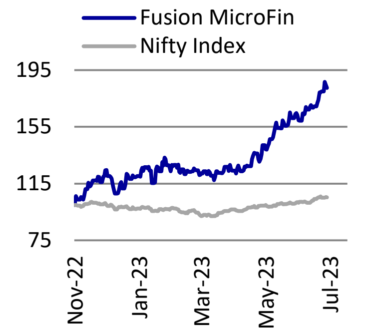
Y/E March	FY23	FY24E	FY25E
Total Income	11.6	15.2	19.1
PPP	7.1	9.5	12.1
PAT	3.9	5.5	7.3
EPS (INR)	38.6	55.2	72.5
EPS Gr. (%)	-	43	32
BV (INR)	231	287	359
Valuations			
NIM (%)	13.3	13.8	14.0
C/I ratio (%)	38.4	37.7	36.9
RoAA (%)	4.6	5.2	5.5
RoE (%)	21.2	21.3	22.5
Valuations			
P/E (x)	15.4	10.8	8.2
P/BV (x)	2.6	2.1	1.7

Shareholding pattern (%)

As On	Mar-23	Dec-22
Promoter	68.2	68.2
DII	13.6	7.5
FII	6.3	5.7
Others	12.0	13.4

FII Includes depository receipts

Stock performance (one-year)



Consistency in disbursements; expect 28% AUM CAGR over FY23-25

- All along, Fusion has exhibited a strong focus on delivering AUM growth through organic customer acquisitions rather than through increase in ATS. The company's ATS has clocked a 10% CAGR complemented with borrower base CAGR of 28% over FY18-FY23.
- Unlike other MFI peers, Fusion exhibits great stability in its quarterly disbursement run-rate. We estimate a disbursement and AUM CAGR of 26% and 28%, respectively, over FY23-FY25. This will largely be driven by strong new customer acquisitions and lesser so from increase in the ATS.

Margin expansion and operating leverage to improve profitability

- Despite a difficult external environment (demonetization and Covid), Fusion has been able to improve its credit rating (upgrade to A Stable) and optimize its borrowing costs. This was aided by continuous engagement via transparent reporting to its lenders. This will keep the rise in its borrowing costs benign in FY24. Fusion's CoB declined to 10.2% in Mar'23 from 12.2% in Mar'18.
- Fusion has transmitted higher borrowing costs to customers and also benefitted from the spread deregulation that was announced in Mar'22. NIM has expanded by 260bp in FY23 and we expect this margin expansion to sustain over the next two years with NIM of 13.8%/14% in FY24/FY25.
- We expect scale benefits to come through with branches added over the last two years delivering higher productivity. We expect moderation in opex intensity with the decline in cost-to-average AUM to 5.2% by FY25E from 5.5% in FY23.

Building provision buffers; comfort on asset quality with benign credit costs

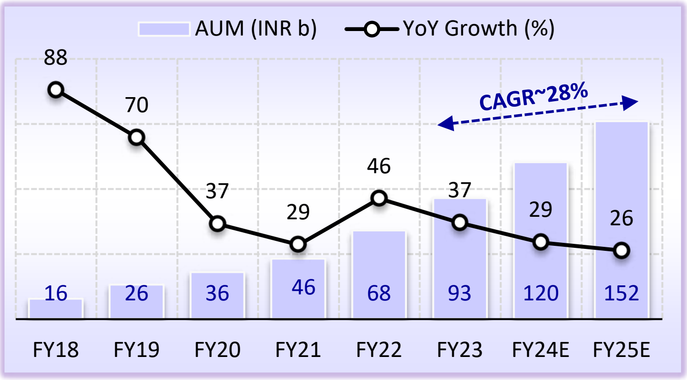
- Fusion's experience of the Covid-induced asset quality stress was similar to that of CREDAG. Fusion reported credit costs (including write-offs) of ~7.0% and ~2.8% in FY22 and FY23, respectively. The company took total write-offs of INR5.2b (14.4% of the FY20 AUM) between FY21 and FY23.
- With the residual tail risks of Covid-19 behind, we expect its credit costs to moderate to 2.2%/1.9% in FY24E/FY25E. Our credit cost estimates are slightly higher than consensus because we believe that the company will continue to build provision buffers to further strength its balance sheet.

Earnings CAGR of 37% over FY23-FY25E; initiate with a BUY

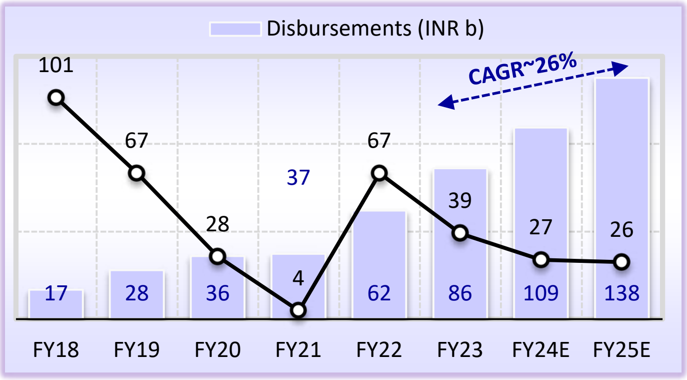
- Fusion has a vintage of over a decade in MFI lending and has navigated multiple credit and economic cycles with resilience. It has a stable and experienced management team and the company's digital orientation through its 'touch and tech' strategy has positioned it well to deliver strong operating performance.
- Fusion, in our view, can deliver a calibrated AUM and PAT CAGR of 28% and 37%, respectively, over FY23-FY25E. It is also poised to deliver industry-leading RoA/RoE of 5.5%/22.5% in FY25 aided by: a) margin expansion due to creditable liability management, b) scale and productivity benefits leading to a decline in the cost ratios, and c) moderation in credit costs as the tail risk of Covid-19 recedes and credit costs stabilize around the ~2.0% levels.
- Fusion currently trades at 1.7x FY25E P/BV which is at a 36% discount to P/BV multiples of its closest peer CREDAG. We expect Fusion to gradually narrow the valuation gap with CREDAG as it gives investor higher confidence in its execution capability across multiple credit cycles. **We initiate coverage on the stock with a BUY rating and a TP of INR720 (based on 2.0x FY25E P/BV).**

STORY IN CHARTS

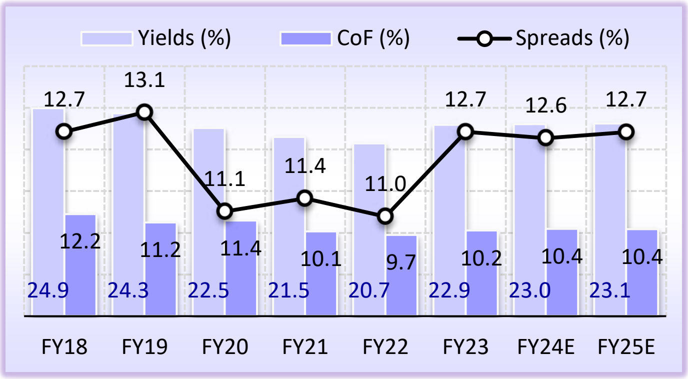
AUM CAGR of ~28% over FY23-FY25E…



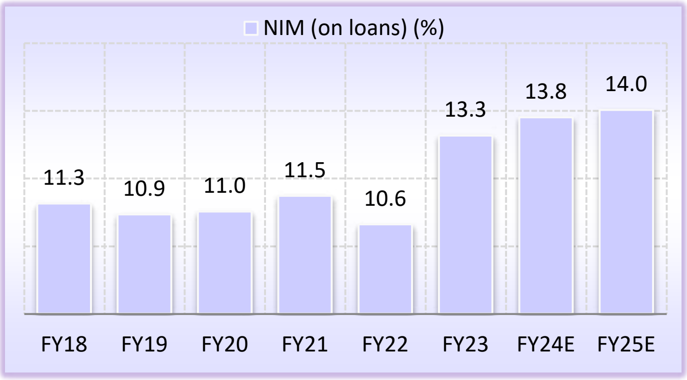
…aided by a disbursement CAGR of 26%



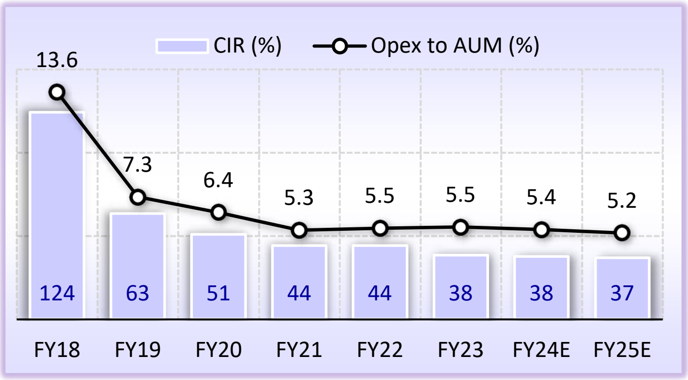
Spreads to remain largely stable



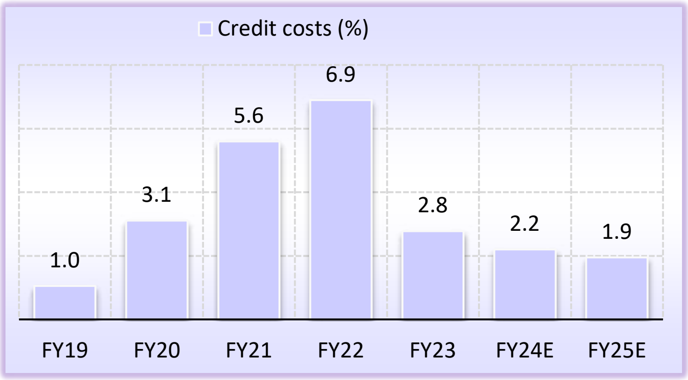
NIMs to improve to ~14% by FY25E



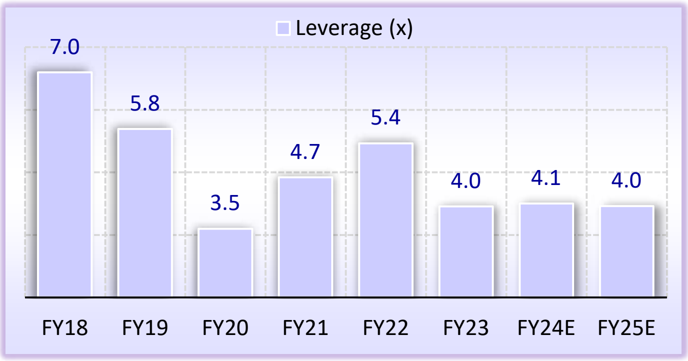
Scale benefits and opex efficiency to result in a steady decline in the cost ratios by FY25E



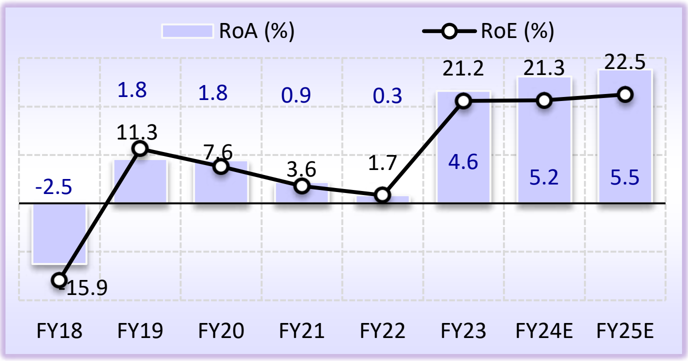
Credit costs to stabilize at ~2.0% by FY25E



Leverage will remain range-bound…



…but improvement in RoA to drive higher RoE

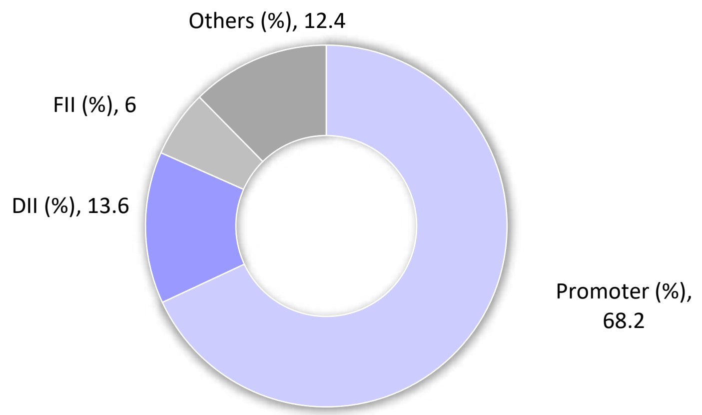


Source: MOFSL, Company

Company overview

- Fusion offers microcredit to low-income women entrepreneurs in rural and semi-urban areas. The company's mission is to provide financial services to underprivileged women who lack access to formal financial institutions.
- It operates on a joint liability group (JLG) model, wherein women borrowers form groups of 5-10 members and are jointly liable for each other's loans. This model helps to mitigate the risks associated with lending to low-income individuals and promotes social cohesion among borrowers.
- Fusion is the fourth largest NBFC-MFI in India with an AUM (Mar'23) of ~INR93b and has reported an AUM CAGR of 43% over FY18-FY23 (v/s micro-credit industry growth of 21%). It has a diversified presence across 20 states (including two UTs) with a distribution network of 1,086 branches catering to 398 districts, more than 125K villages and ~3.5m active borrowers as of Mar'23.
- Fusion has a strong presence in Bihar, UP, Odisha, MP and Rajasthan that have a relatively lower MFI penetration. Top-5 states contribute ~69% to the AUM mix and ~93% of the AUM comes from rural areas.

Exhibit 123: Shareholding pattern (%)



Source: Company, MOFSL, Note: Shareholding as on Mar'23

Exhibit 124: Key business parameters

AUM (INR b)	Total CAR	GNPA/NNPA/ PCR	Branches/ State
93	28%	3.5%/ 0.9%/ 75%	1,086 / 20
LOs	**Active borrowers ('000)**	**AUM/ branch (INR m)**	**AUM/ Loan officer (INR m)**
6,640	3,530	880	14

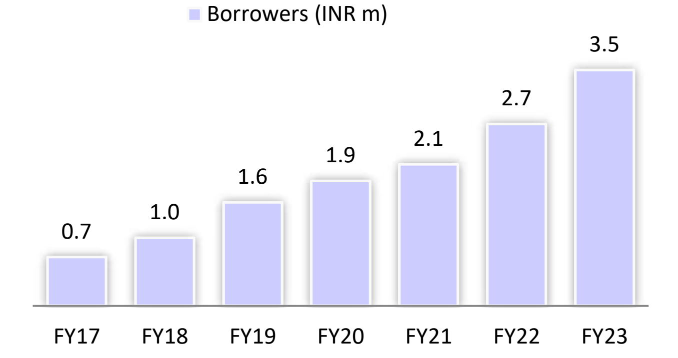
Source: MOFSL, Company

Steady growth complemented with strong risk management

Calibrated AUM growth driven by new customer acquisitions

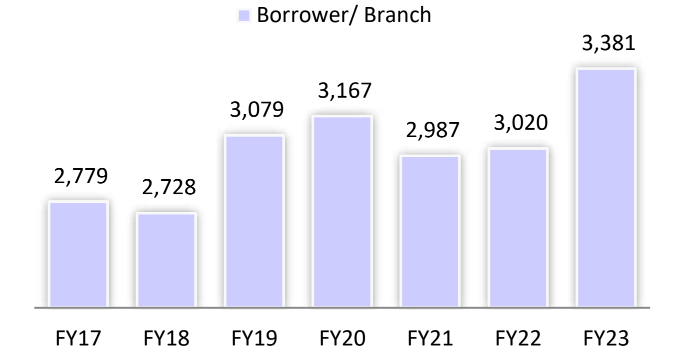
- Fusion's borrower base has surged over the years to ~3.5m as of FY23 from ~0.7m in FY17. Of the total borrowers, ~33% are unique to the company and ~25% are first-time borrowers.
- Fusion has resisted entering into multiple products and has been able to successfully execute its single product strategy (rather than the customer lifecycle approach) by focusing on microfinance loans and building a strong brand identity around the core product.

Exhibit 125: New customer acquisition central to its calibrated growth strategy…



Source: MOFSL, Company

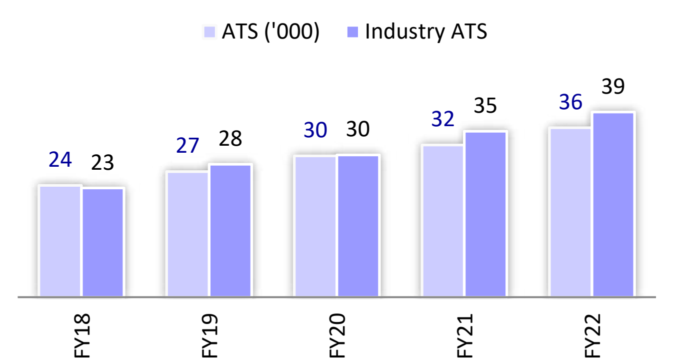
Exhibit 126: …complemented by addition of branches



Source: MOFSL, Company

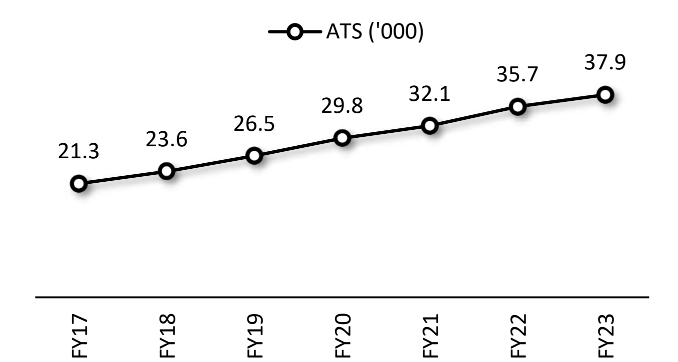
- Fusion has been able to mitigate the risks associated with a single product approach with its strong risk management framework and technology-enabled processes, which have improved its efficiency and scalability.
- It has maintained a conservative disbursement ticket size (lower than peers) and has a stringent top-up policy requiring: a) >60% attendance at scheduled center meetings, b) vintage of >6 months, and c) satisfactory track-record with Fusion or any other lender. The ticket size on top-up loans range between INR5K and INR12K and has helped maintain borrower leverage at lower levels.
- Fusion's ATS (~INR38k) has gradually increased over the years but is still lower than the industry.

Exhibit 127: ATS relatively lower than the industry, historically



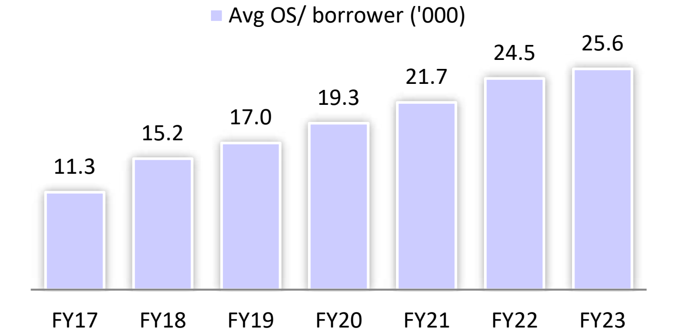
Source: MOFSL, Company

Exhibit 128: Measured increase in ATS over the years



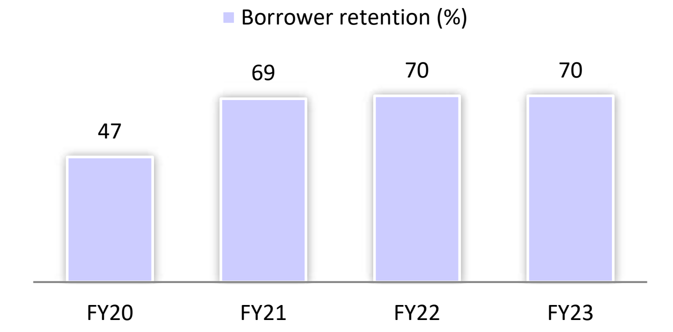
Source: MOFSL, Company

Exhibit 129: Measured increase in the average ticket size



Source: MOFSL, Company

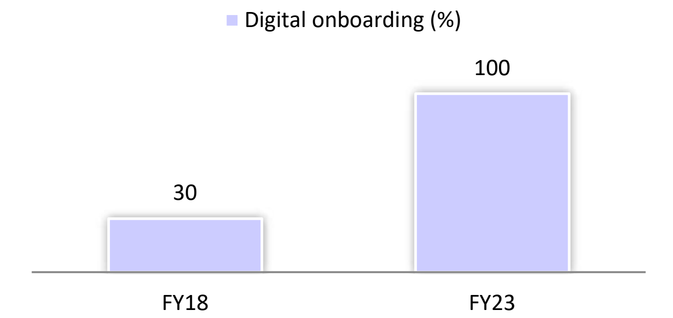
Exhibit 130: Borrower retention rate at 70% for past two years



Source: MOFSL, Company

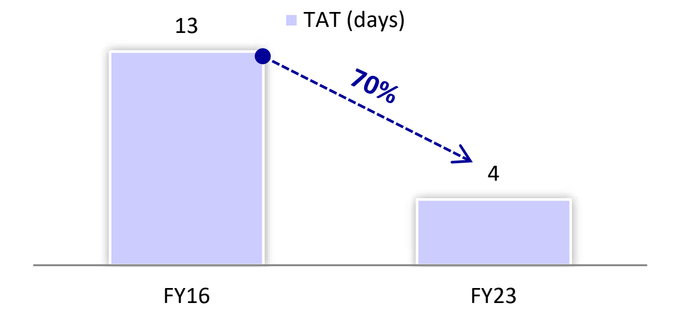
- The growth in borrower base can be attributed to various factors, including the company's wide branch network, simple product offerings and focus on customer service. The company has implemented several technological solutions to automate its processes, which has helped it reduce turnaround time and improve operational efficiency.

Exhibit 131: All customers are on-boarded digitally as of FY23



Source: MOFSL, Company

Exhibit 132: Significant improvement in TAT over the years

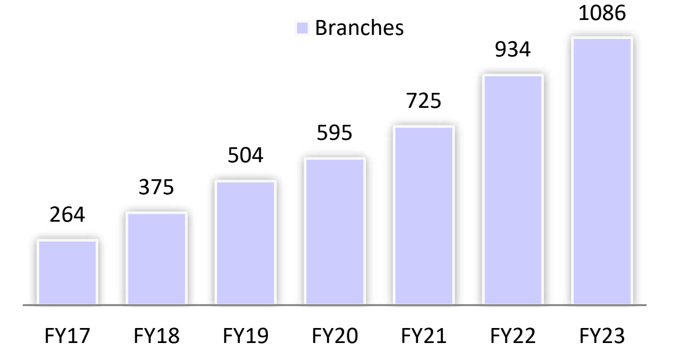


Source: MOFSL, Company

Geographically diversified presence with focus on rural India

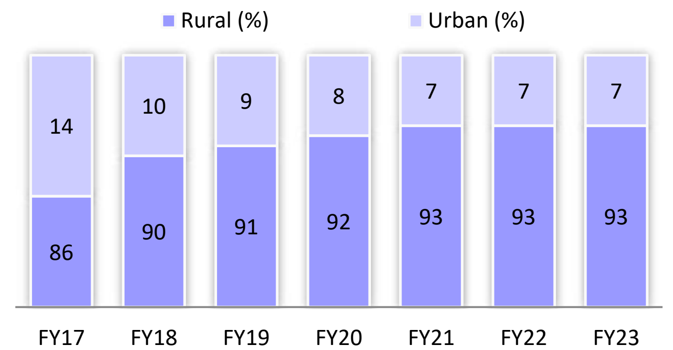
- One aspect favoring Fusion is the fact that it had already invested and achieved significant geographical diversification prior to its listing on the stock markets. Fusion has a wide geographical reach with presence across 20 states (including two UTs) across the country. As of Mar'23, Fusion had a network of 1,086 branches with rural forming 93% of the AUM mix.

Exhibit 133: Pan-India presence via extensive branch network



Source: MOFSL, Company

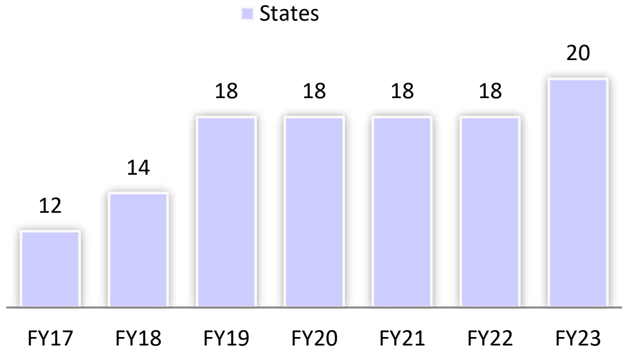
Exhibit 134: Rural-Urban portfolio mix



Source: MOFSL, Company

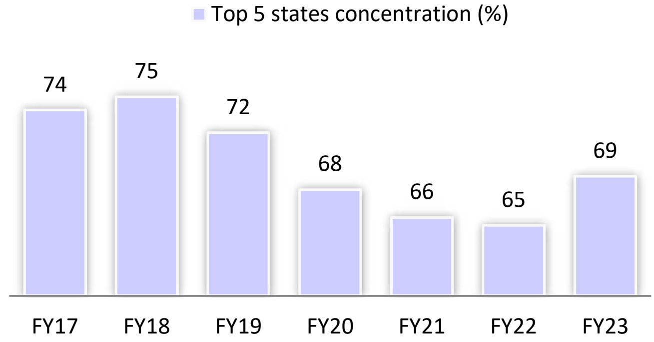
- The company's extensive branch network allows it to reach the underserved and remote areas, where many of the traditional financial institutions may not have a presence.
- Fusion has successfully reduced the state concentration risk through contiguous expansion into newer states. The company adds new branches in areas adjacent to existing markets or markets possessing similar customer demographics and financing needs. Careful selection of geographies has helped it navigate stress periods better than the industry, which has also been reflected in its strong domain expertise.
- The concentration of the top 5 states in the AUM viz. Bihar, Uttar Pradesh, Orissa, Madhya Pradesh and Tamil Nadu has gradually declined to 69% as of Mar'23 from 74% as of FY17, helping it reduce the exposure to any regional economic and political risks. About ~63% of the company's branches are present in these top five states. While continuing to maintain its stronghold in these states, Fusion will also deepen its presence in other states to deliver on its calibrated AUM growth strategy.

Exhibit 135: Operates in 20 states of India



Source: MOFSL, Company

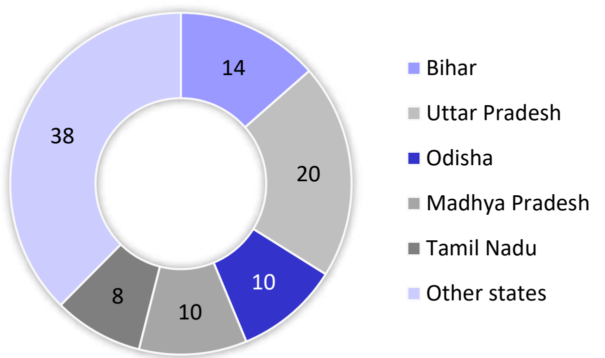
Exhibit 136: Top 5 states contribute 69% to the AUM



Source: MOFSL, Company

- Bihar and UP contribute ~21% each to the AUM mix as of FY23 and their contribution is expected to gradually decline to below 20% each over the medium term with stronger growth in other states. The collection efficiency in these top two states (in terms of AUM) was at ~99% in 4QFY23.

Exhibit 137: 62% of branches present in top 5 states in FY23



Source: MOFSL, Company

Exhibit 138: Effectively maintained stress levels in Bihar/UP

As of FY23	% of branches	% of AUM	Collection efficiency (%)
Bihar	14	21	99.3
Uttar Pradesh	20	21	98.6
Odisha	10	12	96.0
Madhya Pradesh	10	9	96.0
Tamil Nadu	8	7	96.0
Other states	38	31	
Total	**100**	**100**	**98.0**

Source: MOFSL, Company

Exhibit 139: State-wise branch, AUM and borrower mix (%)

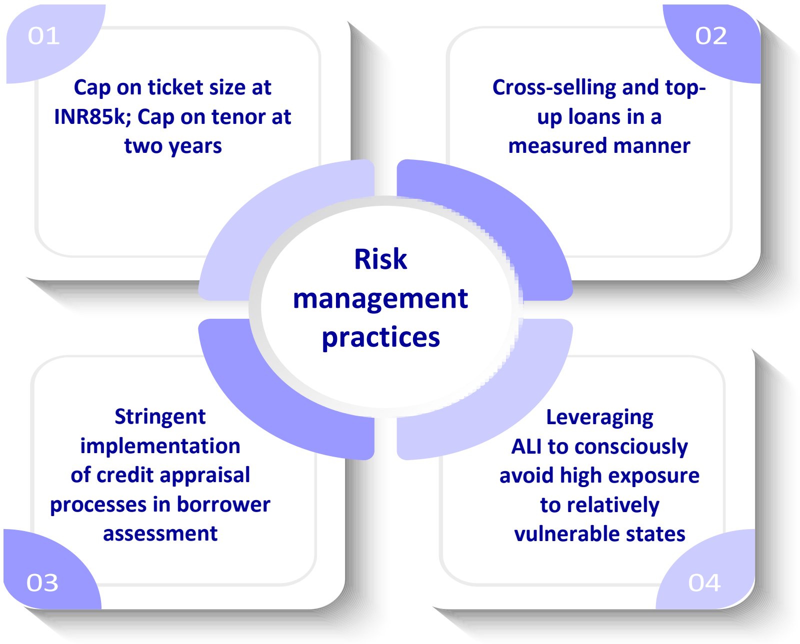
(%)	FY20			FY21			FY22			1QFY23		
	Branches	Active Borrowers	AUM	Branches	Active Borrowers	AUM	Branches	Active Borrowers	AUM	Branches	Active Borrowers	AUM
Bihar	13.5	19.5	18.9	14.2	18.2	18.3	14.0	19.0	18.7	14.0	19.2	19.2
Uttar Pradesh	13.5	16.3	16.7	13.1	16.4	16.9	18.6	17.3	18.1	18.7	18.3	19.2
Odisha	14.1	14.6	13.7	11.6	13.9	13.5	9.7	12.0	11.6	9.7	11.9	11.4
Madhya Pradesh	13.1	11.2	10.2	12.3	10.0	9.5	10.2	9.3	9.3	10.5	9.0	9.1
Tamil Nadu	7.6	4.3	5.1	8.7	6.5	6.4	8.9	7.9	7.7	9.1	7.7	7.2
Punjab	5.2	7.2	8.5	4.7	7.5	7.8	4.6	6.9	6.8	4.5	6.7	6.5
Rajasthan	6.2	4.3	4.3	8.8	5.5	5.6	9.9	6.6	6.8	9.6	6.7	6.7
Haryana	5.0	6.6	7.6	5.0	6.4	6.7	4.5	5.4	5.7	4.4	5.0	5.3
Jharkhand	4.7	4.9	4.5	4.8	4.8	4.6	4.4	5.1	4.7	4.2	5.1	4.8
Uttarakhand	2.4	2.6	3.0	2.2	2.7	2.9	2.0	2.5	2.7	2.1	2.4	2.6
Gujarat	2.7	1.5	1.5	3.5	1.9	1.8	3.6	2.4	2.3	3.7	2.4	2.3
Chhattisgarh	3.7	1.7	1.6	3.9	1.8	1.8	3.2	2.0	1.9	3.1	2.0	2.0
West Bengal	2.5	2.3	2.0	2.1	2.0	1.8	1.6	1.8	1.6	1.6	1.8	1.5
Delhi	0.7	0.1	0.2	0.7	0.1	0.5	0.8	0.1	0.7	0.7	0.1	0.7
Maharashtra	1.2	0.8	0.7	1.0	0.7	0.6	0.8	0.7	0.6	0.7	0.7	0.7
Himachal Pradesh	0.3	0.2	0.0	0.6	0.0	0.3	0.8	0.4	0.4	0.8	0.4	0.4
Puducherry	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Assam	3.5	1.7	1.1	2.8	1.2	0.8	2.1	0.4	0.0	2.1	0.3	0.1

Source: MOFSL, Company DRHP

Risk management and process discipline aiding superior asset quality

- Fusion has managed its asset quality better than the industry. It has achieved this by: a) keeping a tight leash on the ticket sizes (with maximum ticket sizes capped at INR85-90K) and offering maximum tenor of upto two years, b) undertaking *limited* cross-selling and top-up loans, and c) instilling high process discipline in assessments of borrowers, group formation, loan approval, loan utilization checks and conduct of collections/center meetings.
- In addition, by leveraging its area lucrative index (ALI) model, Fusion has carefully avoided higher exposure to relatively vulnerable states such as Assam, WB, MH and Kerala.

Exhibit 140: Robust risk management



Judicious area selection

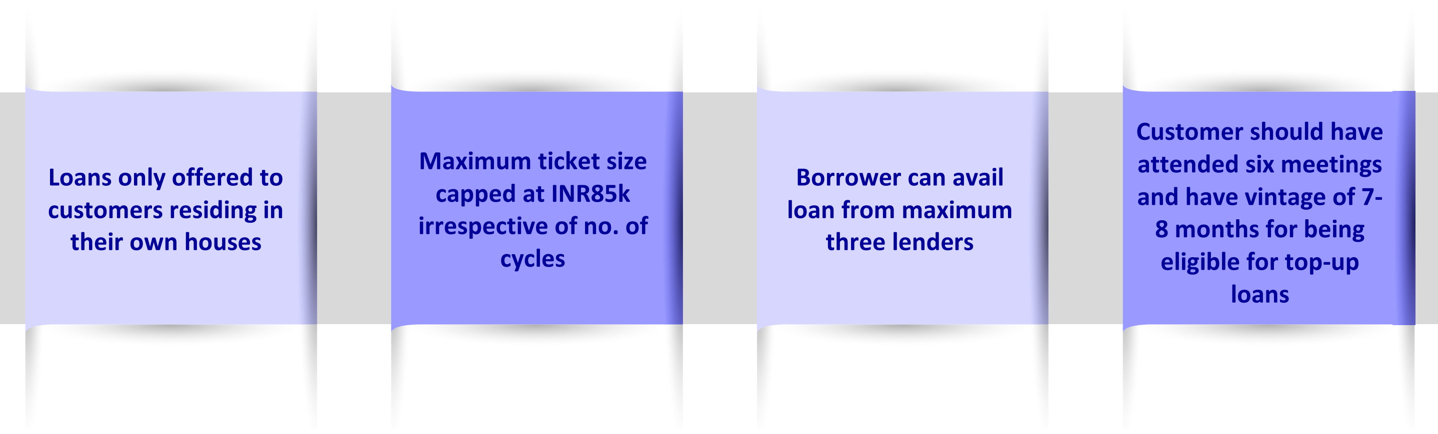
- To evaluate local conditions and establish the potentiality of a region/area for a new branch, Fusion has developed an area lucrative index (ALI) analysis model. The ALI analysis model has evolved and has been enhanced over time by feeding it with data from Fusion's geographically diverse operations.
- Two separate teams – a) business operations team and b) risk/audit team independently conduct the ALI analysis when selecting a new area. The findings of both the teams are presented to the relevant regional office heads and subsequently to the head office (HO) approval committee comprising the CEO, COO, CRO and Business and Audit heads. The CRO and the Head of Audit have special veto powers with regards to area selection.
- The relationship officer (RO) and the branch manager (BM) assigned to the relevant area conduct a detailed survey and share the survey results with the area manager (AM) for review and approval. All selected villages are usually within 30kms of the main branch.

Group formation and deeper due diligence on existing/new borrowers

- Once a branch is opened in the selected area, the employees conduct public meetings in the village to explain the product and lending procedures. The RO visits the prospective customers' house to collect the KYC documents and basic data of the customers.
- Pursuant to the formation of groups and customer due diligence checks, the company conducts continuous group training (CGT) sessions and a group recognition test (GRT) is also conducted by the BM to assess the CGT quality.
- Following the online submission of loan application, uploading of the required KYC documents, filing of the CGT and GRT reports, the BM submits the loan sanctioning proposal. The customer on-boarding is entirely executed on M-Shakti app.

Exhibit 141: Customer on-boarding process with multiple checkpoints

Exhibit 142: Safeguards built into the business model

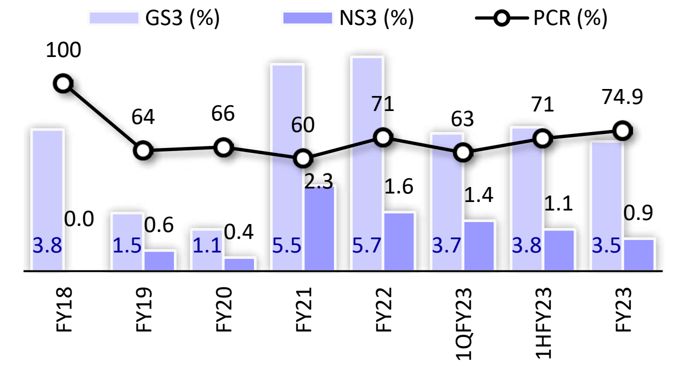


Risk management measures undertaken

- Customers should be residing in their own houses and Fusion does not extend loans to customers staying in rented houses.
- Irrespective of the number of loan cycles, the maximum ticket size is capped at INR85K-90K.

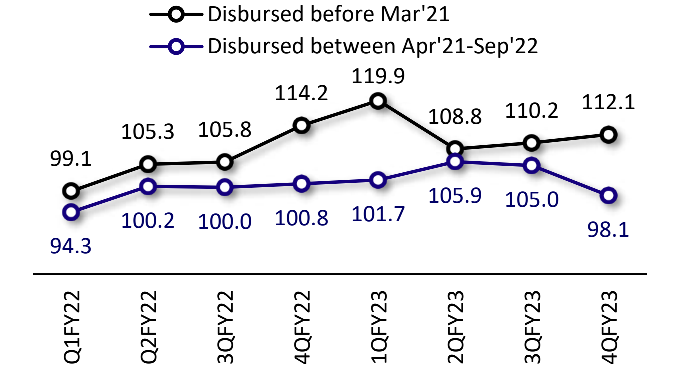
- Irrespective of ticket size, Fusion caps the maximum number of lenders to a borrower at three.
- For top-up loans, the customer is required to have >60% attendance at scheduled center meetings and >7-8 months of vintage.
- Further each RO and BM is required to conduct loan utilization checks (LUC) for 100% and 25% of loans, respectively, sourced within their designated area in the previous month.

Exhibit 143: Improvement in asset quality post-Covid



Source: MOFSL, Company

Exhibit 144: CE improving gradually over the quarters



Source: MOFSL, Company

Exhibit 145: Write-offs of MFI players over the past three years

Peer comparison of asset quality performance during Covid	Write-offs (INR m)			Cumulative write-offs (FY21-FY23)		Write-offs (% of opening AUM)		
	FY21	FY22	FY23	INR m	% of FY20 AUM	FY21	FY22	FY23
Fusion	337	2,936	2,481	5,754	16.0	0.9	6.3	3.7
CREDAG	4,611	6,855	5,776	17,243	14.4	3.8	5.0	3.5
Spandana	4,064	1,671	8,008	13,743	20.1	8.1	2.3	13.0
Bandhan Bank	20,384	32,441	60,720	1,13,545	17.0	3.1	4.0	6.5

Source: Company, MOFSL

- The company undertakes evaluation of portfolio risk levels on a periodic basis to identify key emerging trends in the business cycle.

Leveraging the cloud platform, digital and automation

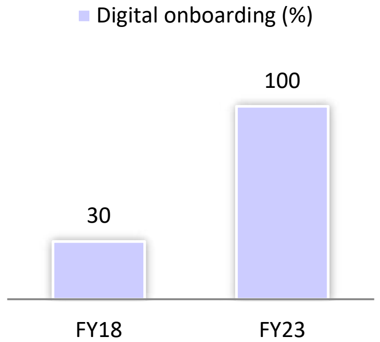
- Fusion has seamlessly incorporated technology as a second nature to its overall business operations to drive superior process discipline across its business processes. As early as 2010, Fusion became one of those few companies that deployed a loan origination system (LOS) for its first disbursement and since then it has continuously strived to improve and automate various customer acquisition and customer service functions through digitization.

Exhibit 146: Key digital strengths – Touch and Tech Strategy

Source: MOFSL, Company

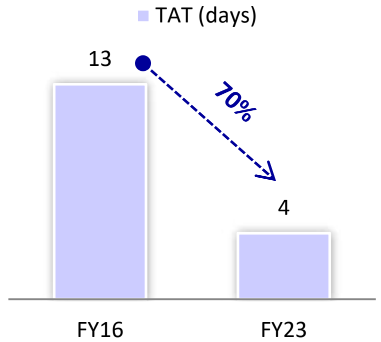
- The digital/technology investments made by the company have led to: a) reduction in TAT to ~4 days in FY23 from 13 days in FY16; b) 100% digital onboarding of customers (v/s 30% in 2018) and c) 97% cashless disbursements in FY23 (v/s 20% in 2018).

Exhibit 147: All customers were on-boarded digitally in FY23



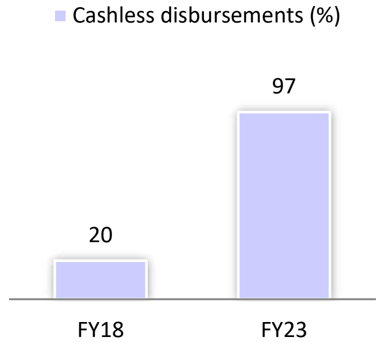
Source: Company, MOFSL

Exhibit 148: Significant improvement in TAT over the years



Source: Company, MOFSL

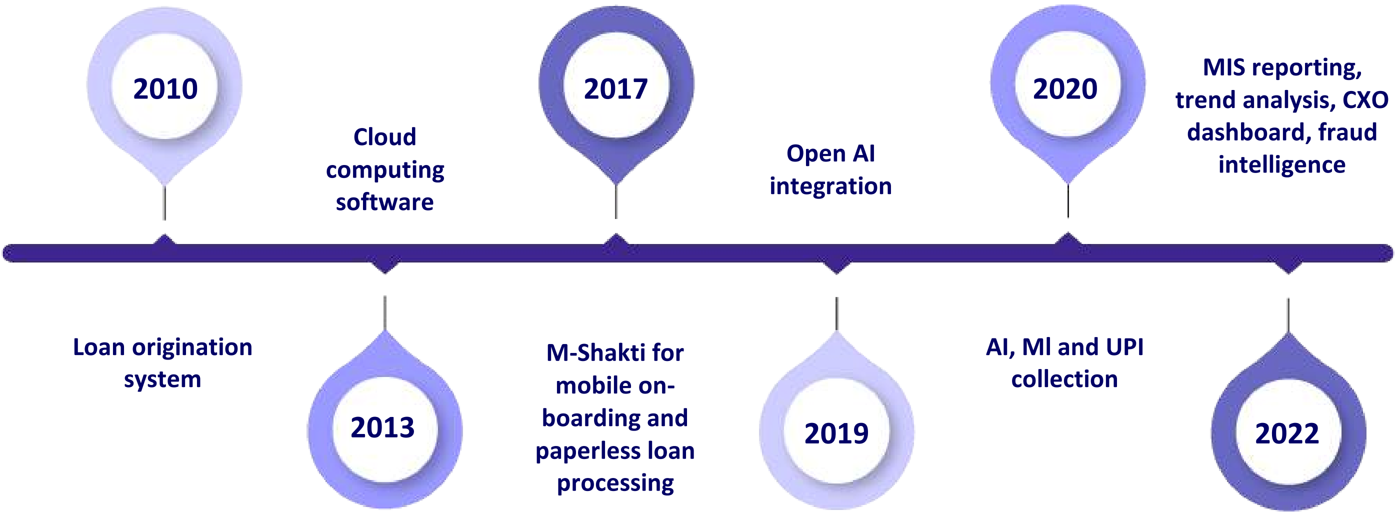
Exhibit 149: 97% of total disbursements were cashless in nature



Source: Company, MOFSL

- Fusion has deployed SHAKTI, a centralized online real time environment (CORE) lending system that provides end-to-end solutions on both the web and mobile platforms. Among other things, SHAKTI enables real-time integration through open API architecture with credit bureaus, bank partners and other third-party systems to facilitate seamless customer information validation and cashless collections.
- The company was one of the earliest adopters of mobile-based customer platform and is in the process of implementing advanced AI and ML mechanisms across its operations to improve the digital journey of its customers.

Exhibit 150: Digital journey over the last decade



Source:

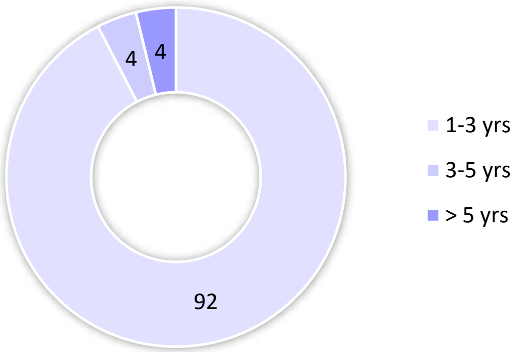
- Fusion has also implemented the geo-tagging of branches and centers for superior remote monitoring of relationship officers and which has helped the company improve its engagement with the customers as well as the employees.
- During Covid-19, Fusion leveraged technology to re-engineer its field processes and systems as well as implemented various digital methods for customer engagements and cashless collections. Fusion sends out a link to the customer for making digital repayments around two days before the center meeting. While the adoption of digital payment modes for making repayments is not very high (~3-4%), it is still preferred by select customers for making their EMI repayments.

Prudent liability management; benefits in borrowing costs

Fusion has received a credit rating upgrade to "A" (Stable) from CRISIL, ICRA and CARE (from "A-" Stable). Securing capital from the debt markets in the past with an A- credit rating was understandably challenging, which is why a sizable portion of the company's borrowing mix is dominated by bank term loans.

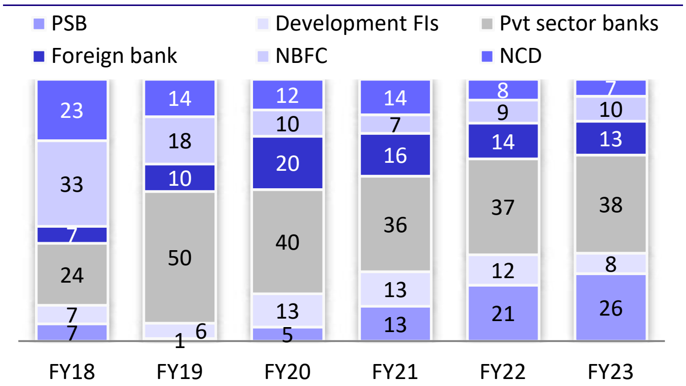
- Borrowings from public sector and private sector banks formed ~26% and 38% of the borrowing mix as of Mar'23, v/s 7% and 24% in FY18, respectively. Alongside, the share of NCDs has reduced to ~7% (from 23%) over the same period. Fusion's borrowing profile reflects its strategy of maintaining strong relationships with banks and financial institutions while also exploring newer sources of funding.
- Despite difficult market conditions led by geopolitical issues and the pandemic, the company has been able to optimize the cost of funds, liquidity requirements and capital management over the years, due to its prudent liability management practices, ability to secure sufficient and diversified borrowings on competitive terms and improving credit ratings.

Exhibit 151: Tenure-wise liability mix (%)



Source: MOFSL, Company

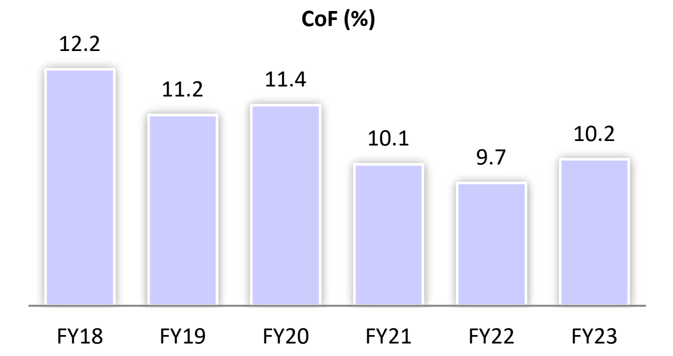
Exhibit 152: Borrower-wise liability mix (%)



Source: MOFSL, Company

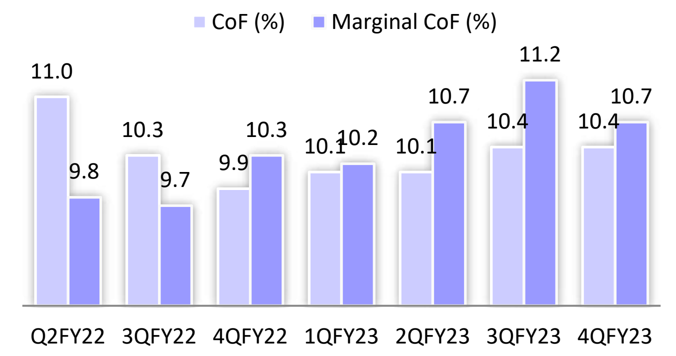
- The average effective CoF declined to 10.2% in FY23 from 12.0% in FY18. Marginal CoF rose ~40bp to 10.7% in FY23 and we expect this to now decline in FY24. Fusion has widened its lending relationships and now has over 50 lenders comprising a host of public banks, private banks, foreign banks and other financial institutions. We expect Fusion's cost of borrowings to benefit from the recent credit rating upgrade driven by its ability to negotiate for lower spreads (over MCLR) on its bank borrowings.
- MFI lenders which have a greater proportion of unsecured portfolio, quicker churn in the portfolio and which are vulnerable to periodic stress events (including any liquidity crunch) need to have an effective asset liability management and strong access to liquidity to build a sustainable MFI franchise. Fusion, to its credit, has managed to deliver just that.

Exhibit 153: CoF has moderated over the years



Source: MOFSL, Company

Exhibit 154: Marginal CoF increased due to rising rates but will moderate from hereon



Source: MOFSL, Company

Favorable asset liability position, adequately capitalized for growth

- Driven by its prudent ALM standards, the company has maintained favorable asset-liability positions and positive interest rate gaps across all time buckets. Further, the long-term credit ratings have improved "A" (Stable) by CRISIL, CARE and ICRA as of Mar'23 from a rating of "BBB" by CARE as of Mar'17.

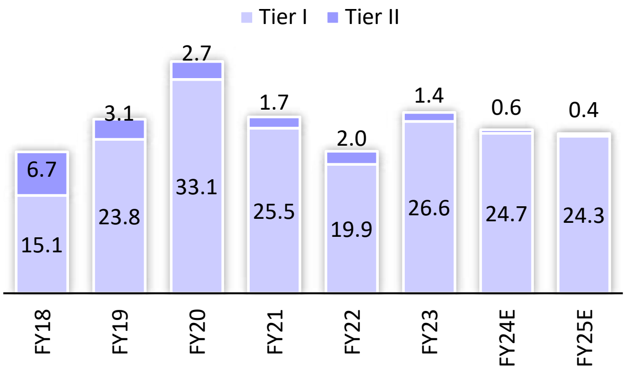
Exhibit 155: Credit rating evolution over the years

Rating Instrument	Rating Agency	Ratings
Long-term debt	CRISIL	A Stable
	CARE	A Stable
NCD	CRISIL	A Stable
	CARE	A Stable
	ICRA	A Stable
Grading	CART	MFI 1
Comprehensive MFI Grading (COCA)	M-CRIL	M2C1
Client Protection Certification	M-CRIL	Gold Level

Source: MOFSL, Company

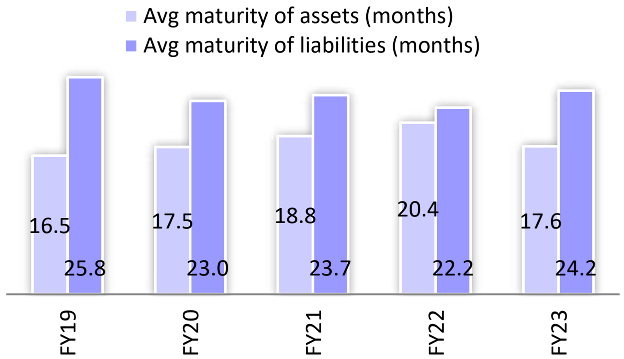
- Fusion has maintained healthy capital adequacy by consistently raising both debt and equity capital over the years. The company raised fresh equity capital of INR6b during its IPO. Pursuant to this primary equity raise, the net worth of the company stood at ~INR22b with gearing at 3.0x as of Dec'22 v/s ~INR13.4b net worth and 4.3x gearing as of Mar'22.
- The CRAR ratio increased to ~28.2% in Dec'22 (from ~22% in Mar'22) due to this capital infusion and stood at 27.9% in Mar'23. CRAR is expected to moderate to ~24.7% by FY25 driven by strong loan growth.

Exhibit 156: CRAR to moderate to ~24.7% by FY25E



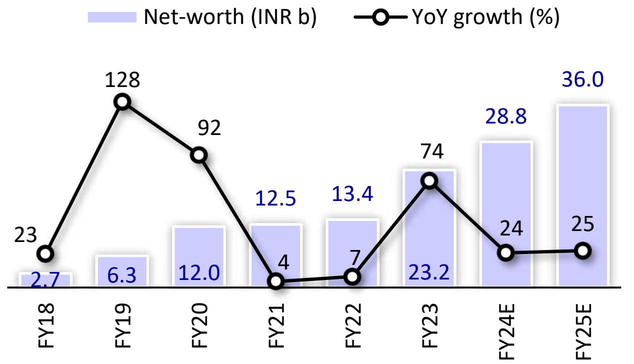
Source: MOFSL, Company

Exhibit 157: Positive ALM mismatch



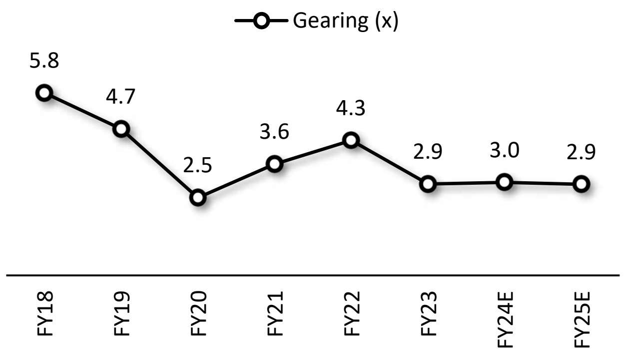
Source: MOFSL, Company

Exhibit 158: Net-worth CAGR of 25% over FY23-25E



Source: MOFSL, Company

Exhibit 159: Gearing to remain at ~3x until FY25E



Source: MOFSL, Company

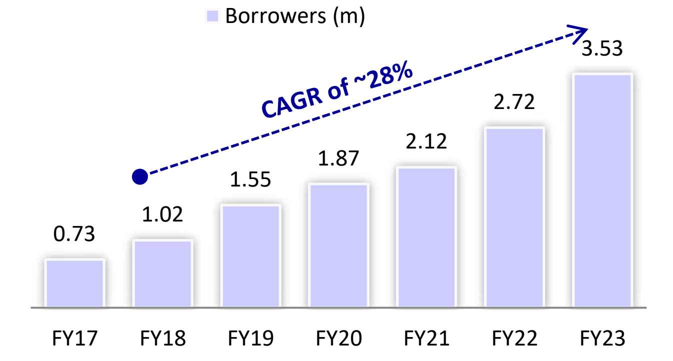
Well poised for sustainable improvement in profitability

PAT CAGR of 37% over FY23-FY25E; RoA/RoE to improve to 5.5%/22.5% by FY25E

Deep rural distribution to drive 28% AUM CAGR over FY23-FY25E

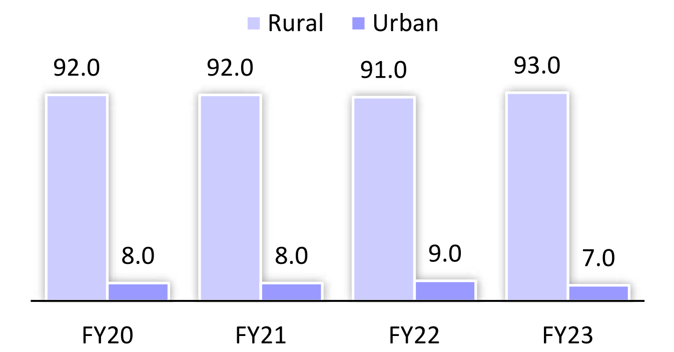
- Despite geopolitical tensions, economic slowdown and the pandemic, Fusion delivered a healthy AUM CAGR of ~43% over FY18-23 and grew the borrower base at ~28% CAGR over the same period. This displayed its proficiency to successfully deliver on its stated growth strategy. The company has remained committed to its key growth pillars comprising customer centricity, strategic geographical diversification with a rural focus, sustained advancement in technology and prudent risk management.
- Fusion has expanded its footprint to underserved rural areas that will offer significant growth opportunities. Fusion has a strong presence in the states of UP, Bihar, MP, Rajasthan and Jharkhand, which have moderate MFI penetration (v/s relatively higher penetrated states like Karnataka and TN). It has the opportunity to improve its market share in each of these states.

Exhibit 160: Borrowers posted 29% CAGR over FY18-9MFY23



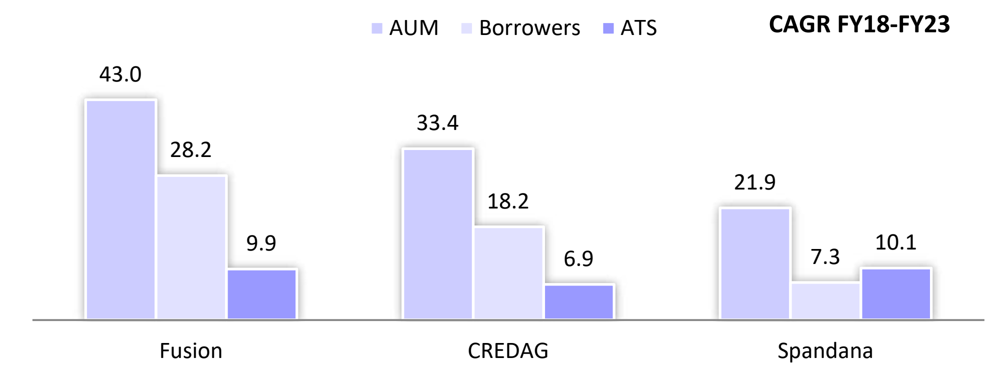
Source: MOFSL, Company

Exhibit 161: Rural-Urban AUM mix (%)



Source: MOFSL, Company

Exhibit 162: Exhibited better growth than peers



Source: MOFSL, Company; Note: Data above shows CAGR over FY18-23

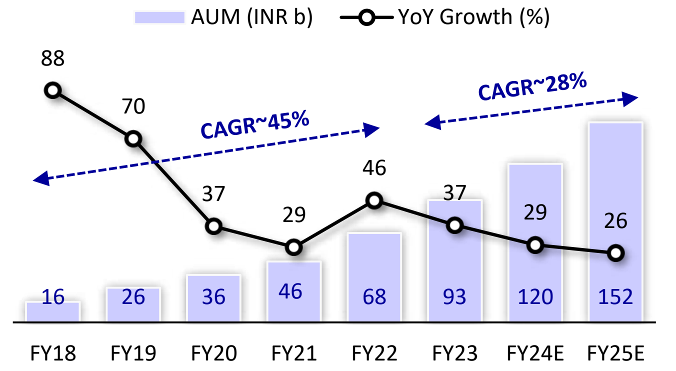
Exhibit 163: Geographical AUM mix (%)

AUM mix (%)	Fusion			CREDAG			Spandana		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Rural	92	91	93	85	84	NA	94	82	87
Urban	8	9	7	15	16	NA	6	18	13

Source: MOFSL, Company

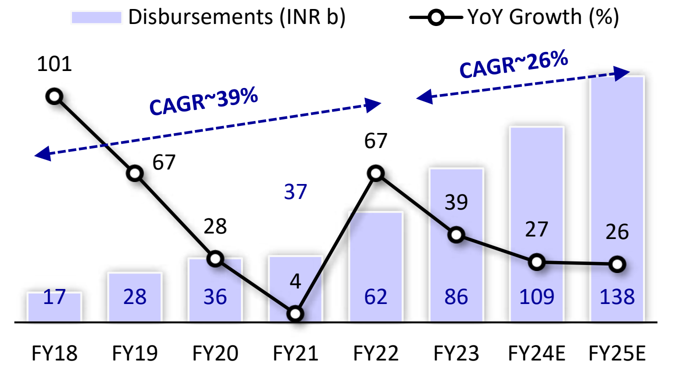
- A recent MFIN study pegged the unmet credit demand in the MFI sector at INR17t by FY26E, implying a >15% CAGR in industry AUM over next three years.
- Given the huge opportunity, we believe Fusion's multi-pronged approach that combines geographical expansion, customer centricity and retention, and technology adoption has positioned it for long-term success. We estimate AUM/disbursements CAGR of ~28%/26% over FY23-25.

Exhibit 164: AUM CAGR of ~28% over FY23-25 led by…



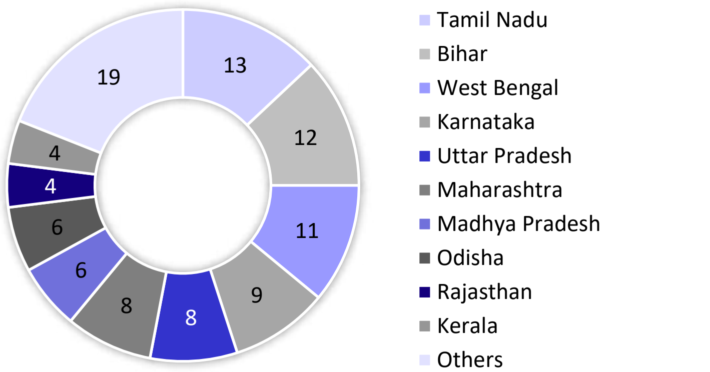
Source: Company, MOFSL

Exhibit 165: …26% disbursement CAGR



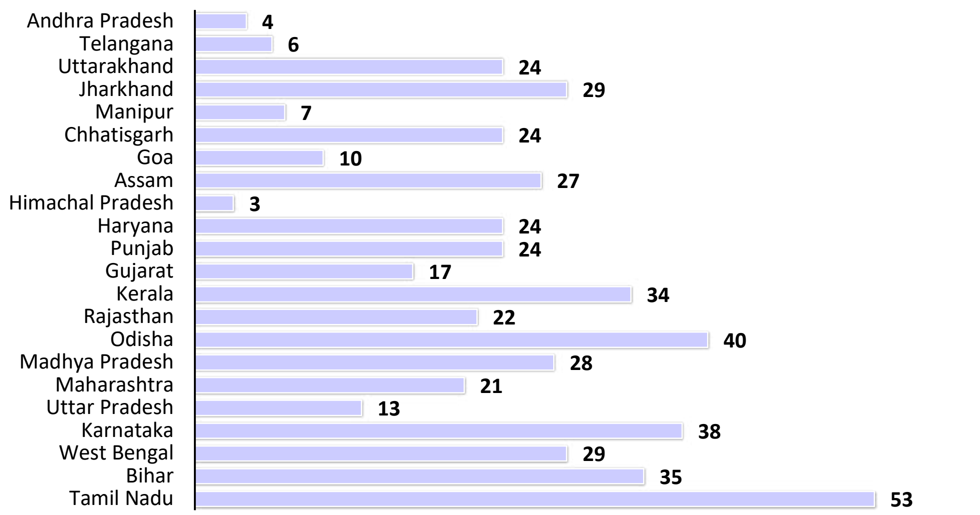
Source: Company, MOFSL

Exhibit 166: State-wise market share as of Jun'22 (%)



Source: Company, MOFSL

Exhibit 167: State-wise MFI penetration as of Jun'22 (%)

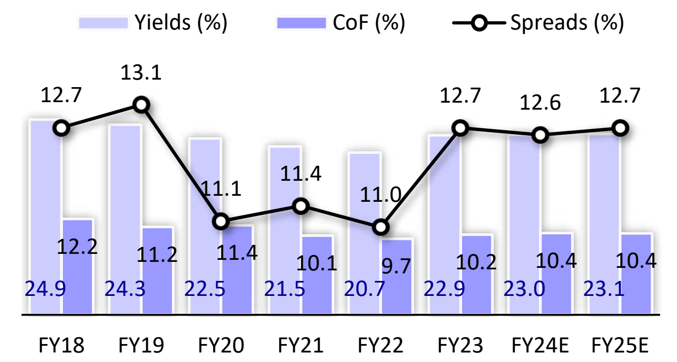


Source: Company, MOFSL

Spread deregulation and improved credit ratings to result in ~14% NIM

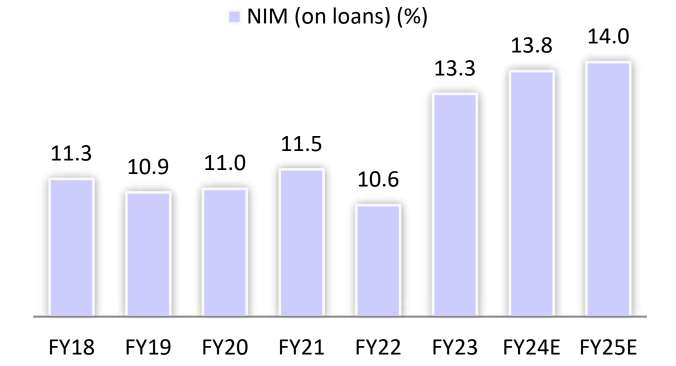
- Before introduction of the harmonized MFI guidelines in Mar'22, NBFC-MFIs including Fusion were required to follow a formula-based pricing policy (as mandated by the RBI) that subjected NBFC-MFIs to a spread cap of 10%. This stipulated that the maximum loan yields, which NBFC-MFIs could charge, were capped at the cost of borrowings plus 10%. This was a constraint for NBFC-MFIs to deploy a risk-adjusted pricing policy.
- The revised MFI guidelines have deregulated pricing and removed the 10% spread cap allowing NBFC-MFIs to adopt a risk-based pricing model**. In order to factor in the risk-based pricing and manage the rise in borrowing costs, Fusion raised its lending rates by ~210bp over 9MFY23 (~150bp due to spread deregulation and 60bp to offset the adverse impact of higher interest rates).** We expect margin to expand to ~14% by FY25 aided by lower interest income reversals, lending rate hikes and credit rating upgrade resulting in lower increase in borrowing costs.

Exhibit 168: Yields to rise to ~23% over FY25E…



Source: MOFSL, Company

Exhibit 169: …leading to expansion in margins at 14%



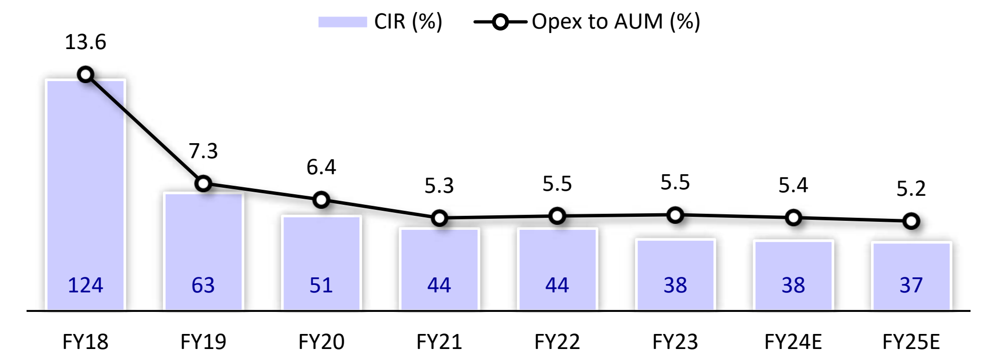
Source: MOFSL, Company

Higher productivity to support cost efficiency and moderation in cost ratios

Fusion had already achieved notable geographical diversification and branch expansion before it was listed on the stock exchanges. Since FY21, Fusion has added ~361 branches and over 2,500 loan officers. Moreover, it has also invested in building its MSME franchise in FY22/FY23.

- Of the total branches, ~43% have a vintage of <3 years and contribute only ~28% to the total portfolio. Hence, there is a huge room for productivity improvements and cost efficiencies once the branches opened over the last two years mature and deliver higher productivity.
- We strongly believe that with the kind of technology/digital platforms existing at Fusion and its investments in automation processes, there is a strong case for operating leverage as the business volumes grow over the next three years.

Exhibit 170: Operating leverage to lead to moderation in cost ratios over FY25



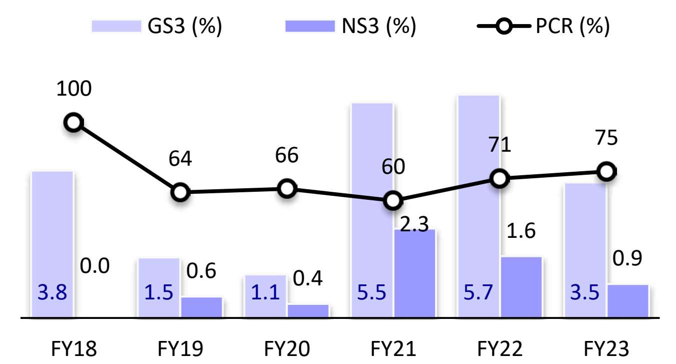
Source: MOFSL, Company

The cost-to-average AUM has moderated to ~5.5% in FY23 from 7.3% in FY19 driven by operating efficiencies despite the investments made in expanding branch distribution and building the technology/digital platform. With the build-out phase now behind and continued focus on cost optimization, we expect the cost-to-average AUM would gradually moderate further to 5.4%/5.2% in FY24/FY25E.

Asset quality to improve with Covid stress behind; credit costs at 2.0-2.2%

- Due to the challenging operating environment created by the pandemic, the company had reported an increase in GNPA ratio to 5.5%/5.7% in FY21/FY22 (v/s 1.1% in FY20) owing to a significant rise in slippages. This was fostered by significant write-offs of ~6.3% in FY22 and ~3.7% in FY23 (as a % of opening AUM) v/s 0.9% in FY21 and 1.4% in FY20.
- Barring the Covid-19 and demonetization periods, which were outlier of sorts for the entire MFI industry, Fusion has maintained a healthy asset quality over the years. With the tail risk of the pandemic stress now receded, Fusion improved its GS3 to 3.5% and NS3 to 0.9% as of Mar'23, while maintaining a healthy PCR of ~75% on Stage 3 loans.

Exhibit 171: Asset quality has room for further improvement



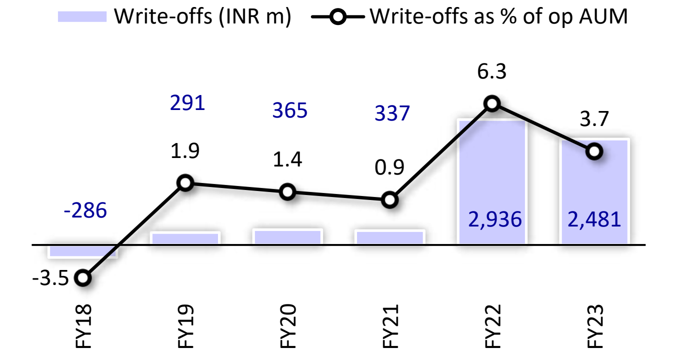
Source: MOFSL, Company

Exhibit 172: CREDAG has the lowest GNPA level among peers

GNPA (%)	FY23
Fusion	3.5
CREDAG	1.2
Spandana	2.1
Bandhan Bank	5.9
Ujjivan SFB	2.7

Source: MOFSL, Company; Note: For Bandhan and Ujjivan, GNPA pertains to their MFI business only

Exhibit 173: Write-offs to decline gradually now



Source: MOFSL, Company

Exhibit 174: Spandana had the highest write-offs as a % of AUM among NBFC-MFIs during Covid-19

Peer comparison of asset quality performance during Covid-19	Cumulative write-offs (FY21-FY23)	
	INR m	% of FY20 AUM
Fusion	5,754	16.0
CREDAG	17,243	14.4
Spandana	13,743	20.1
Bandhan Bank	1,13,545	17.0

Source: MOFSL, Company

- Fusion had cumulatively restructured ~INR1.3b (~2.5% of the AUM) under OTR 2.0. However, the restructured book since declined to ~INR150m as of Mar'23 (0.2% of the AUM) as against INR1.1b as of FY22 (1.7% of the AUM).

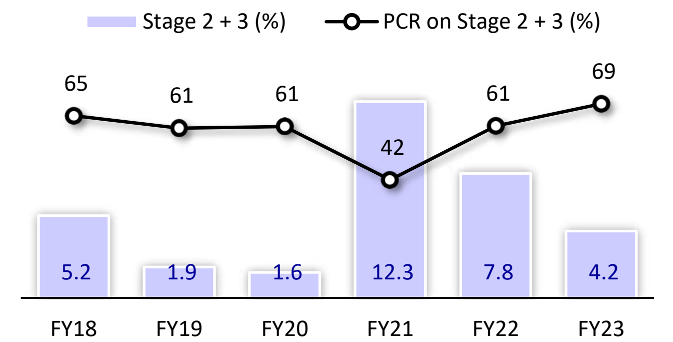
Exhibit 175: Restructured book of MFIs

	Restructured book (INR m)	Restructured book as % of AUM
Fusion	149	0.2
CREDAG	711	0.5
Spandana	1,690	2.6
Bandhan Bank	NA	NA
Ujjivan	3,065	1.4

Source: MOFSL, Company, Note: Restructured book for CREDAG and Spandana as of Dec'22

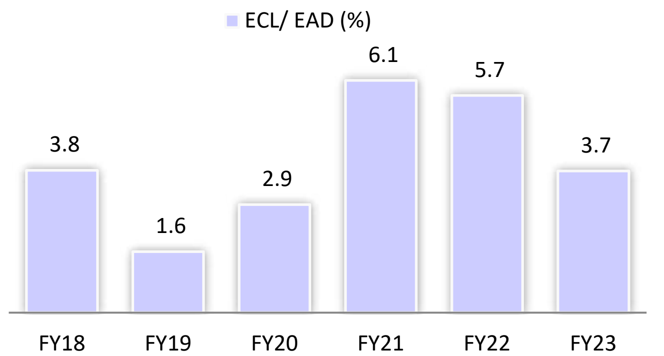
- Collection efficiency in the portfolio, originated post-Mar'21, has been strong. This can be attributed to Fusion's rigorous credit appraisal and risk management practices. The company does a thorough due diligence before disbursing loans to borrowers. Additionally, it monitors its loan portfolio regularly and assists borrowers who face difficulties in repaying their loans.
- The company has effectively managed its asset quality with improvement in softer bucket delinquencies supported by better collections. Further, the stressed book has been adequately provided for with PCR on 30+dpd at ~69% and ECL/EAD at 3.7% as of Mar'23.

Exhibit 176: 30+dpd declining steadily



Source: MOFSL, Company

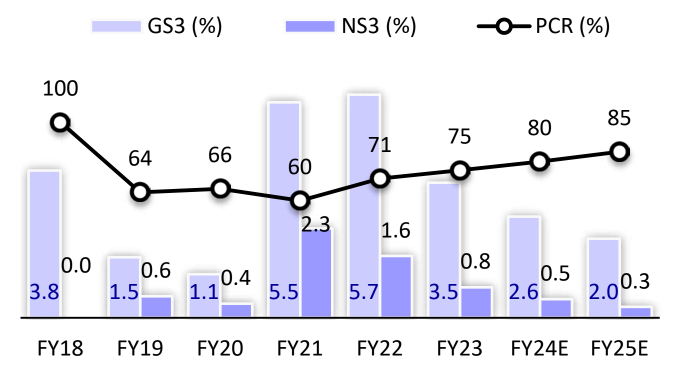
Exhibit 177: ECL/EAD moderates due to improving asset quality



Source: MOFSL, Company

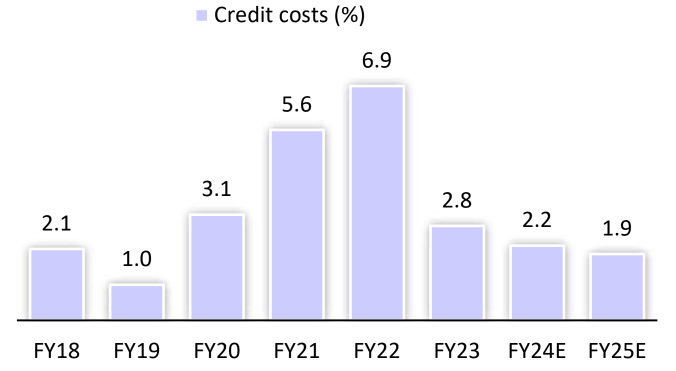
- We expect Fusion's asset quality to improve further leading to moderation in credit costs to 2.2%/1.9% in FY24/FY25E. Our credit cost estimates are marginally higher than consensus as we expect the company to build a provision buffer during the current good credit cycle for the MFI industry.

Exhibit 178: Asset quality to improve notably by FY25E...



Source: MOFSL, Company

Exhibit 179: ...driving moderation in credit costs to ~1.9%

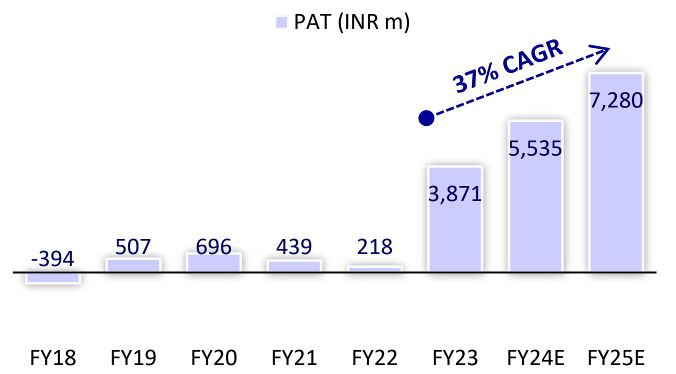


Source: MOFSL, Company

Sustainable expansion in profitability and return ratios; RoE at 21-22%

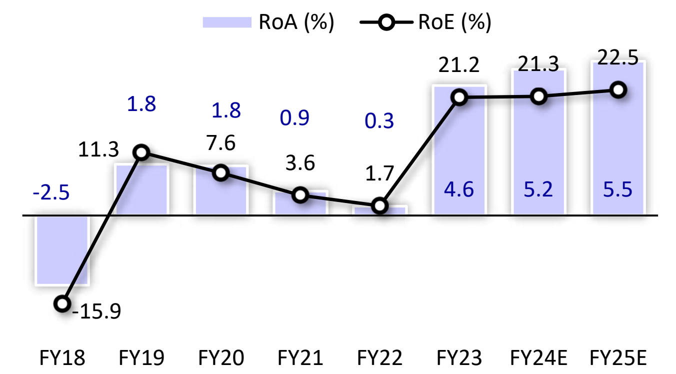
- Despite a spike in credit costs during Covid-19, Fusion was resilient and reported RoA of 0.9% and 0.3% in FY21 and FY22, respectively.
- With strong AUM growth, expansion in NIM, moderation in operating cost ratios and decline in credit costs, we expect Fusion's profitability to strengthen even further leading to a PAT CAGR of 37% over FY23-FY25. With multiple levers of margin expansion, operating leverage and asset quality improvement in place, Fusion is primed to deliver a steady expansion in its RoA profile. We estimate it to deliver a RoA/ RoE of ~5.5%/ ~22.5% by FY25.

Exhibit 180: PAT to clock ~37% CAGR over FY23-25E



Source: MOFSL, Company

Exhibit 181: RoA to expand to ~5.5% by FY25E



Source: MOFSL, Company

Valuation, view and key risks

- Fusion has a vintage of over a decade in MFI lending and has navigated multiple credit and economic cycles with great resilience. The company has a stable and experienced management team and its digital orientation through its 'touch and tech' strategy has positioned it well to deliver strong operating performance.
- Fusion, to its credit, has managed the Covid-induced asset quality stress reasonably better than the broader micro-credit industry. As of Mar'23, stressed pool (Stage 2+ Stage 3) for Fusion stood at ~4.2% (v/s 1.4%% for CREDAG and 3.0% for Spandana). We expect the 30+dpd for Fusion to moderate over the next two years.
- The company has also demonstrated a strong improvement in its core profitability with PPoP/average AUM increasing to 8.9% in FY23 v/s 6.9%/6.7%/6.2% in FY22/FY21/FY20, respectively.
- Fusion, in our view, can deliver a calibrated AUM and PAT CAGR of 28% and 37%, respectively, over FY23-FY25E. It is poised to deliver industry-leading RoA/ RoE of 5.5%/22.5% in FY25 aided by: a) margin expansion due to creditable liability management, b) scale and productivity benefits leading to a decline in the cost ratios and c) moderation in credit costs as the tail risk of Covid recedes and credit costs stabilize around the ~2.0% levels.
- Fusion currently trades at 1.7x FY25E P/BV which is at a ~36% discount to P/BV multiples of its closest peer CREDAG. We expect Fusion to gradually narrow the valuation gap with CREDAG as it gives investor higher confidence in its execution capability across multiple credit cycles. **We initiate coverage on the stock with a BUY rating and a TP of INR720 (based on 2.0x FY25E P/BV).**

Exhibit 182: Valuation comps for peers

Peers	CMP	TP	MCap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR)	(INR b)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CREDAG	1,270	1,550	201.8	397	488	3.2	2.6	75.3	91.2	16.9	13.9	4.9	4.9	21.0	20.6
Spandana	720	865	51.1	495	577	1.5	1.2	58.7	81.7	12.3	8.8	3.9	4.3	12.6	15.2
Fusion MF	596	720	59.9	287	359	2.1	1.7	55.2	72.5	10.8	8.2	5.2	5.5	21.3	22.5

Source: Company, MOFSL

Key risks

- Political interference, announcement of loan waivers or natural calamity resulting in asset quality deterioration.
- Regulatory changes towards asset recognition and provisioning.
- Increase in competitive intensity leading to NIM compression.

ESG initiatives

Environmental initiatives

- Fusion has adopted paperless operations by deploying cashless loan disbursement into customers' bank accounts. It achieved 95% success rate and exercised digital on-boarding of clients.
- While keeping ESG performance at the center, strategic efforts are undertaken to practice sustainable finance by conforming to International Finance Corporation's (IFC) Exclusion List that is part of the World Bank Group to assess loan applications from E&S perspective.
- Fusion is offering bi-cycle as a cross-sell product, promoting a pollution-free mode of transport. The company is also educating people on digital payments through various digital literacy programs.

CSR initiatives

- Fusion has undertaken various CSR initiatives such as sustainable farming, greening the forest area, protecting water sources in villages, and curbing the menstrual waste.
- The team has prepared and provided the much-needed hygiene kits to communities in rural and far-flung areas to protect them against Covid-19 and reduce their risk of severe illness.
- The company engaged underprivileged women, indigenous communities, ASHA, anganwadi workers, widows, and persons with disabilities (PWDs) to produce masks, sanitizers and sanitary napkin that helped them earn extra money during the pandemic.

Governance

- As of Mar'23, the Board comprised six Directors that included three independent Directors and two women Directors.
- Of the Non-executive Directors, two are Nominee Directors and are eminent professionals who bring the wealth of their professional expertise and experience in managing the company.
- Fusion has set up a Stakeholders Relationship Committee to look into the redressal of the complaints of investors as per the requirement of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Bull and Bear cases

Bull Case

- ☑ In our bull case, we assume a 34% AUM CAGR driven by a 31% disbursement CAGR over FY23-FY25E
- ☑ We expect spreads to remain stable while margins are projected to expand ~60bp over FY25E
- ☑ NII and PPOP CAGR of ~39%/ 43% respectively over FY23-25E supported by higher margins and moderation in cost ratios.
- ☑ We estimate moderation in credit costs and opex ratios to drive PAT CAGR of 52% over FY23-FY25E.

Bear Case

- ☑ In our bear case, we assume a 21% AUM CAGR driven by a 20% disbursement CAGR over FY23-FY25E
- ☑ We expect spreads to remain stable while margins are projected to expand ~40bp over FY25E
- ☑ NII and PPOP CAGR of ~27%/ 25% respectively over FY23-25E because of margin expansion and relatively weaker loan growth.
- ☑ PAT CAGR of 27% over FY23-FY25E because of relatively higher credit costs, weaker loan growth and margins.

Exhibit 183: Bull case scenario

INR m	FY23	FY24E	FY25E
AUM	92,960	1,26,484	1,66,614
Growth (%)	37	36	32
NIM (%)	13.1	13.5	13.7
NII	9,443	13,384	18,273
PPoP	6,806	9,964	13,984
Credit Costs	1,833	1,818	2,414
PBT	4,974	8,146	11,569
PAT	3,755	6,093	8,654
Growth (%)	1626	62	42
RoA (%)	4.3	5.1	5.4
RoE (%)	20.6	23.3	25.8
BV (INR)	230	291	377
Target PV multiple (FY24E)			**2.2**
Target price (INR)			**830**
Upside (%)			39%

Source: MOFSL, Company

Exhibit 184: Bear case scenario

INR m	FY23	FY24E	FY25E
AUM	92,960	1,13,705	1,35,121
Growth (%)	37	22	19
NIM (%)	12.8	13.0	13.3
NII	9,272	12,118	15,026
PPoP	6,636	8,533	10,301
Credit Costs	1,880	2,263	2,616
PBT	4,755	6,270	7,685
PAT	3,590	4,690	5,748
Growth (%)	1,550.4	31	23
RoA (%)	4.1	4.1	4.2
RoE (%)	19.7	18.5	18.8
BV (INR)	228	275	332
Target PV multiple (FY24E)			**1.3**
Target price (INR)			**430**
Upside (%)			-28%

Source: MOFSL, Company

SWOT analysis

- ☑ Over the last 3-4 years, the company has made significant investments in growing the branch network, and improving technology platform as well as operational capacity
- ☑ It is well positioned to grow in the coming years by benefitting from economies of scale, productivity levers and normalization of credit costs.

- ☑ The company primarily serves women from low income households in rural areas that do not have a high level of financial resilience and can be adversely affected by declining economic conditions and natural calamities.
- ☑ High exposure to specific geographies can expose the company to external political, legal or regulatory interventions.

- ☑ New guidelines issued by the RBI expand the spectrum of customers that can be serviced by the MFI sector, eventually facilitating sector growth.
- ☑ Improved growth prospects coupled with improvement in portfolio quality post-Covid will encourage investments and provide liquidity support to lenders across the sector.

- ☑ Natural events such as lower-than-expected monsoons, floods, cyclones etc. can lead to higher delinquencies.
- ☑ Global unrest can impact capital markets, supply chains, budgetary allocations, and banking system/ credit off-take adversely.

Management team

Devesh Sachdev
MD & CEO

Possesses 25+ years of experience in the service industry and is currently the chairperson of MFIN. He is a post graduate from XLRI

Gaurav Maheshwari
CFO

He is a CA by profession and has several years of experience in corporate finance with Aditya Birla Group and Avantha

Tarun Mehndiratta
COO-MFI

He is a seasoned veteran in the Asset-Based Finance sector, having headed general management and strategic roles in Citigroup.

Kamal Kumar Kaushik
COO-MSME

He has worked with Religare Housing Development Finance earlier. Prior to Religare, he was with Fullerton (Rural Project). His earlier stints include Birla Home Finance, ICICI Bank, HDFC Bank, GE Money, etc.

Naveen Mangle
CTO

He is a B. Tech from Delhi University and MBA from IIFT. He has a diverse experience with companies like Polaris, Birlasoft, TCS, Tech Mahindra, Location Labs, and Aviva Life Insurance

Sanjay Choudhary
CRO

Has several years of experience in Risk Management, Auditing, Accounting & Finance. Prior to Joining Fusion, he worked for Satin Creditcare Network Limited and in different leadership roles at Axis Bank, ICICI Bank, TCS.

Ankush Ahluwalia
CBO-MFI

He has several years of rich experience in the field of Business Operations and People Management. He has worked with organizations like GE Capital, Kotak Mahindra, Religare etc. Before joining Fusion, he was working with Magma Fincorp Limited.

Deepak Madan
CS and Compliance Officer

He has several years of corporate experience and has previously worked with Almondz Group in Merchant Banking, Secretarial & Legal Department as the Company Secretary and Compliance Officer

Financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	2,545	4,694	6,665	8,276	10,643	16,001	21,009	26,608
Interest Expenses	1,366	2,540	3,377	3,751	4,960	6,428	7,998	9,915
Net Interest Income	**1,179**	**2,154**	**3,288**	**4,525**	**5,684**	**9,573**	**13,011**	**16,693**
Change (%)	34.8	82.7		37.6	25.6	68.4	35.9	28.3
Other Operating Income	128	249	538	282	869	1,418	1,570	1,744
Other Income	0	27	100	173	501	580	627	658
Net Income	**1,307**	**2,431**	**3,926**	**4,980**	**7,054**	**11,572**	**15,208**	**19,095**
Change (%)	26.2	86.0		26.8	41.6	64.1	31.4	25.6
Operating Expenses	**1,624**	**1,540**	**1,999**	**2,204**	**3,123**	**4,448**	**5,736**	**7,041**
Change (%)	91.3	-5.2		10.2	41.7	42.5	29.0	22.7
Employee Expenses	661	1,033	1,483	1,686	2,331	3,255	4,167	5,083
Depreciation	20	24	26	39	54	74	93	111
Other Operating Expenses	942	483	490	479	738	1,119	1,477	1,847
Operating Income	**-317**	**891**	**1,927**	**2,776**	**3,931**	**7,124**	**9,472**	**12,054**
Change (%)	-269.0	-381.4		44.0	41.6	81.2	33.0	27.3
Provisions and w/offs	**220**	**207**	**927**	**2,208**	**3,687**	**2,004**	**2,072**	**2,322**
PBT	**-536**	**684**	**1,000**	**568**	**244**	**5,120**	**7,400**	**9,733**
Tax Provisions	-142	177	304	128	27	1,248	1,865	2,453
Tax Rate (%)	26.5	25.9	30.4	22.6	10.9	24.4	25.2	25.2
PAT	**-394**	**507**	**696**	**439**	**218**	**3,871**	**5,535**	**7,280**
Change (%)				-37	-50		43	32

Balance Sheet								(INR M)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	442	616	790	790	828	1,003	1,003	1,003
Reserves & Surplus	2,298	5,643	11,199	11,673	12,552	22,216	27,751	35,031
Net Worth	**2,740**	**6,259**	**11,989**	**12,464**	**13,380**	**23,219**	**28,754**	**36,034**
Borrowings	**15,980**	**29,286**	**29,737**	**44,323**	**57,758**	**67,784**	**85,432**	**1,04,877**
Change (%)	151.4	83.3		49.0	30.3	17.4	26.0	22.8
Other liabilities			674	1,593	1,767	2,632	3,684	4,790
Total Liabilities	**19,275**	**36,105**	**42,400**	**58,379**	**72,905**	**93,635**	**1,17,871**	**1,45,701**
Cash and Bank balance	**5,808**	**9,905**	**8,177**	**13,353**	**11,536**	**10,650**	**12,730**	**14,387**
Investments	5	5	5	0	0	0	0	0
Loans	**12,913**	**25,720**	**33,430**	**43,607**	**59,182**	**80,416**	**1,02,269**	**1,28,101**
Change (%)	71.9	99.2		30.4	35.7	35.9	27.2	25.3
Fixed Assets	50	55	60	183	192	212	238	266
Other Assets			727	1,237	1,995	2,357	2,633	2,947
Total Assets	**19,275**	**36,105**	**42,400**	**58,379**	**72,905**	**93,635**	**1,17,871**	**1,45,701**

E: MOFSL Estimates

Financials and valuations

AUM Mix (%)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
AUM	15,556	26,414	36,065	46,378	67,860	92,960	1,20,327	1,51,996
YoY Growth (%)	**88**	**70**	**37**	**29**	**46**	**37**	**29**	**26**
Disbursements	12,913	25,720	35,740	37,103	61,798	85,962	1,09,172	1,37,556
YoY Growth (%)	**72**	**99**	**39**	**4**	**67**	**39**	**27**	**26**

E: MOFSL Estimates

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)								
Avg. Yield on Loans	24.9	24.3	22.5	21.5	20.7	22.9	23.0	23.1
Avg Cost of Funds	12.2	11.2	11.4	10.1	9.7	10.2	10.4	10.4
Spread of loans	12.7	13.1	11.1	11.4	11.0	12.7	12.6	12.7
NIM (on gross loans)	11.3	10.9	11.0	11.5	10.6	13.3	13.8	14.0
Profitability Ratios (%)								
RoA	-2.5	1.8	1.8	0.9	0.3	4.6	5.2	5.5
RoE	-15.9	11.3	7.6	3.6	1.7	21.2	21.3	22.5
Debt: Equity (x)	5.8	4.7	2.5	3.6	4.3	2.9	3.0	2.9
Leverage (x)	7.0	5.8	3.5	4.7	5.4	4.0	4.1	4.0
CAR	21.9	26.9	35.8	27.3	21.9	27.5	25.3	24.7
o/w Tier 1	15.1	23.8	33.1	25.5	19.9	26.6	24.7	24.3
Int. Expended / Int. Earned	53.7	54.1	50.7	45.3	46.6	40.2	38.1	37.3
Other Inc. / Net Income	9.8	11.4	16.3	9.1	19.4	17.3	14.4	12.6
Efficiency Ratios (%)								
Int. Expended/Int. Earned								
CIR	124.2	63.4	50.9	44.3	44.3	38.4	37.7	36.9
Opex/ AUM	13.6	7.3	6.4	5.3	5.5	5.5	5.4	5.2
Empl. Cost/Op. Exps.	40.7	67.1	74.2	76.5	74.6	73.2	72.6	72.2
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	0.8	0.9	1.1	1.0	1.0	1.2	1.2	1.2
Leverage (x)	7.0	5.8	3.5	4.7	5.4	4.0	4.1	4.0
Asset Quality								
GNPA (INR m)	506	404	384	2,559	3,584	2,889	2,819	2,758
NNPA (INR m)	0	145	130	1,024	1,030	708	564	414
GNPA (%)	3.8	1.5	1.1	5.5	5.7	3.5	2.6	2.0
NNPA (%)	0.0	0.6	0.4	2.3	1.6	0.8	0.5	0.3
PCR (%)	100	64	66	60	71	75	80	85
Credit costs (%)	2.1	1.0	3.1	5.6	6.9	2.8	2.2	1.9

Valuations	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (INR)	62	102	152	158	162	231	287	359
BV Growth (%)	4	64	49	4	3	43	24	25
P/BV	**9.6**	**5.9**	**3.9**	**3.8**	**3.7**	**2.6**	**2.1**	**1.7**
EPS (INR)	-8.9	8.2	8.8	5.6	2.6	38.6	55.2	72.5
EPS Growth (%)			7	-37	-53	-	43	32
Price-Earnings (x)	**-66.8**	**72.4**	**67.5**	**-**	**-**	**15.4**	**10.8**	**8.2**

Financials and valuations

RoA Tree

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	16.2	17.0	17.0	16.4	16.2	19.2	19.9	20.2
Interest Expended	8.7	9.2	8.6	7.4	7.6	7.7	7.6	7.5
Net Interest Income	**7.5**	**7.8**	**8.4**	**9.0**	**8.7**	**11.5**	**12.3**	**12.7**
Other Operating Income	0.8	0.9	1.4	0.6	1.3	1.7	1.5	1.3
Other Income	0.0	0.1	0.3	0.3	0.8	0.7	0.6	0.5
Net Income	**8.3**	**8.8**	**10.0**	**9.9**	**10.7**	**13.9**	**14.4**	**14.5**
Operating Expenses	10.3	5.6	5.1	4.4	4.8	5.3	5.4	5.3
Operating Income	**-2.0**	**3.2**	**4.9**	**5.5**	**6.0**	**8.6**	**9.0**	**9.1**
Provisions/write offs	1.4	0.7	2.4	4.4	5.6	2.4	2.0	1.8
PBT	**-3.4**	**2.5**	**2.5**	**1.1**	**0.4**	**6.1**	**7.0**	**7.4**
Tax	-0.9	0.6	0.8	0.3	0.0	1.5	1.8	1.9
RoA	**-2.5**	**1.8**	**1.8**	**0.9**	**0.3**	**4.6**	**5.2**	**5.5**
Leverage	6.3	6.2	4.3	4.1	5.1	4.6	4.1	4.1
RoE	**-15.9**	**11.3**	**7.6**	**3.6**	**1.7**	**21.2**	**21.3**	**22.5**

Spandana Sphoorty

BSE Sensex	S&P CNX
65,559	19,414

CMP: INR720 | TP: INR865 (+20%) | BUY

SPANDANA

Stock Info

Bloomberg	SPANDANA IN
Equity Shares (m)	71.0
M.Cap.(INRb)/(USDb)	48.3 / 0.6
52-Week Range (INR)	751 / 307
1, 6, 12 Rel. Per (%)	1/21/82
12M Avg Val (INR M)	89
Free float (%)	37.0

Financial Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
NII	8.2	11.8	15.7
Total Income	10.2	14.1	18.2
PPoP	5.6	8.0	10.7
PAT	0.1	4.2	5.8
EPS (INR)	2	59	82
EPS Gr. (%)	-83	-	39
BV (INR)	437	495	577
Ratios (%)			
NIM	12	13.1	13.4
C/I ratio	45	43.2	41.2
Credit cost	8.2	2.7	2.5
RoA	0.2	3.9	4.3
RoE	0.4	12.6	15.2
Valuations			
P/E (x)	-	12.3	8.8
P/BV (x)	1.6	1.5	1.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	63.0	63.0	62.6
DII	13.9	14.4	4.2
FII	14.8	14.2	12.2
Others	8.3	8.4	21.0

FII Includes depository receipts

Pivoting to regain its mojo

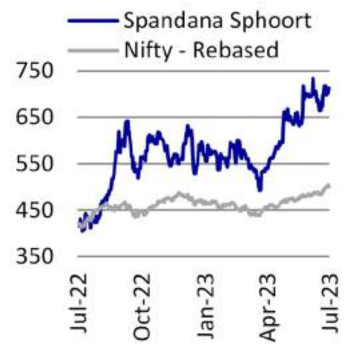
From consolidation to growth; estimate 34% AUM CAGR over FY23-FY25

- **Spandana Sphoorty (Spandana) is a leading rural-focused NBFC-MFI offering income generation loans under the joint liability group (JLG) model. As of Mar'23, the company reported AUM of ~INR85b. It has over 1,200 branches spread across 18 states of India. Its top five states are MP, Odisha, Karnataka, Maharashtra and AP, which contributed ~66% to the AUM mix as of Mar'23.**
- **Spandana has a strong rural footprint, with the rural portfolio accounting for ~87% of its total AUM. It has an average ticket size (ATS) of ~INR35K. The company reported an 18% AUM CAGR over FY19-FY23 and going forward, we believe AUM growth will be driven by healthier customer acquisitions.**
- **FY22 and FY23 were watershed years for Spandana due to several disruptions (including a settlement with its ex-MD, Ms. Padmaja Gangireddy). However, it was able to manage those disruptions with the support of its promoter Kedaara Capital (~48% stake), which infused INR2.9b capital in CY22.**
- **In addition to Covid, changes in its senior management team led to deterioration in asset quality. However, the company has already taken write-offs in FY23 and addressed the stress by selling portfolios to asset reconstruction companies.**
- **It is now a stronger company with a new management team led by Mr. Shalabh Saxena (MD/CEO). The company has refined its processes by adopting right tools and technologies. The new management team has fortified governance and risk controls, strengthened senior/middle management teams and scaled up multiple technology initiatives (including geo-tagging of customer houses and center meeting locations) to further refine the JLG processes.**
- **Spandana had to rework very hard on its liability relationships and has made considerable progress with both private and even some public sector banks (PSBs). It is strongly capitalized and has a CRAR of ~37% (standalone) as of Mar'23.**
- **We estimate a ~34% CAGR in AUM over FY23-FY25, driven by strong customer acquisitions. We believe that the company will now pivot from consolidation to growth phase and will do it with tighter control over asset quality. Spandana currently trades at 1.2x FY25E P/BV for RoA/RoE of 4.3%/15% in FY25E. Given the strong opportunity in the microfinance sector, we think that the company is poised for a rerating if it executes well on its stated goal of quality growth. We initiate coverage on Spandana with a BUY rating and a TP of INR865 (1.5x FY25E P/BV).**

From consolidation to growth with ~34% AUM CAGR over FY23-FY25E

- Spandana management has made very good progress towards each of the identified priorities of a) scaling up its technology infrastructure to deliver end-to-end paperless processes, b) strengthening the risk management and controls and c) reinforcing the senior and middle management.
- The harmonized regulations for microfinance, near normalization of collections efficiency and the continued robust demand are big tailwinds for the MFI sector. We expect Spandana to capitalize on it and deliver a ~34% AUM CAGR over FY23-FY25E. It will now transition from consolidation to growth phase.

Stock performance (one-year)



Technology transformation to bring more agility and higher efficiency

- As part of its IT transformation strategy, Spandana has tried to automate a large part of the prevailing business processes. The company has modernized its core platforms which will enable data-driven decision-making. This will position Spandana to leverage insights to upsell/cross sell products.
- Seamless integration of the Loan Management System (LMS) with the Credit Bureaus and cloud-based system architecture will enable it to deploy analytics to deliver superior loan growth, minimize credit losses and improve efficiency.

Frontloading investments in distribution; efficiencies to play out from FY25

- Spandana plans to add additional ~350-400 branches in FY24 to complete its branch expansion plans. We expect this to keep the FY24 cost to average AUM elevated at 6.1% (similar levels as FY23).
- From FY25 onwards, we expect both the scale benefits and investments in technology to start translating into operating efficiencies and productivity improvements. We estimate opex to average AUM to decline to 5.6% in FY25E.

Margin improvement and reversion to lower credit costs to aid profitability

- The company has benefitted from the removal of the spreads caps under the harmonized MFI guidelines. We expect the lending rate hikes to fully reflect in the portfolio yields in FY24. Despite not building in any significant benefits on the borrowing costs, we expect the NIM to expand ~75bp to ~13% in FY24E.
- Spandana did a one-time clean-up of the pre-Mar'21 book by taking a write-off of ~INR7b in 1QFY23. Since then, the company has also sold down a part of the stressed pre-Mar'21 loans to ARCs.

Regaining its mojo and transitioning towards growth; initiate with a BUY

- The latter half of FY22 and FY23 were watershed years for Spandana. The new management has successfully managed the various disruptions and the consequent asset quality stress during this period. With strengthened processes, it is now ready capitalize on the strong opportunity in the MFI sector and deliver an AUM CAGR of 34% over FY23-FY25E.
- We estimate Spandana to deliver a FY24/FY25 RoA of 3.9%/4.3% and FY24/FY25 RoE of 12.6%/15.2% respectively. This will be aided by: a) margin expansion driven by improvement in yields, b) normalization in credit costs to 2.5-2.7% and c) operating leverage and efficiencies from FY25E onwards.
- Spandana currently trades at 1.2x FY25E P/BV which is at a ~27% discount to P/BV multiple of Fusion. We expect Spandana to gradually rerate as it gives investor higher confidence in its execution capability under the new management team. **We initiate coverage on the stock with a BUY rating and a TP of INR865 (based on 1.5x FY25E P/BV).**
- **Key risks include:** 1) Poor execution on asset quality could increase the credit cost; 2) Challenges on the liability side driven by inability to open up lending relationships with PSBs; and 3) Inability to retain talent in the senior/middle management teams.

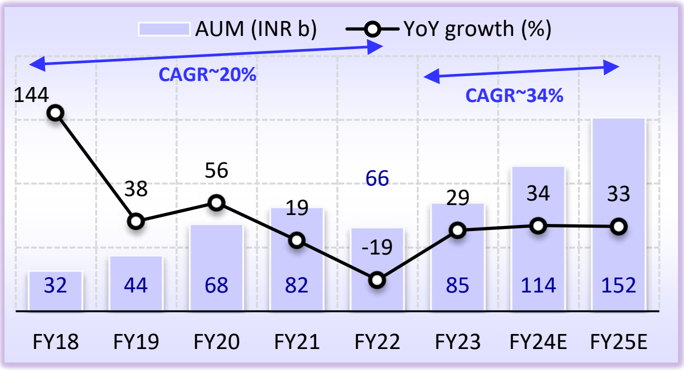
Exhibit 185: Comparative valuations

Peers	CMP	TP	MCap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR)	(INR b)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CREDAG	1,270	1,550	201.8	397	488	3.2	2.6	75.3	91.2	16.9	13.9	4.9	4.9	21.0	20.6
Spandana	720	865	51.1	495	577	1.5	1.2	58.7	81.7	12.3	8.8	3.9	4.3	12.6	15.2
Fusion MF	596	720	59.9	287	359	2.1	1.7	55.2	72.5	10.8	8.2	5.2	5.5	21.3	22.5

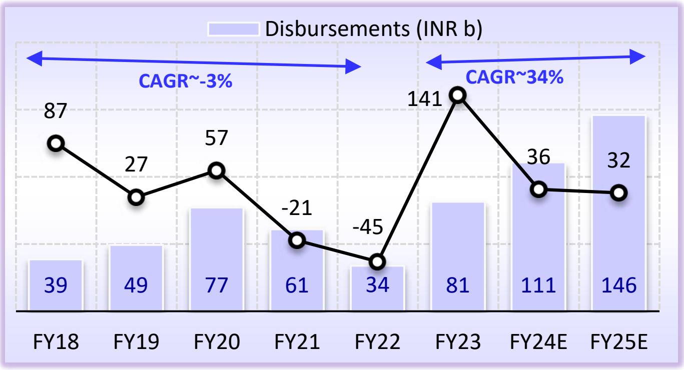
Source: MOFSL, Company; Note: CMP as on July 13, 2023

STORY IN CHARTS

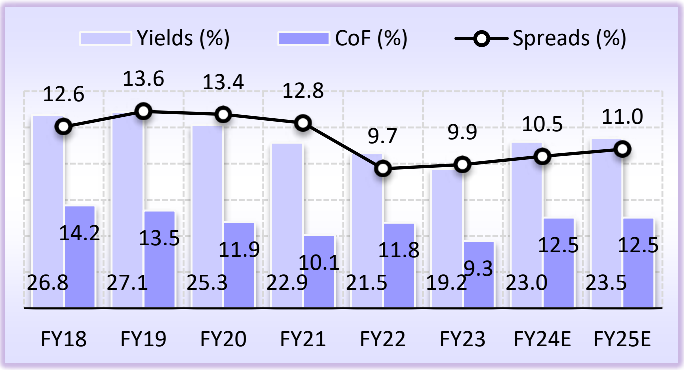
AUM CAGR of ~34% over FY23-FY25E…



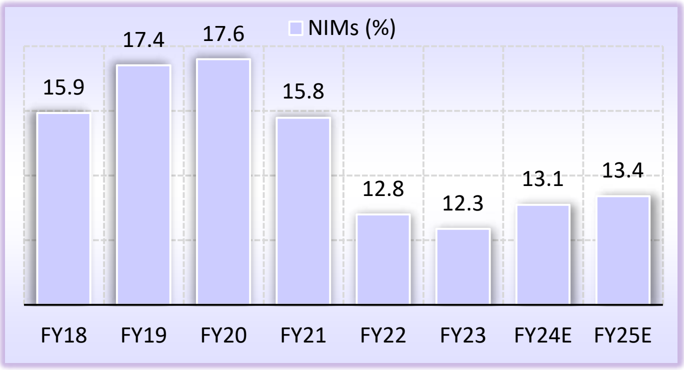
…supported by strong disbursements



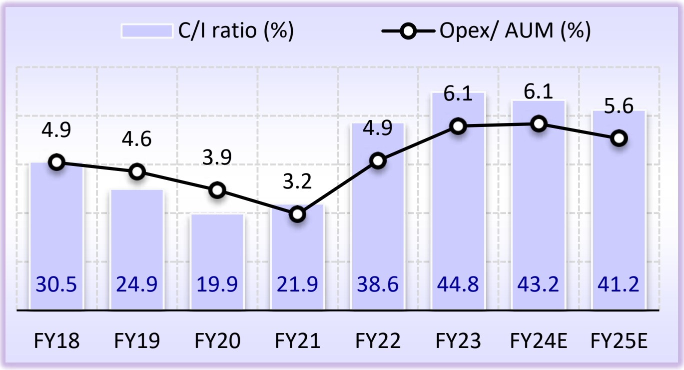
Better yield to drive expansion in spreads



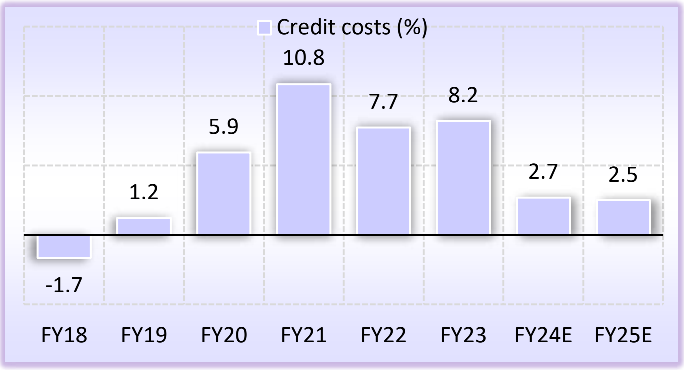
NIMs to improve to ~13.4% by FY25E



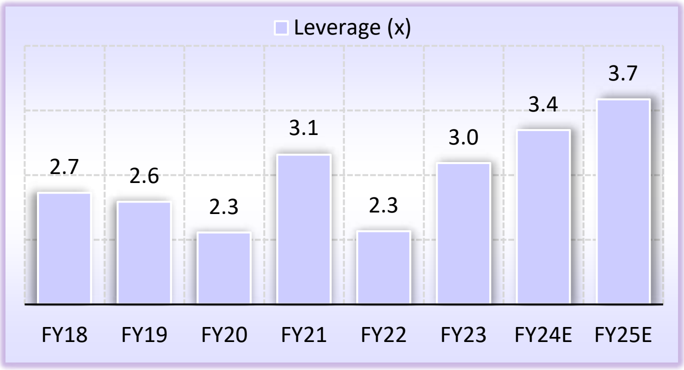
Cost ratios to decline in FY25 driven by opex efficiencies



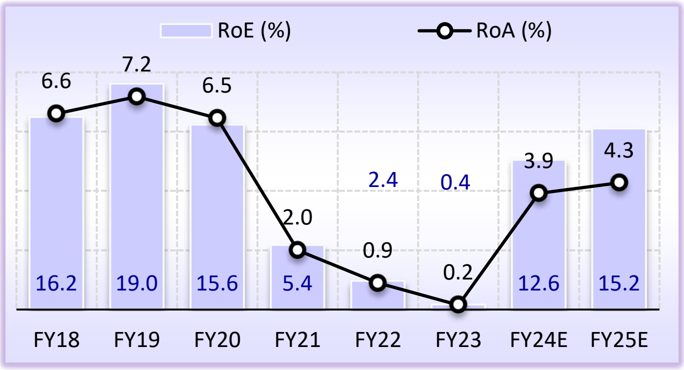
Credit costs to moderate significantly in FY24 and FY25



Build-up in leverage will lead to…



…improvement in RoE to ~15% by FY25E

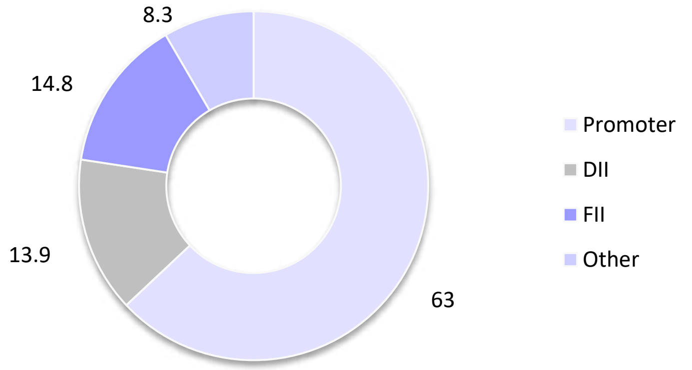


Source: MOFSL, Company

Company Overview

- Spandana is a leading rural-focused NBFC-MFI in India, offering income generation loans under the joint liability group (JLG) model predominantly to women from low-income households. The company was founded in 1998 (initially as a society and later transformed into an NBFC and finally as an NBFC-MFI) by Ms. Padmaja Reddy and is headquartered in Hyderabad, India.
- The company offers a range of products, including group loans, LAP loans and gold loans, among others. The loans are typically used for income-generation activities such as grocery stores, tailoring shops and acquiring productive assets like cattle.
- As of Mar'23, Spandana reported AUM of ~INR85b. The company's top five states are MP, Odisha, Karnataka, Maharashtra and AP, and it had over 2.3m borrowers as of Mar'23.
- It operates through a network of over 1,200 branches across 18 states and plans to add another ~300 branches over the next one year.

Exhibit 186: Shareholding pattern (%)



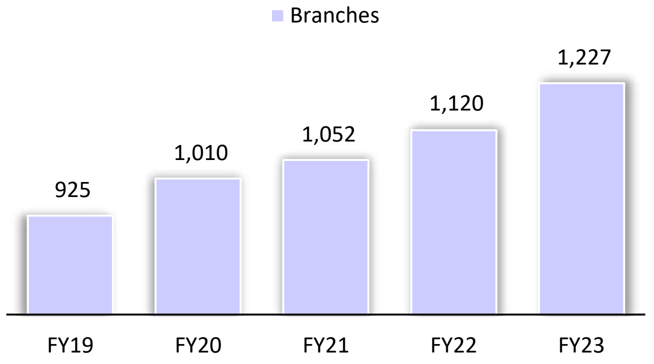
Source: Company, MOFSL; Note: Data as on Mar'23

Exhibit 187: Key business parameters

AUM (INR b)	Total CAR/	GNPA/NNPA/	Branches/ State
85	37%	2.1%/ 0.7%/	1,227 / 18
Emp/ Loan officers	**Active borrowers ('000)**	**AUM/ branch (INR m)**	**AUM/ Loan officer (INR m)**
10,016/ 7,800	2,260	69	10.9

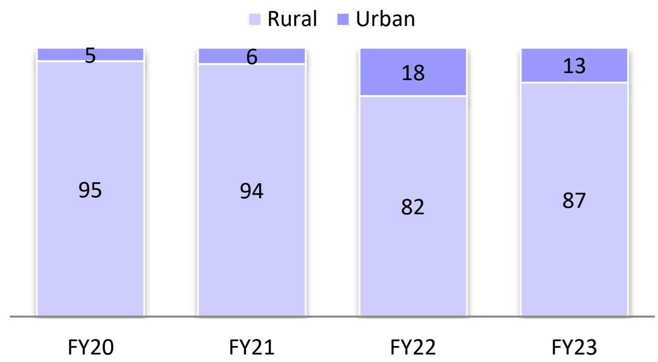
Source: MOFSL, Company; Note: Data as on Mar'23

Exhibit 188: Operates 1,200+ branches across 18 states



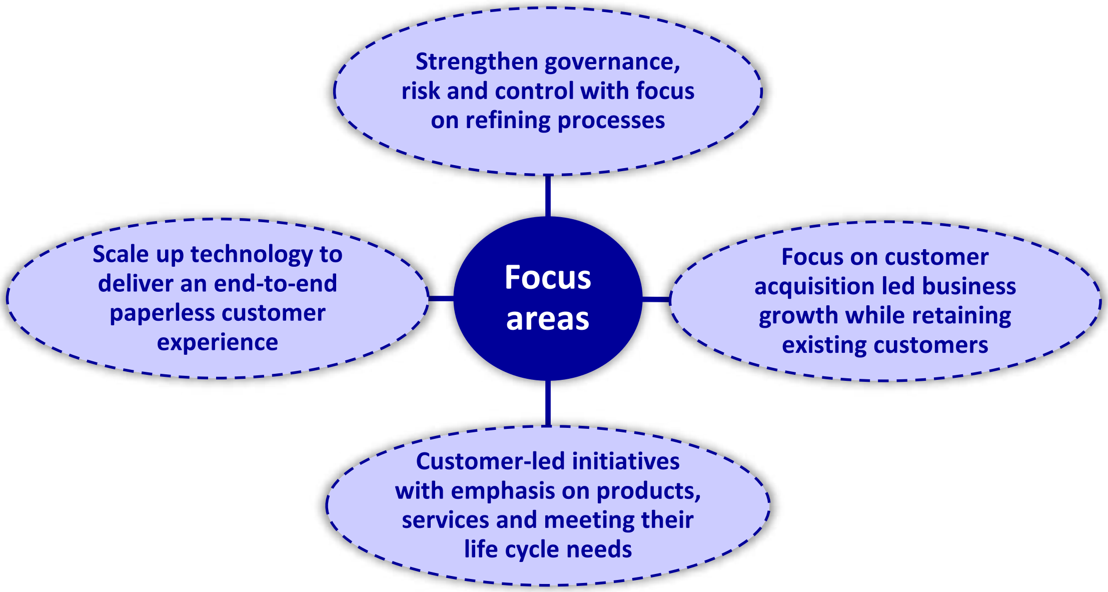
Source: Company, MOFSL

Exhibit 189: Rural-dominated AUM mix (%)



Source: Company, MOFSL

Exhibit 190: Focus areas to scale the business



Strengthening controls to become a better version of itself

Customer-acquisition led growth driven by diversified product offerings

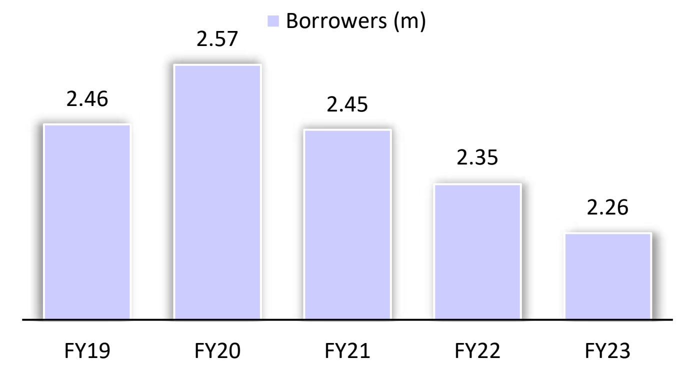
Spandana's business model is structured in such a way that there are regular interactions between loan officers and borrowers. This enables the company to better understand the borrowing needs of its customers and curate a well-rounded product suite to serve their needs (life cycle approach).

Plans to grow the one-lender and one-plus-one lender customers to 80% from the current levels of ~65%

Admittedly, the company has witnessed a lot of churn in its borrower base over the last one year, but it remains steadfast on achieving customer acquisition-led growth by offering customer-centric products while retaining existing customers.

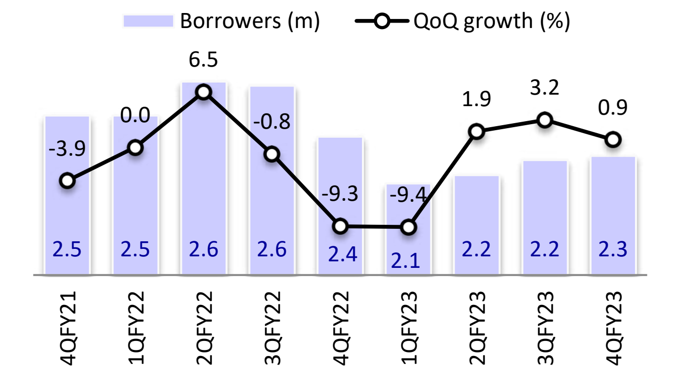
- The product suite has been refined to meet the life cycle requirements of customers (including secured products). Further, it is looking for cross-sell opportunities through partnerships that will benefit customers, partners and the company.
- The company serves ~2.3m customers (as of Mar'23), out of which ~37% have a single lender relationship and 28% have exposure to two lenders, including Spandana. The company plans to grow the one-lender and one-plus-one lender customers to 80% from the current levels of ~65%.

Exhibit 191: High borrower churn during Covid; elevated write-offs in early FY23



Source: Company, MOFSL

Exhibit 192: Expect borrowers to increase gradually

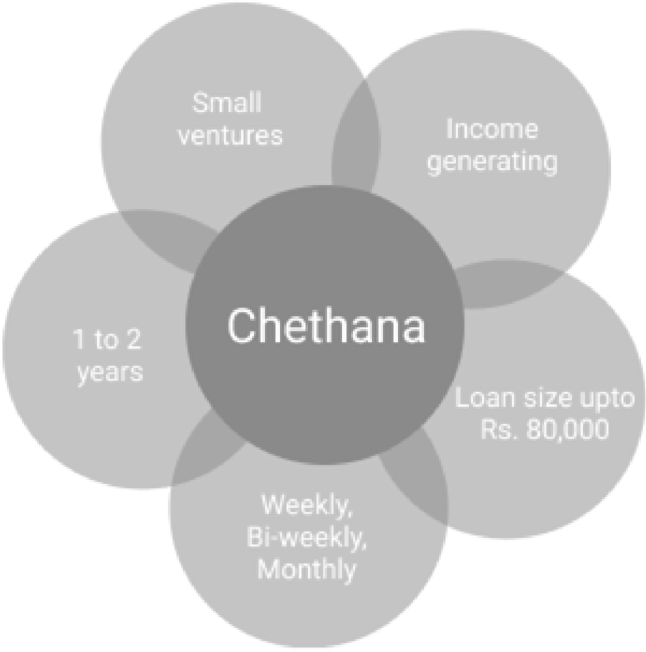


Source: Company, MOFSL

Spandana tTargets to grow its overall AUM to ~INR180b by FY25

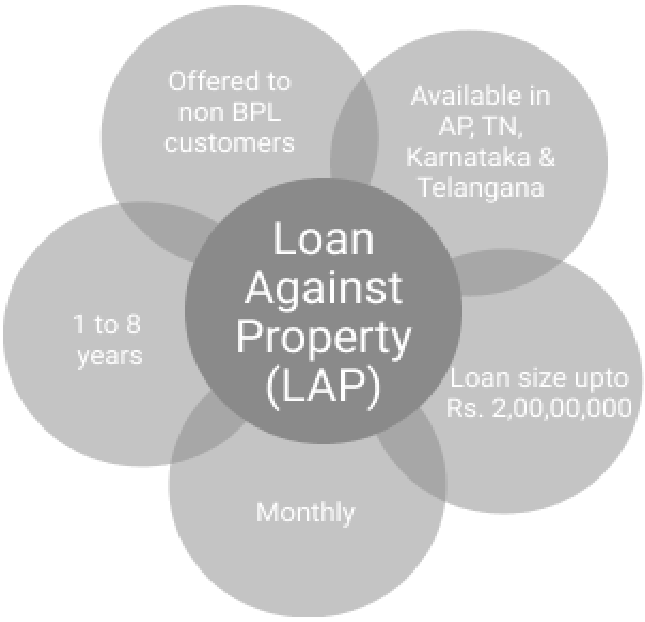
- In its Vision 2025 goals, the company articulated that it targets to grow its overall AUM to ~INR180b by FY25 (including both qualifying and non-qualifying assets), driven by improved productivity and efficiency, refining existing products, introduction of new products and geographic expansion.

Exhibit 193: JLG loan designed for low-income households



Source: Company, MOFSL

Exhibit 194: Loans against mortgage of residential properties/ commercial shops

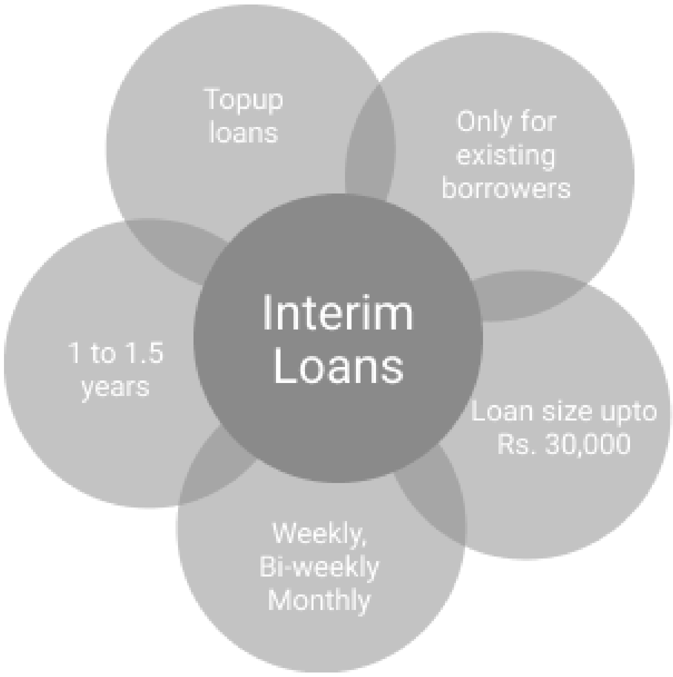


Source: Company, MOFSL

Exhibit 195: Credit offered for business development, emergency

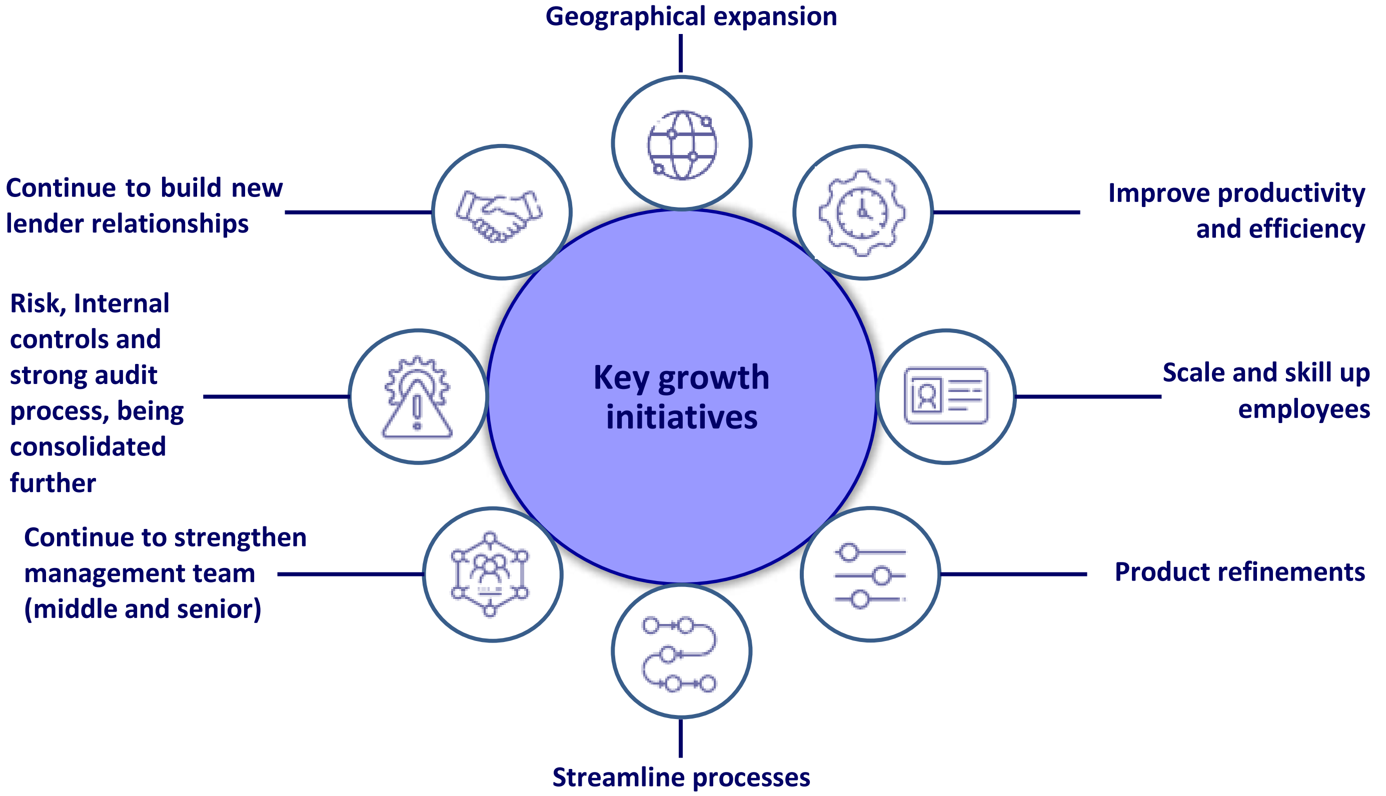
Source: Company, MOFSL

Exhibit 196: Loans provided for short-term liquidity needs



Source: Company, MOFSL

Exhibit 197: Key initiatives to drive growth



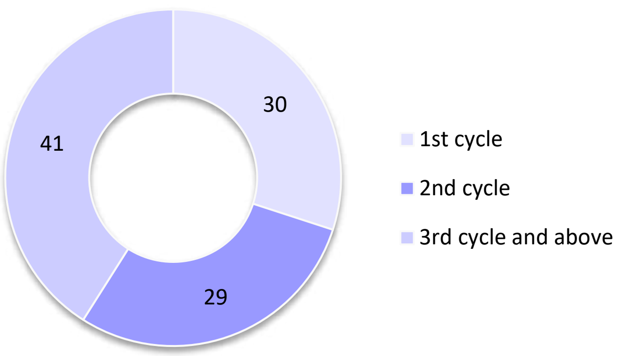
Source: Company, MOFSL

Rural-focused MFI with diversified suite of product offerings

Rural areas account for ~87% of Spandana's total portfolio

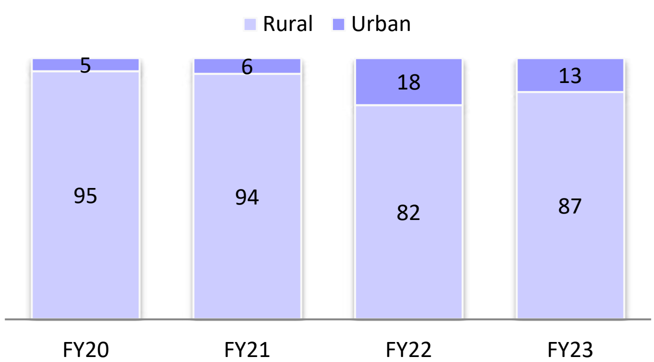
- **Strong focus on rural customers:** Rural areas account for ~87% of Spandana's total portfolio, while semi-urban areas contribute 13%. The new RBI guidelines have increased the household income threshold to INR300K, which will allow Spandana to widen the coverage to a bigger customer base.
- **Diversified product suite:** Spandana's products are aimed at uplifting the financial well-being of women from low-income groups in rural areas. The company's flagship product is the 'Abhilasha' MFI loan, which is designed to help women attain financial stability. The company also offers LAP loans to salaried and self-employed individuals, as well as to clients with business needs. 'Shree' loans are given to low/lower-middle income women.

Exhibit 198: Cycle-wise loan mix (%)



Source: MOFSL, Company; Note: Data as on Mar'22

Exhibit 199: Geographical loan mix (%)



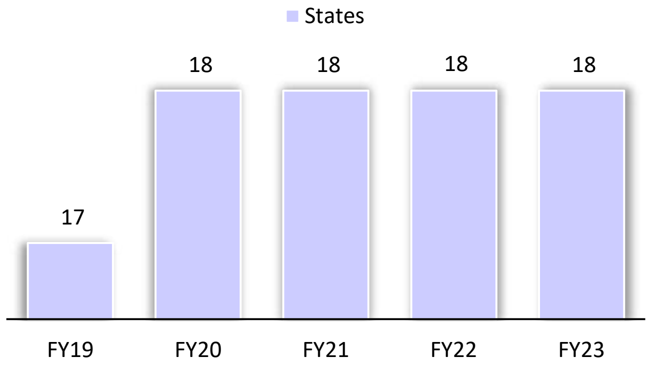
Source: MOFSL, Company

Geographical diversification at branch, district and state levels

- Spandana endeavors to diversify its portfolio geographically by leveraging the knowledge it gained in its operational territories. The company is aware of the risks associated with geographical concentration of the portfolio and is continuously working toward expanding its operations across regions to mitigate the same.
- Geographical diversification of the portfolio serves three purposes: **1)** risk mitigation, **2)** market expansion, and **3)** access to new client segments. As of Mar'23, the company had a diversified presence in 18 states with a distribution network of 1,227 branches catering to ~2.3m borrowers.
- The company has identified seven states (Gujarat, Rajasthan, Haryana, UP, Bihar, Jharkhand and West Bengal) with favorable metrics for a quick scale-up of the microfinance book. It will continue to grow organically in the existing states and expects the relatively newer states to contribute ~22-23% to the AUM by FY24 and further increase to ~40% by FY25.

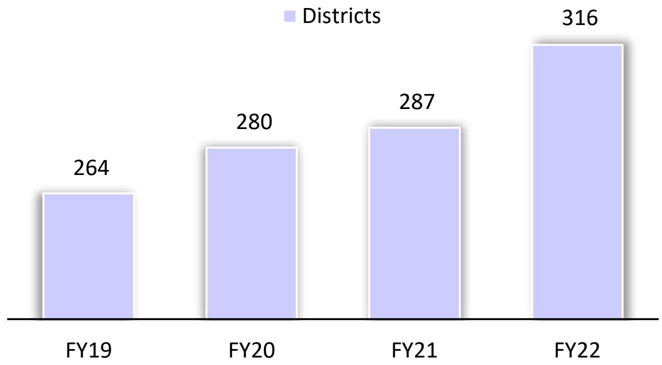
Relatively newer states to contribute ~22-23% to the AUM by FY24 and further increase to ~40% by FY25

Exhibit 200: Pan-India presence across 18 states



Source: MOFSL, Company

Exhibit 201: Expanding geographical reach



Source: MOFSL, Company

- By expanding its operations to different regions, Spandana is able to mitigate the risks associated with concentration in a particular region or state. This helps the company minimize the impact of economic or political disruptions, such as natural calamities or changes in government policies. The company has defined internal exposure caps at the state, district and branch levels to address geographical concentration risk.

State level

- The company has maintained internal benchmarks and limits to monitor the portfolio and minimize concentration risk. It also has a cap on concentration risk at the level of net-worth. It has even maintained a disbursement cap, with no state disbursing more than 18% of total disbursements.

Exhibit 202: State-wise AUM concentration as of Mar'22

States	AUM mix	No. of districts
MP	18.6	47
Orissa	16.8	30
Karnataka	12.1	30
Maharashtra	10.8	31
Andhra Pradesh	8.1	12
Chhattisgarh	7.1	19
Bihar	6.1	21
Jharkhand	5.0	19
Rajasthan	4.6	15
Gujarat	3.8	20
Kerala	2.6	11
UP	2.0	16
Telangana	1.0	4
West Bengal	0.6	6
Haryana	0.4	7
Goa	0.3	2
Tamil Nadu	0.1	3
Pondicherry	0.1	1
Total	**100**	**294**

Source: MOFSL, Company; Note: Mix as on Mar'23 is not available

Only one district accounts for more than 2% of its total AUM

District level

In addition to the state level caps, the company also has internal caps in place at the district level, with only one district accounting for more than 2% of its total AUM.

Exhibit 203: District-wise exposure as of Jun'22

Exposure of districts	1QFY23	
Proportion of total disbursements	No. of districts	Proportion of total districts
< 0.5%	242	81
0.5% - <1%	48	16
1% - 2%	9	3
> 2%	1	0.3
Total	**300**	**100**

Source: MOFSL, Company; Data as on Jun'22

Exhibit 204: Top 10 districts contributed only ~12% of the total AUM (as of Mar'22)

Exposure of districts	FY22	
Buckets	AUM (INR m)	Proportion of total AUM
Top 5 districts	4,059	7
Top 10 districts	7,359	12
Top 50 districts	27,040	44
Remaining districts	34,949	56

Source: MOFSL, Company

Branch level

Spandana has also placed exposure risk limits at the branch level, with no branch exceeding 0.25% of AUM. The diversified portfolio of the company is a testament to its dynamic and sustained risk-management approach.

No branch exceeds 0.25% of total AUM

Exhibit 205: No branch contributing more than 0.25% of AUM

Exposure of branches	FY22	
Proportion of Gross AUM	No. of branches	Proportion of total branches
< 0.15%	985	94
0.15% - <0.25%	64	6
0.25% - 0.35%	0	0
>0.35%	0	0
Total	**1049**	**100**

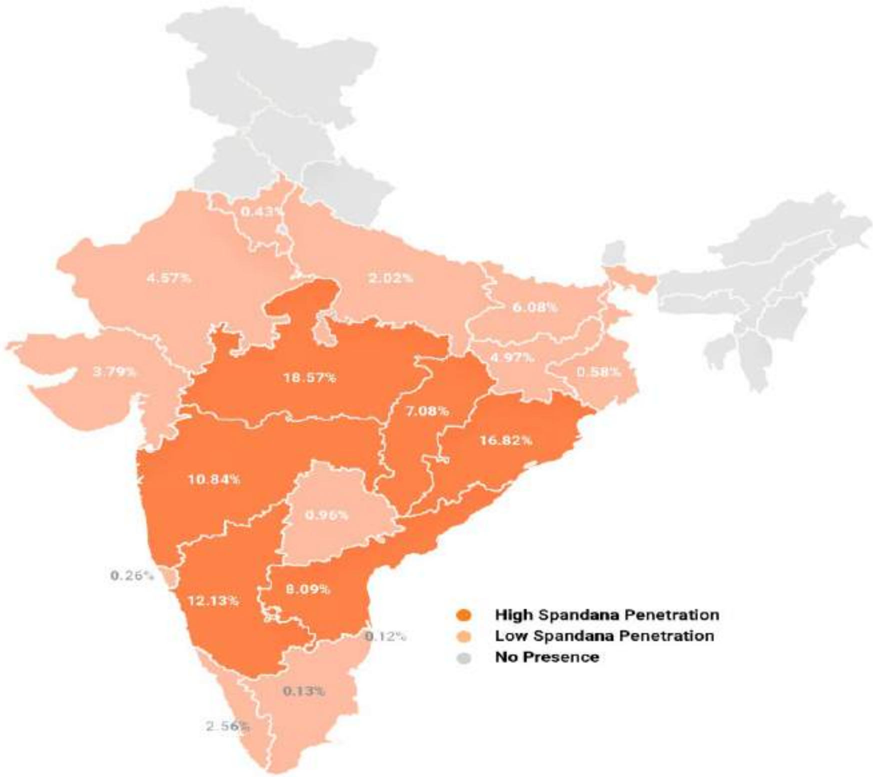
Source: MOFSL, Company; Note: Data as on Mar'22

Expansion in rural and semi-urban India to increase borrower base

Strengthening its position in tier III-V geographies

- Over the years, Spandana has built a strong presence in key rural geographies and has gathered insights and expertise on the customer behavior in these geographies. Spandana has ~87% of its portfolio in rural India, reiterating the company's resolution of delivering growth by increasing the focus on un-served and under-served rural areas in India.
- The company focuses on sourcing customers from deep rural and semi-urban locations to strengthen its position in tier III-V geographies. It follows an agile risk-management strategy by avoiding over-leveraged states and focusing on customer acquisition through organic business operations.
- We expect a ~34% CAGR each in disbursements and AUM over FY23-25E through deeper penetration into existing states.

Exhibit 206: Diversified presence across India



Source: MOFSL, Company; Note: Data as on Mar'22

Improved tech stack has allowed management to make informed and data-driven decisions.

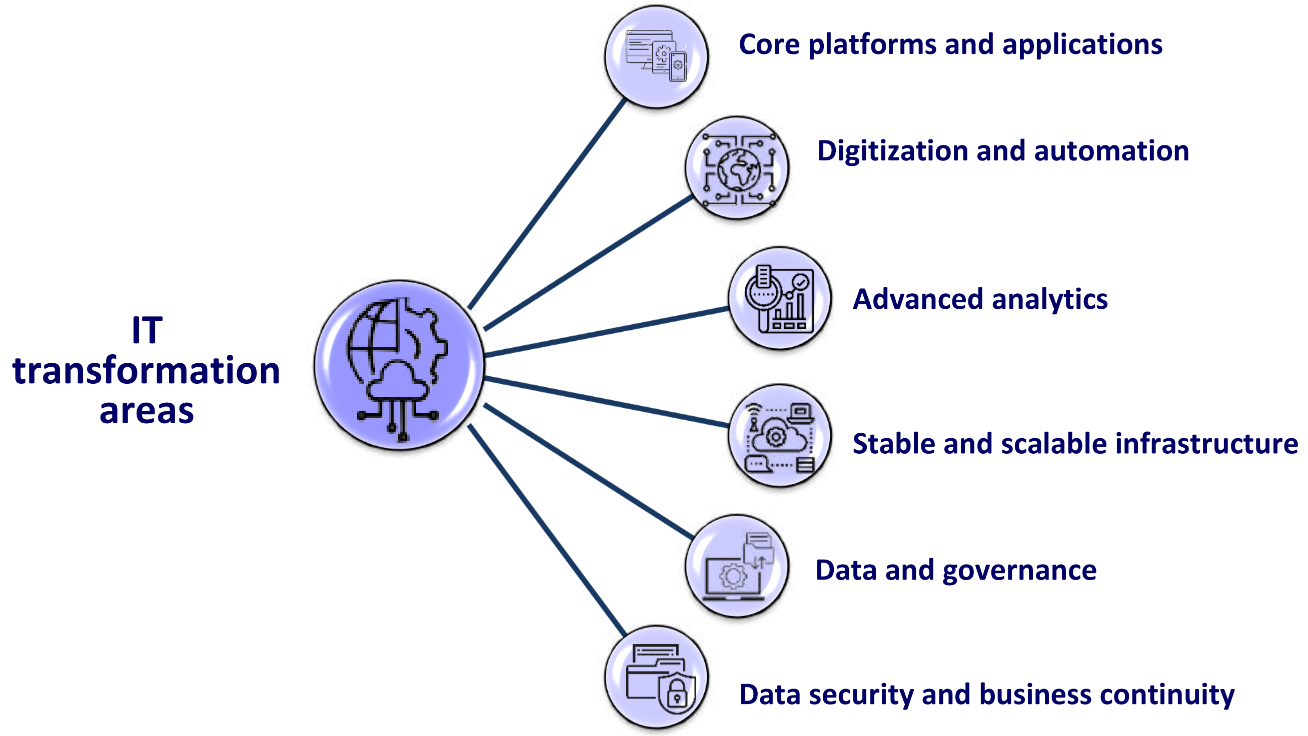
Geo-tagging of borrowers' houses, centers and branches

Consistent focus on technology adoption for improving business efficiency

The company has been at the forefront of technology adoption and innovation and has deployed it as a business enabler.

- E-FiMO, which is a loan origination system (LOS) and loan management system (LMS), has been effectively leveraged by the company to streamline its operations by integrating accounts, loans, insurance and payroll modules. The application has enabled the company to have access to data on a real-time basis by maintaining it on a single database and reducing TAT.
- Continuous improvements in IT systems has resulted in better transparency and efficiency, cost optimization and improved reporting. It has also allowed management to make informed and data-driven decisions. In order to efficiently service customers, the operations and field teams have a quick access of MIS to track the complete loan lifecycle and offer prompt resolutions.
- Further, the company has integrated credit bureau verification, which enables bureau checks to take place seamlessly over APIs. Employees in the branches scan and upload loan applications, which are then automatically directed to the Credit Bureau for checks and verification with the back-office. TAT for this process is one day. Further, application login is centralized to avoid data errors at the branch level.
- In its quest to consistently update the technological processes to improve its operational efficiency and service standards, the company is working on new digital initiatives like biometric e-KYC (Aadhar based e-KYC), new LOS mobile application, geo-tagging of borrowers' houses, centers and branches, which will ensure paperless process and aid in lowering TAT on processing of loans and service requests.

Exhibit 207: Transformation initiatives in the tech stack



Source: Company, MOFSL

Exhibit 208: Scalable IT infrastructure and tech stack position Spandana well

Overall System	❖ Web & mobile based technologies with Anytime + Anywhere access
	❖ Compliance to all Regulatory requirements
	❖ Comprehensive audit trail with robust maker-checker systems
	❖ Tightly integrated system from loan
	❖ Cloud based scalable infrastructure
Loan Origination System	❖ Implemented FIMO – Already started disbursement on this platform
	❖ Flexible workflow management and seamless integration with Credit Bureaus (CIBIL, CRIF High Mark, Equifax)
	❖ Implemented business process with CGT (Compulsory Group Training) and GRT (Group Recognition Test); streamlined process for KYC document uploads.
	❖ Fully automated sanction process with tight workflow from CB investigation and document printing to sanction
Loan Management	❖ Regular advance and overdue collections; Enabled all required MIS
	❖ Provisions for Claims settlement, Write-offs and other nuances already built into the system; Configurable product schemes and fee structure
	❖ MIS reports on portfolio with drill down facilities enabled; Configurable Chart of Accounts with no requirement for a dedicated ERP
HRMS	❖ Implementing HRMS to streamline and automate all payroll processes
	❖ Attendance and leave management processes to be standardized and conducted completely via the system

Source: MOFSL, Company

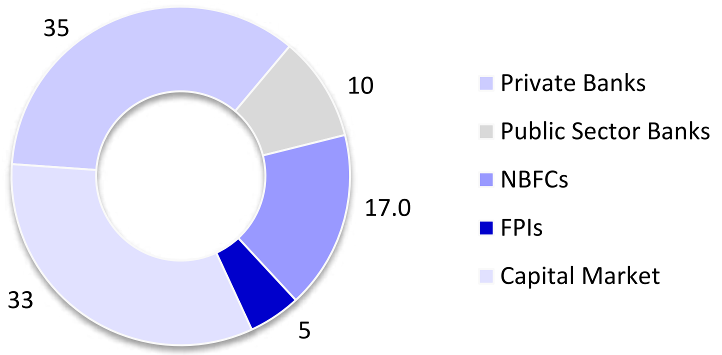
Making progress in improving liability relationships

Spandana has a diversified liability mix, which includes term loans from private and public banks, NCDs and borrowings from financial institutions (FIs). Further, in order to reduce dependency on any single lender, Spandana has even placed lender-level borrowing thresholds.

Loans originated by MFIs help banks fulfill their agriculture and priority sector lending (PSL) requirements; hence, there is strong risk appetite among banks to lend to MFIs. As of Mar'23, borrowings from banks formed ~45% of the liability mix and the company remains on track to further diversify its borrowing mix.

Further diversifying its borrowing mix by reducing dependence on any particular instrument

Exhibit 209: Spandana has availed 45% of borrowings from banks



Source: MOFSL, Company

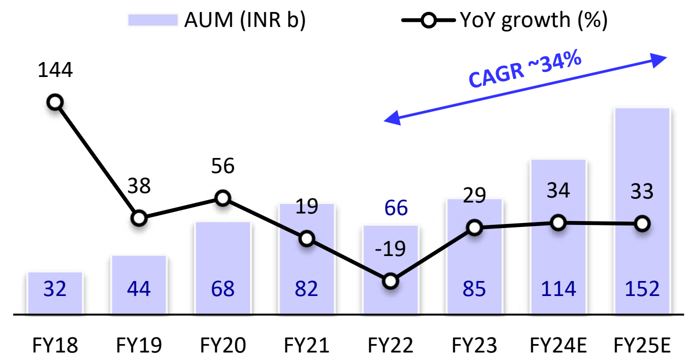
Return to normalized profitability from FY24

Expect AUM CAGR of 34% over FY23-FY25; RoA/RoE of 4.3%/15% by FY25

AUM growth can be sustained at >30% over the next two years

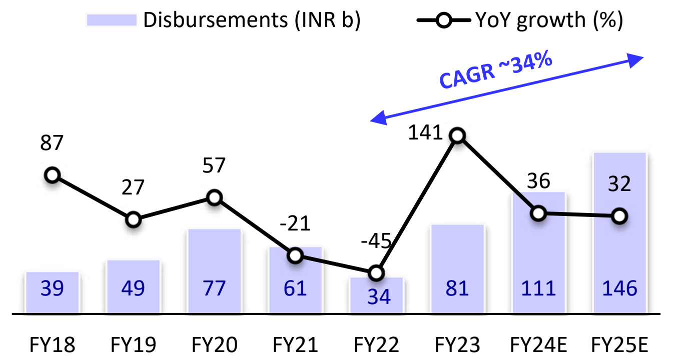
- Deepening penetration in rural India, leveraging technology to improve efficiency and focusing on customer acquisition-led business growth would enable the company to deliver healthy AUM growth.
- We expect AUM growth momentum to sustain over the subsequent years and estimate disbursement and AUM CAGR of 34% each over FY23-FY25.

Exhibit 210: Strong AUM CAGR of ~34% over FY23-FY25E…



Source: MOFSL, Company

Exhibit 211: …driven by growth in disbursements



Source: MOFSL, Company

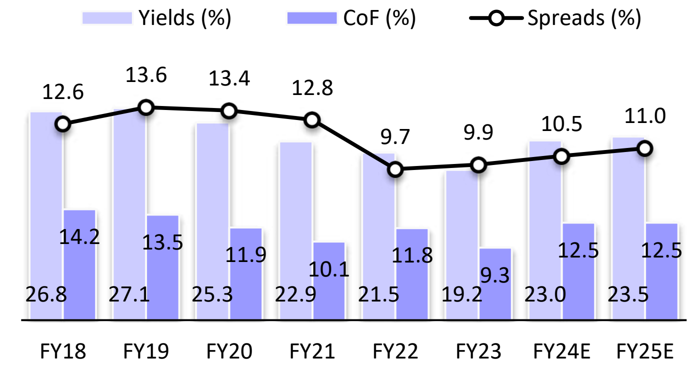
Lower interest reversals and higher yields to boost NIM

New management team is working closely with lenders and credit rating agencies

- With the removal of the pricing cap under new MFI guidelines, Spandana has implemented a risk-based pricing model that determines interest rates based on borrowing costs, customer geography and product type rather than the earlier spread cap of 10%.
- The new management team at Spandana is working closely with lenders and credit rating agencies and has made good progress on restoring few of the old relationships and opening up few new ones. We estimate borrowing costs of ~12.5% in each of FY24/FY25, driven by the company's ability to better negotiate with lenders once its business operations normalize from FY24 onward.
- We estimate NIM to expand by ~75bp in FY24 and ~25bp in FY25, aided by higher yields, stability in the borrowing cost and lower interest income reversals over the next two years.

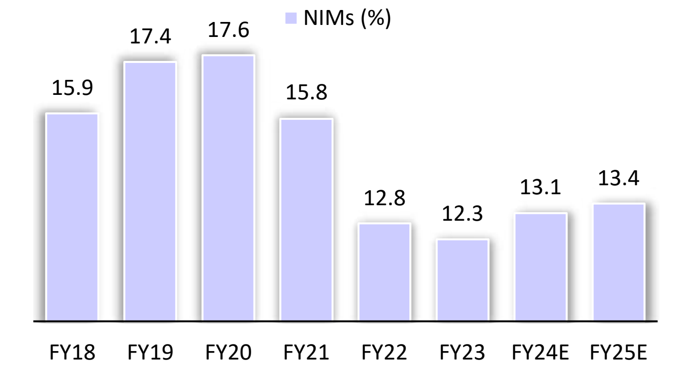
NIM to expand by ~75bp in FY24 and ~25bp in FY25

Exhibit 212: Spreads likely to expand to 10.5-11.0%



Source: MOFSL, Company

Exhibit 213: NIM likely to expand to ~13.4% by FY25

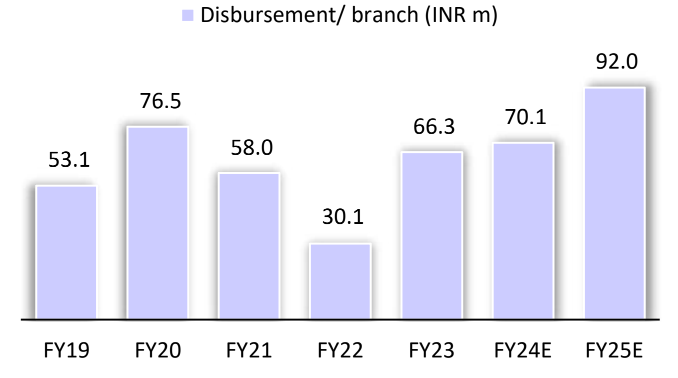


Source: MOFSL, Company

Cost ratios to remain elevated in FY24 but decline from FY25 onward

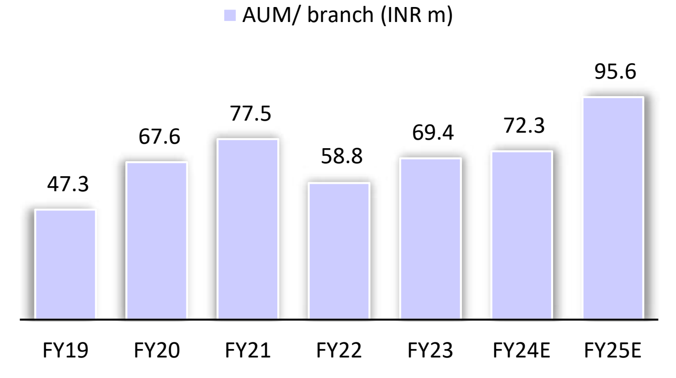
- Spandana has made good progress toward some of its stated objectives for stabilizing the franchise and is seeing early green shoots in the form of sustained demand in microfinance. The company has added ~175 branches and ~1,400 employees over the last two years. It recently shared that it is well ahead in its branch expansion plans and now plans to add ~300 branches and appropriate manpower in FY24.
- The branch expansion and onboarding of loan officers in FY24 will be a drag on key productivity metrics, like AUM per branch and AUM per loan officer, in the near-term. However, we expect operating leverage to start playing out from FY25 onward, leading to a sharp moderation in the Opex/average AUM to 5.7% (from 6.1% in FY23 and FY24).

Exhibit 214: Improved operating efficiency to drive…



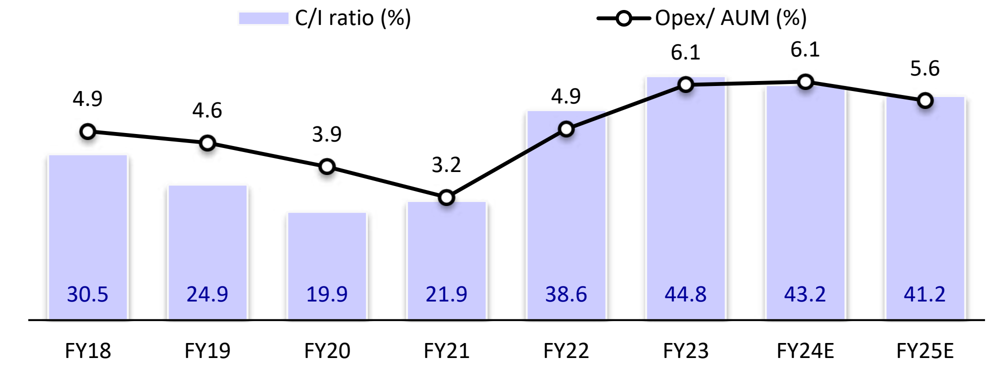
Source: MOFSL, Company

Exhibit 215: …growth in AUM per branch



Source: MOFSL, Company

Exhibit 216: Cost ratios to moderate by FY25E driven by operating leverage

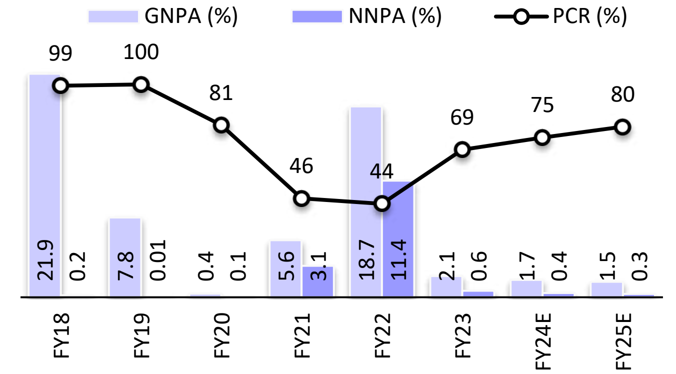


Source: Company, MOFSL

Robust credit appraisal system to drive improvement in asset quality

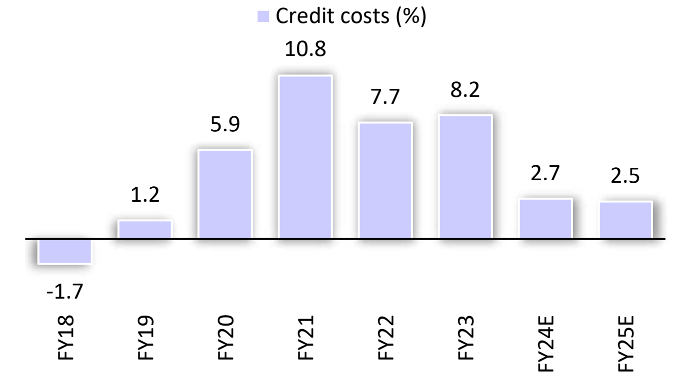
- The MFI sector was adversely affected during Covid, with Spandana witnessing sharp deterioration in asset quality in FY21 and FY22. However, the company skillfully navigated the turbulence and has now emerged stronger. The stress has largely been provided for, with ECL/ EAD at 2.9% and PCR on Stage 3 loans at 69% as of Mar'23. With improving collection efficiency and Covid stress largely behind, the credit cost is expected to moderate in FY24 and FY25.
- Over the years, Spandana has developed prudent lending strategies and credit appraisal systems to minimize defaults. The company regularly monitors exposures and has specific lending policies to mitigate risk. We expect moderation in incremental slippages and estimate the credit cost to decline to 2.5% by FY25.

Exhibit 217: Improvement in asset quality to drive…



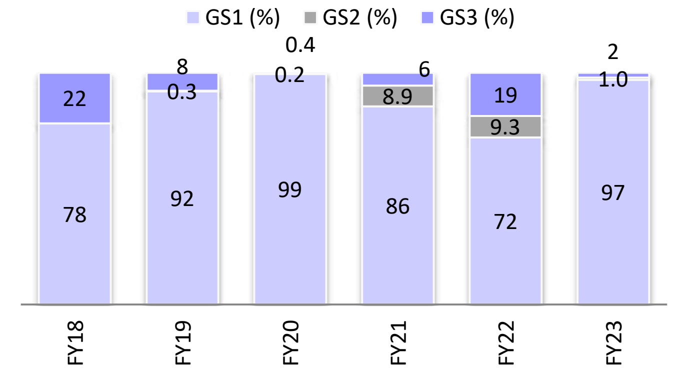
Source: MOFSL, Company

Exhibit 218: …moderation in credit costs



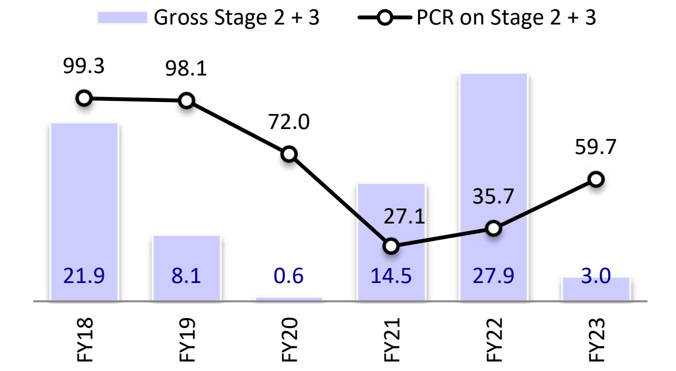
Source: MOFSL, Company

Exhibit 219: Flows to higher bucket levels under control



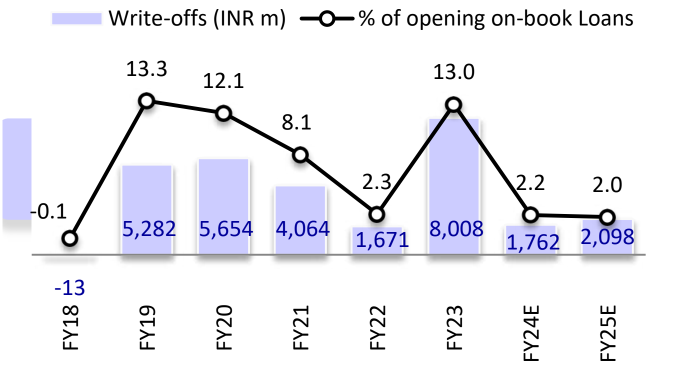
Source: MOFSL, Company

Exhibit 220: Significant improvement in 30+dpd



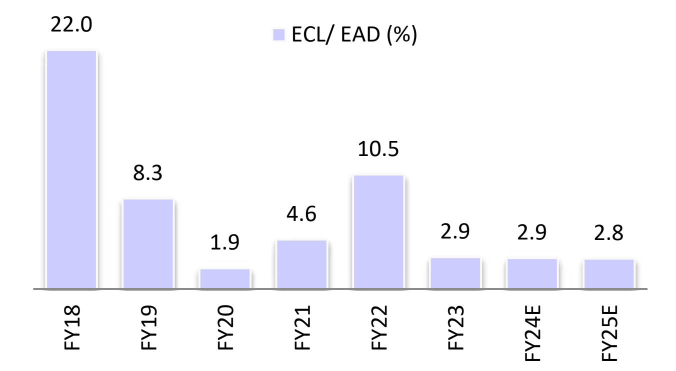
Source: MOFSL, Company

Exhibit 221: Write-offs to moderate to 2% over FY25E



Source: MOFSL, Company

Exhibit 222: ECL/EAD at 2.8% in FY25E



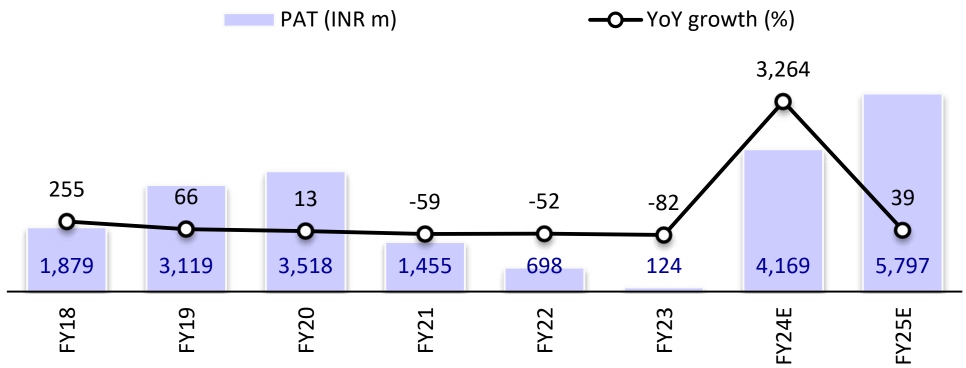
Source: MOFSL, Company

RoA/RoE expansion driven by decline in credit costs and higher leverage

- Spandana has restructured its processes under the new management team and is now well poised to capitalize on the strong opportunity in microfinance, particularly in rural India.
- Improvement in profitability and the RoA/RoE profile of Spandana will be driven by 1) NIM expansion of ~75bp in FY24E, 2) a decline in the credit cost from ~8% in FY23 to ~2.7%/2.5% in FY24E/FY25E, and 3) improvement in leverage from 3.0x in FY23 to ~3.7x by FY25E.

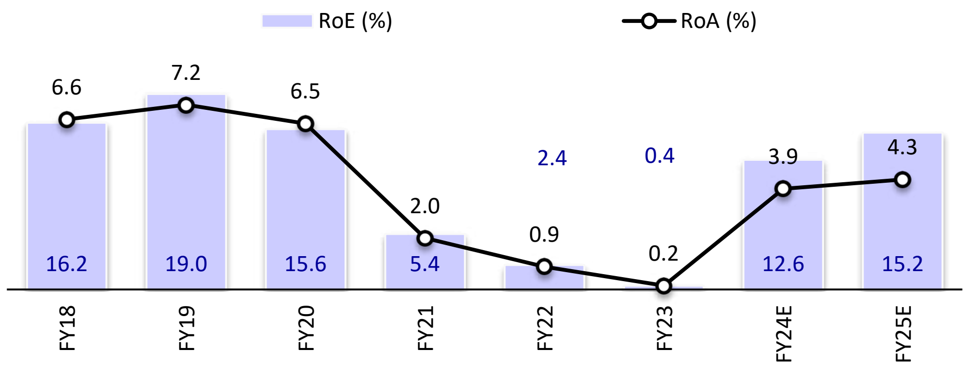
- We estimate Spandana to deliver PAT of ~INR4.2bn in FY24 and ~INR5.8b in FY25. This will translate into RoA/RoE of 3.9%/12.6% and 4.3%/15.2% in FY24E and FY25E respectively.

Exhibit 223: Profitability likely to improve strongly in FY25…



Source: MOFSL, Company

Exhibit 224: …leading to RoA/RoE of ~4.3%/15.0%



Source: MOFSL, Company

Valuation and key risks

Doing the right things instead of doing things right

Focused on getting the right talent and refining the systems/processes

- The new management team led by Mr. Shalabh Saxena, MD and CEO, and Mr. Ashish Damani, CFO, has been in the driver's seat at Spandana for ~15 months now. During the last one year, the management team has focused on getting the right talent (middle/senior leadership) and refining the systems/processes. Most of the identified senior/middle management roles have now been filled. The company has rolled out a number of technology-led initiatives to strengthen the processes around the robust implementation of the JLG model.

Investments in technology to strengthen the risk management function

- The new management has strengthened the governance, risk management and control by refining its processes. It continues to invest in technology not only to deliver an end-to-end paperless process but also to strengthen the risk management function, which will feed the field force with early warning indicators and allow it to take preemptive corrective action.

At a pivotal juncture to embark on its next phase of strong growth

- The company has also worked very diligently toward strengthening its relationships with lenders, particularly for opening up fresh relationships with PSBs. Spandana said that it has made initial progress in the direction with a new relationship with a large PSB.
- We believe that with the new management having spent considerable time and efforts over the last few quarters on refining the processes (by adopting the right tools and technologies) has brought the company at a pivotal juncture to embark on its next phase of strong growth in the micro finance sector.

Pivot from consolidation to growth phase with tighter control over asset quality.

- It gives us greater comfort that our AUM growth estimate of 34% over FY23-FY25E will be driven by strong customer acquisition rather than any sharp increase in ATS.
- Spandana currently trades at 1.2x FY25E P/BV for RoA/RoE of 4.3%/15% in FY25E. We strongly believe that the company will now pivot from consolidation to growth phase and will do it with tighter control over asset quality. Given the strong opportunity in the microfinance sector, we think that the company is poised for a rerating if it executes well on its stated goal of quality growth. Initiate coverage on Spandana with a BUY rating and a TP of INR865 (1.5x FY25E P/BV).

Poised for a rerating if it executes well on its stated goal of quality growth

Key Risks

- Poor execution on asset quality could increase the credit cost.
- Challenges on the liability side driven by inability to open up lending relationships with PSBs
- Inability to retain talent pool in senior/middle leadership roles

Exhibit 225: Valuation matrix for MFIs

Peers	CMP (INR)	TP (INR)	MCap (INR b)	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
CREDAG	1,270	1,550	201.8	397	488	3.2	2.6	75.3	91.2	16.9	13.9	4.9	4.9	21.0	20.6
Spandana	720	865	51.1	495	577	1.5	1.2	58.7	81.7	12.3	8.8	3.9	4.3	12.6	15.2
Fusion MF	596	720	59.9	287	359	2.1	1.7	55.2	72.5	10.8	8.2	5.2	5.5	21.3	22.5

Source: MOFSL, Company

ESG initiatives

Environmental initiatives

- The credit line extended to customers is used to finance livelihoods of low-income households in remote areas of rural India.
- The company along with its employees makes continuous efforts to ensure that there is an optimum utilization of the available resources (such as paper, water, energy, etc.) with minimal or no wastage.

CSR initiatives

- The company has established tailoring training centers for rural women and girls. There are 66 training centers operational across 13 states in India. In each center, 15 trainees on an average undergo training for six months.
- The company undertook Covid-related relief activities in Maharashtra, Madhya Pradesh, Odisha and Bihar. Food grocery kits were distributed to the needy covering 10,108 beneficiaries during the year under review.

Governance

- As of Mar'23, the Board comprised 10 Directors that included five independent Directors and two woman Directors.
- The Non-Executive Directors are eminent professionals and bring the wealth of their professional expertise and experience in managing the company.
- The company has a well-defined and fully-automated Client Grievance Redressal Mechanism (CGR), which is available via toll-free numbers. It has also established dedicated follow-up and quality teams, which ensure timely closure and quality call monitoring.

Bull and Bear cases

Bull Case

- ☑ In our bull case, we assume a 38% AUM/ disbursement CAGR over FY23-FY25E
- ☑ We expect margins to expand from current levels by ~90bp to ~13.3% over FY25E
- ☑ NII and PPOP CAGR of ~45%/ 60% respectively over FY23-25E driven by improving margins and healthy loan growth.
- ☑ We estimate significant decline in credit costs to ~2.1% in FY24 and FY25 and cost ratios to moderate driven by operating efficiencies.

Bear Case

- ☑ In our bear case, we assume a AUM/ disbursement CAGR of 26%/ 28% respectively over FY23-FY25E
- ☑ Margins will expand by 50bp/10bp in FY24/FY25.
- ☑ Estimate NII and PPOP CAGR of ~33%/ 37% respectively over FY23-25E.
- ☑ Average credit costs at ~3% in FY24/FY25

Exhibit 226: Bull case scenario

INR m	FY23	FY24E	FY25E
AUM	85,110	1,18,955	1,60,832
Growth (%)	29	40	35
NIM (%)	12.4	13.2	13.3
NII	8,197	12,355	17,260
PPoP	4,971	8,648	12,752
Credit Costs	4,540	1,971	2,734
PBT	431	6,677	10,018
PAT	311	4,841	7,263
Growth (%)	-56	1459	50
RoA (%)	0.4	4.2	4.8
RoE (%)	1.0	14.4	18.3
BV (INR)	440	508	610
Target PV multiple (FY25E)			**1.8**
Target price (INR)			**1,100**
Upside (%)			53%

Source: MOFSL, Company

Exhibit 227: Bear case scenario

INR m	FY23	FY24E	FY25E
AUM	85,110	1,06,361	1,35,986
Growth (%)	29	25	28
NIM (%)	12.3	12.8	12.9
NII	8,136	11,179	14,343
PPoP	4,910	7,242	9,272
Credit Costs	4,502	2,659	3,271
PBT	408	4,584	6,001
PAT	294	3,323	4,351
Growth (%)	-58	1,032	31
RoA (%)	0.3	3.0	3.2
RoE (%)	0.9	10.1	11.9
BV (INR)	440	486	548
Target PV multiple (FY25E)			**1.1**
Target price (INR)			**600**
Upside (%)			-17%

Source: MOFSL, Company

SWOT analysis

- ☑ High degree of client engagement and robust risk management aids in building trust and detecting early signs of default.
- ☑ The company is geographically diversified across India leading to risk containment.

- ☑ The company's portfolio comprises of solely microfinance loans which are susceptible to various operational and credit risks.
- ☑ Number of erstwhile MFIs has converted to SFBs providing them access to low cost funds. This could hamper the growth of MFIs like Spandana which are dependent on bank/ market borrowings.

- ☑ Rural India offers immense potential for microfinance lending with the Government laying more emphasis on rural development.
- ☑ The company has active focus in the rural region providing it a distinctive advantage to grow.

- ☑ Further rise in interest rates and increase in inflation can lead to higher CoF for the company and dent in the demand affecting loan growth.
- ☑ Competition from other MFIs and local financiers has been rapidly increasing eating in-to the overall market share.

Management team

Shalabh Saxena
MD & CEO

Mr. Shalabh Saxena has over 28 years of strong experience in Consumer Banking and Life Insurance industry. He has previously worked with Bharat Financial Inclusion Limited as MD & CEO, Chief Operating Officer of HSBC Life Insurance, and other roles in ING Life Insurance & Standard Chartered Bank.

Ashish Kumar Damani
President and CFO

22+ years of corporate experience and his expertise lies in Business Planning, Strategy, Structured Finance & Equity, Process, Risk Management, Accounts and Audit. Mr. Damani has earlier worked in various capacities at Bharat Financial Inclusion Ltd with the last being CFO of the company.

Vishal Sharma
Chief Operating Officer

27+ years of experience in Financial services and e-commerce industry. His last assignment was as COO at Bharat Financial Inclusion Ltd. He was earlier also associated with Makemytrip.com, Shopclues.com (founding team), IndiaMart.com, GE Consumer Finance, Standard Chartered Bank and SRF Finance ltd.

Dharamvir Kumar Singh
Chief Technology Officer

Mr. Dharmvir has over 16 years' experience in the Technology domain building fully digital customer journeys. He was associated with Home First Finance as CTO and various leadership roles in Hero Fincorp, Birlasoft, Tata Consultancy Services, IBM and Wipro Technologies.

Amit Anand
Chief Risk Officer

Overall experience of 19 years in Banks and NBFC's across various risk functions. Prior to joining Spandana, he worked with Shinhan Bank, Bank of India, Bank of Baroda and CRISIL among others.

Ramesh Periasamy
CS & Chief Compliance Officer

Over 17 years of experience across sectors viz. Financial Services, REIT, IT/ITES, Manufacturing, Jewellery, Insurance Broking & Real Estate.

Financials and valuations

Income Statement									(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Interest Income	3,715	5,730	9,979	11,692	13,627	13,365	12,775	20,641	27,564
Interest Expenses	2,096	2,318	3,579	3,563	4,232	5,401	4,579	8,891	11,895
Net Interest Income	**1,618**	**3,413**	**6,400**	**8,129**	**9,395**	**7,964**	**8,196**	**11,750**	**15,669**
Change (%)		110.9	87.5	27.0	15.6	-15.2	2.9	43.4	33.4
Other Operating Income	504	143	452	2,661	1,199	1,263	1,233	1,555	1,593
Other Income	0	2	54	342	230	172	763	839	965
Total Income	**2,122**	**3,557**	**6,907**	**11,132**	**10,824**	**9,399**	**10,192**	**14,144**	**18,227**
Change (%)		67.7	94.1	61.2	-2.8	-13.2	8.4	38.8	28.9
Total Operating Expenses	**954**	**1,084**	**1,719**	**2,211**	**2,369**	**3,625**	**4,570**	**6,106**	**7,504**
Change (%)		13.7	58.5	28.7	7.1	53.0	26.1	33.6	22.9
Employee Expenses	583	759	1,310	1,707	1,715	2,284	3,057	4,127	5,118
Depreciation	83	57	70	88	76	92	109	125	144
Other Operating Expenses	288	269	339	416	577	1,249	1,404	1,854	2,243
Operating Profit	**1,168**	**2,473**	**5,188**	**8,920**	**8,456**	**5,774**	**5,621**	**8,038**	**10,723**
Change (%)		111.7	109.8	71.9	-5.2	-31.7	-2.6	43.0	33.4
Total Provisions	**420**	**-354**	**453**	**2,736**	**6,451**	**4,806**	**5,443**	**2,404**	**2,921**
% Loan loss provisions to Avg loans ratio	3.5	-1.7	1.2	5.9	10.8	7.7	8.2	2.7	2.5
PBT	**748**	**2,827**	**4,735**	**6,185**	**2,004**	**969**	**178**	**5,634**	**7,802**
Tax Provisions	218	948	1,616	2,666	550	270	54	1,465	2,005
Tax Rate (%)	29.2	33.5	34.1	43.1	27.4	27.9	30.5	26.0	25.7
PAT	**529**	**1,879**	**3,119**	**3,518**	**1,455**	**698**	**124**	**4,169**	**5,797**
Change (%)		255.0	66.0	12.8	-58.7	-52.0	-82.3	-	39.0

Balance Sheet									(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	284	298	596	643	643	691	710	710	710
Reserves & Surplus	8,991	13,609	18,298	25,616	26,848	30,185	30,280	34,450	40,246
Non-controlling interest	0	0	9	13	20	24	2	2	2
Net Worth	**9,276**	**13,906**	**18,904**	**26,272**	**27,511**	**30,899**	**30,992**	**35,162**	**40,958**
Borrowings	**9,335**	**23,314**	**29,677**	**30,253**	**53,733**	**37,721**	**60,743**	**81,510**	**1,08,815**
Change (%)		149.8	27.3	1.9	77.6	-29.8	61.0	34.2	33.5
Other Liabilities	676	422	736	3,248	4,526	2,143	2,091	2,296	2,521
Total Liabilities	**19,286**	**37,642**	**49,317**	**59,774**	**85,769**	**70,763**	**93,826**	**1,18,968**	**1,52,295**
Cash and Bank	2,924	2,078	3,518	2,571	13,810	12,022	10,045	11,026	12,843
Investments	1	1	1	4,875	23	24	1,894	1,223	1,632
Loans	**11,945**	**30,896**	**42,678**	**49,767**	**69,330**	**55,184**	**77,598**	**1,01,887**	**1,32,702**
Change (%)		158.6	38.1	16.6	39.3	-20.4	40.6	31.3	30.2
Fixed Assets	90	85	268	339	380	313	249	274	301
Other Assets	4,325	4,583	2,853	2,221	2,225	3,220	4,040	4,558	4,817
Total Assets	**19,286**	**37,642**	**49,317**	**59,774**	**85,769**	**70,763**	**93,826**	**1,18,968**	**1,52,295**

E: MOFSL Estimates

Financials and valuations

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
AUM	**12,969**	**31,662**	**43,720**	**68,290**	**81,570**	**65,810**	**85,110**	**1,14,000**	**1,51,686**
Change (%)	6	144	38	56	19	-19	29	34	33
Disbursements	**20,592**	**38,577**	**49,157**	**77,222**	**60,990**	**33,740**	**81,320**	**1,10,595**	**1,45,986**
Change (%)	15	87	27	57	-21	-45	141	36	32

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Avg. Yield on Loans	31.1	26.8	27.1	25.3	22.9	21.5	19.2	23.0	23.5
Avg Cost of Funds	22.5	14.2	13.5	11.9	10.1	11.8	9.3	12.5	12.5
Spread of loans	8.6	12.6	13.6	13.4	12.8	9.7	9.9	10.5	11.0
NIM (on loans)	13.5	15.9	17.4	17.6	15.8	12.8	12.3	13.1	13.4
Profitability Ratios (%)									
RoE		16.2	19.0	15.6	5.4	2.4	0.4	12.6	15.2
RoA		6.6	7.2	6.5	2.0	0.9	0.2	3.9	4.3
Int. Expended / Int. Earned	56.4	40.4	35.9	30.5	31.1	40.4	35.8	43.1	43.2
Other Inc. / Net Income	23.7	4.1	7.3	27.0	13.2	15.3	19.6	16.9	14.0
Efficiency Ratios (%)									
Op. Exps. / Net Income	45.0	30.5	24.9	19.9	21.9	38.6	44.8	43.2	41.2
Empl. Cost/Op. Exps.	61.1	70.0	76.2	77.2	72.4	63.0	66.9	67.6	68.2
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	1.3	1.3	1.4	1.6	1.3	1.5	1.3	1.3	1.2
Assets/Equity	2.1	2.7	2.6	2.3	3.1	2.3	3.0	3.4	3.7
Asset Quality (%)									
GNPA (INR m)		8,654	3,628	180	4,095	11,489	1,660	1,790	2,081
GNPA (%)		21.9	7.8	0.4	5.6	18.7	2.1	1.7	1.5
NNPA (INR m)		57.9	5.5	34.6	2,193.8	6,442.7	510.0	447.6	416.1
NNPA (%)		0.2	0.0	0.1	3.1	11.4	0.6	0.4	0.3
PCR (%)		99.3	99.8	80.8	46.4	43.9	69.3	75.0	80.0
Credit costs		-1.7	1.2	5.9	10.8	7.7	8.2	2.7	2.5

Valuations	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (INR)	326	467	317	408	427	447	437	495	577
BV Growth (%)		43	-32	29	5	5	-2	13	16
P/BV		**1.5**	**2.3**	**1.8**	**1.7**	**1.6**	**1.6**	**1.5**	**1.2**
EPS (INR)	18.6	63.2	52.3	54.7	22.6	10.1	1.7	58.7	81.7
EPS Growth (%)		239	-17	5	-59	-55	-83	-	39
P/E		**11.4**	**13.8**	**13.2**	**31.8**	**71.2**	**-**	**12.3**	**8.8**
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

E: MOFSL Estimates

Bandhan Bank

BSE SENSEX	S&P CNX
66,061	19,565

CMP: INR222 **TP: INR240 (+8%)** **Neutral**

Balance sheet cleansing in final lap; earnings set to recover

Growth momentum to gain traction

- **Bandhan Bank (BANDHAN) remains focused on product diversification, while expecting a decrease in the proportion of MFI offerings as other segments experience faster growth. The bank is currently experiencing a gradual recovery in its growth trajectory. This, coupled with regulatory changes and a robust customer base, will drive the loan growth (~19% CAGR over FY23-25).**
- **The bank continues to exhibit strong momentum in deposits, with a notable increase in TD while decline in CASA deposits led to moderation in the CASA Ratio in 1QFY24. Bank has been focusing on increasing its retail deposits.**
- **BANDHAN has been dealing with higher stress in the EEB book. However in the last few quarters we have witnessed a moderation in the SMA book and we expect asset quality to improve over FY24/FY25.**
- **We estimate margins to remain range bound, with higher growth in advances supporting the total income. Further, we expect a decline in credit costs, aided by healthy recoveries, particularly in 2QFY24 (including CGFMU).**
- **We thus estimate BANDHAN to report an RoA/RoE of 2.3%/20% in FY25. We reiterate our Neutral stance on the stock with a TP of INR240 (based on 1.6x FY25E BV).**

Focus remains on product diversification; mix of MFI loans to decline

The bank continues to focus on product diversification, while expecting a decrease in the proportion of MFI offerings as other segments experience faster growth. The MFI mix is likely to moderate to 26% by FY25, while Housing Finance/Commercial Banking/Retail assets will constitute 30%/38%/6%. Further, the bank guided to reduce the mix of West Bengal and Assam in MFI and SBAL loans to 40% by FY25 from its current 45%. Loan growth is expected to be driven by a combination of regulatory changes and a robust customer base. Overall, we estimate loans to register a CAGR of ~19% over FY23-25.

Garnering retail deposits to be a key focus

The bank continues to focus on building a granular franchise with CASA/Retail deposit mix likely to increase to 37%/75% by FY25 from its current 36%/71%. Another important segment for the bank is the acceptance of the government business (Agency Bank of RBI) where the bank has created a separate vertical with expertise across the market and empaneled government agencies across the country. Bandhan aims to enhance its wealth proposition and is looking to expand its geographical presence to boost deposits. By FY25, the mix of branches in Eastern India is likely to moderate to 47%. Meanwhile, ~30% of the proposed new branches will be established in five states with substantial deposit potential. The bank's key focus states include Uttar Pradesh, Bihar, Telangana, MP, and Gujarat. Overall, we estimate deposits to register a CAGR of ~20% over FY23-25.

Stock Info

Bloomberg	BANDHAN IN
Equity Shares (m)	1611
M.Cap.(INRb)/(USDb)	357.2 / 4.3
52-Week Range (INR)	315 / 182
1, 6, 12 Rel. Per (%)	-16/-16/-42
12M Avg Val (INR M)	2168
Free float (%)	60.0

Financials Snapshot (INR b)

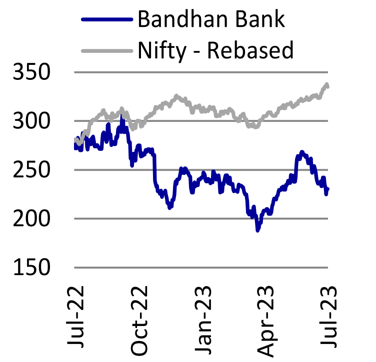
Y/E March	FY23	FY24E	FY25E
NII	92.6	109.6	130.2
OP	70.9	77.8	89.9
NP	21.9	38.3	46.9
NIM (%)	6.9	7.0	7.0
EPS (INR)	13.6	23.8	29.1
EPS Gr. (%)	NM	74.7	22.3
BV/Sh. (INR)	122	135	157
ABV/Sh. (INR)	116	130	151
Ratios			
RoE (%)	11.9	18.6	20.0
RoA (%)	1.5	2.3	2.3
Valuations			
P/E(X)	16.3	9.3	7.6
P/BV (X)	1.8	1.6	1.4
P/ABV (X)	1.9	1.7	1.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	40.0	40.0	40.0
DII	16.5	17.4	7.1
FII	29.5	27.9	35.6
Others	14.0	14.8	17.3

FII Includes depository receipts

Stock performance (one-year)



Stress pool and SMA book moderates

BANDHAN has been focusing on cleansing its balance sheet, resulting in a reduction in the total stress pool within the EEB book. In 1QFY24, the stress pool moderated to ~INR62b (12.2% of EEB loans) from a peak of INR195b (36.1% of EEB loans) in 2QFY22. Pure coverage on the total stress pool stands at ~69%, which excludes the Assam relief package and recoveries from CGFMU and ECLGS. Including the expected recoveries of INR5b from ECLGS scheme and INR16b from the CGFMU scheme, the coverage is at ~102%. Further, the SMA book has moderated to 5.5% of loans in 1QFY24 from the peak of 37.1% in 1QFY22, while the bank has also fully dissolved the restructured loan portfolio. For West Bengal/Assam, the total SMA book now stands at 3.9%/2.2% from the peak of 41.3%/46.4% in 1QFY22.

Asset quality ratios to improve; credit cost to moderate

Slippages have remained at elevated levels over FY23, with the bank aggressively recognizing the stress. As seen in 1QFY24, GNPA/NNPA ratio has deteriorated to 6.8%/2.2% in 1QFY24 due to higher slippages and reclassification of ECLGS linked advances to NPA. With recoveries from CGFMU and ECLGS we expect slippages to moderate over FY24/FY25 thereby aiding the credit costs. Historically, while the overall coverage, including provisions and expected recoveries, has been healthy at ~95-102% (Refer exhibit 63), slippages have continued to remain higher. Bank carries a total provision amounting to INR57.3b as on 1QFY24. This, coupled with potential recoveries and moderation in the SMA book, would help cushion the provisioning requirements of the bank.

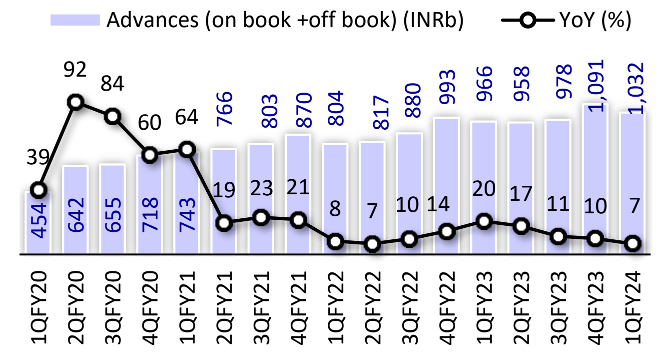
Margins to remain at 7-7.5% over FY24/FY25; RoE to recover to ~20%

We note that while the margins are stable to 7.3% in 1QFY24 despite higher slippages but we expect the same to moderate to 7% for FY24. Despite rising slippages, higher yields on assets and recoveries from various agencies will keep the margins range bound between 7%-7.5%. Earnings have remained highly volatile due to the cyclical nature of the MFI business. During periods of stress, credit costs in the MFI business tend to become extremely volatile. However, the recoveries are also fairly sharp. Over FY20-22, BANDHAN's RoE plummeted to 0.7% from 23%, but recovered in FY23 to 12%. Despite a cut in our projections, we estimate a relatively rapid recovery, with RoE expected to rebound to 20% by FY25.

Near-term performance to be under pressure; reiterate Neutral

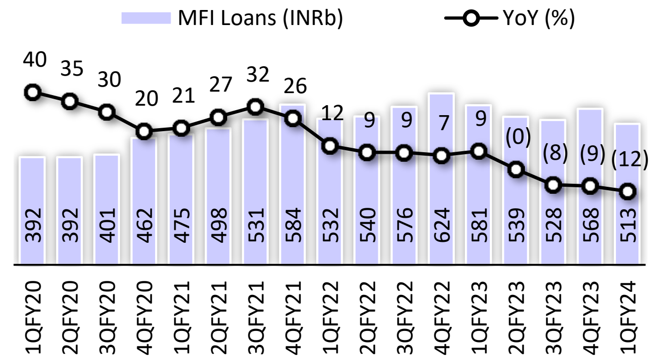
BANDHAN has been dealing with higher stress in the EEB book, primarily due to a significant number of SMAs. In the near term, the bank is expected to encounter a high number of slippages, as it works toward resolving the remaining stressed assets. However, as the SMA book moderates and asset quality improves, we expect credit costs to decline, aided by healthy recoveries, particularly in 2QFY24 (including CGFMU). We thus estimate BANDHAN to report an RoA/RoE of 2.3%/20% in FY25. We reiterate our **Neutral stance on the stock with a TP of INR240 (based on 1.6x FY25E BV), even though we believe the downside risk is limited.**

Exhibit 228: AUM rises 7% YoY (- 5% QoQ)



2QFY20-1QFY21 growth not comparable due to merger
Source: MOFSL, Company

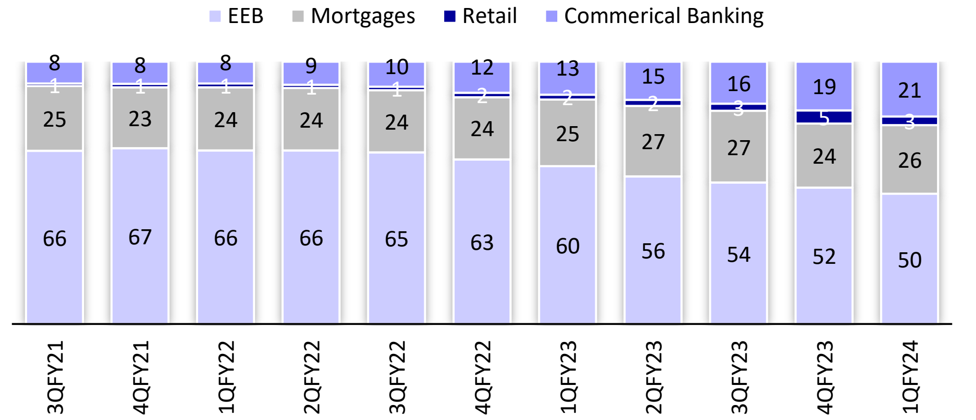
Exhibit 229: Share of MFI loans reduce to 50% in 1QFY24



Source: MOFSL, Company

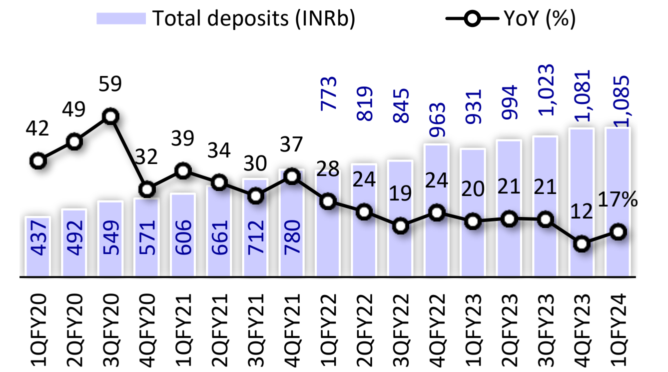
The bank remains focused on achieving its diversification goal by FY25

Exhibit 230: Mix of EEB loans declining; while that of retail and commercial loans rising (%)



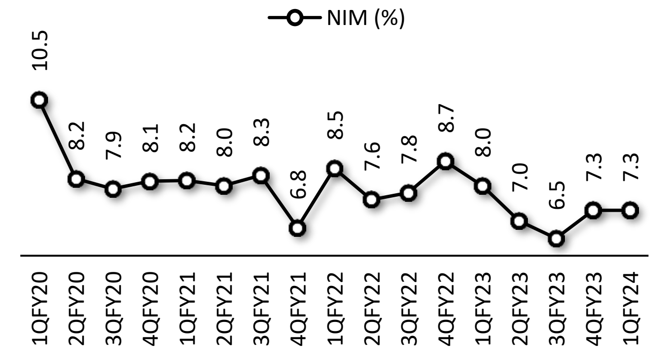
Source: MOFSL, Company

Exhibit 231: Total deposits jumped 17% YoY (flat QoQ) in 1QFY24



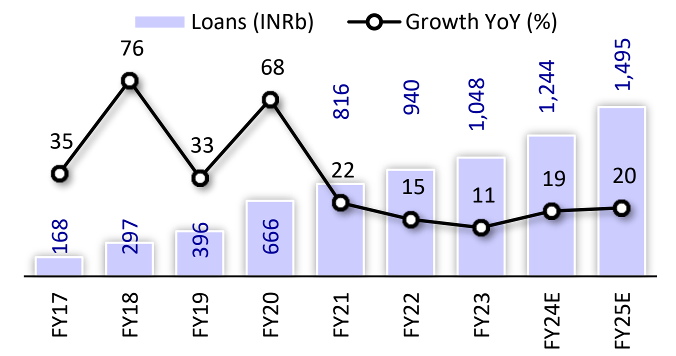
Source: MOFSL, Company

Exhibit 232: Margins stable in 1QFY24; likely to remain in a narrow range



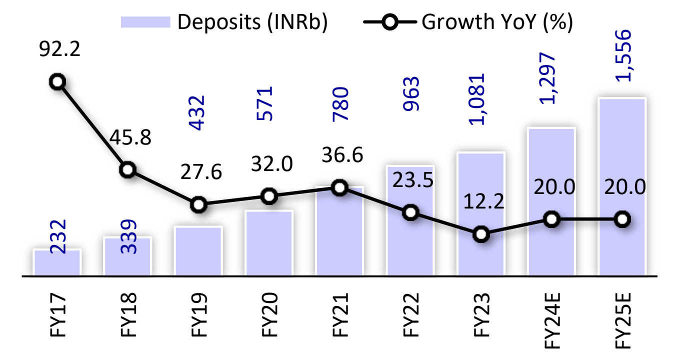
Source: MOFSL, Company

Exhibit 233: Total loans to register a 19% CAGR over FY23-25E



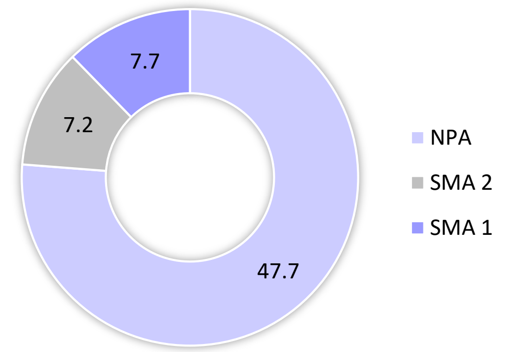
Source: MOFSL, Company

Exhibit 234: Deposits to report a 20% CAGR over FY23-25E



Source: MOFSL, Company

Exhibit 235: Total stress pool within EEB stands at ~INR62b (12.2% of loans) as on 1QFY24



Source: MOFSL, Company

Exhibit 236: Coverage on stress pool stands at over 100%

Coverage	INR b
Provisions	43.0
ECLGS Guarantee	5.0
CGFMU recovery	16.0

Source: MOFSL, Company

Stress pool within the EEB book has moderated to ~INR62b (12.2% of EEB loans) in 1QFY24

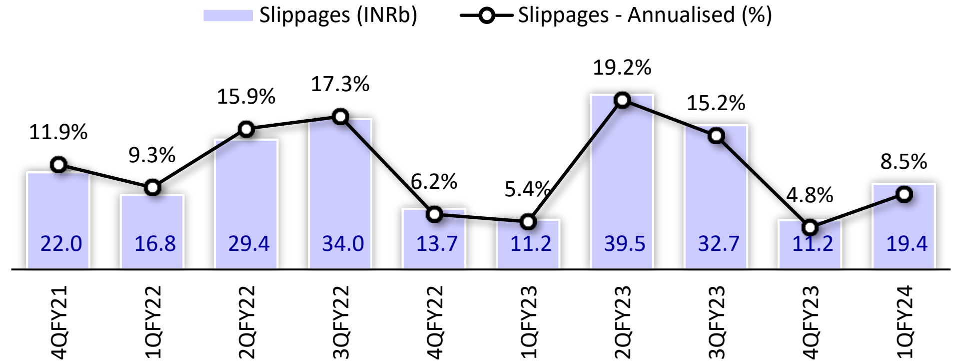
Exhibit 237: Stress pool within the EEB book and coverage over the past few quarters

EEB Book (INR b)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Stress pool	170.0	119.0	121.0	95.0	76.0	55.0	62.6
of which Restructured	57.8	48.9	21.4	Nil	Nil	Nil	Nil
Stress Pool as % of EEB loans	29.5	19.1	20.8	17.6	14.4	9.7	12.2
Coverage							
Provision	91.7	69.7	76.0	53.0	50.0	38.0	43.0
Estimated Recovery over 1QFY24	50.0	25.0	25.0	15.0	10.0	NA	NA
CGFMU+ ECLGS	25.0	25.0	25.0	25.0	17.0	17.0	21.0
Total	**166.7**	**119.7**	**126.0**	**93.0**	**77.0**	**55.0**	**64.0**
Total Coverage (%)	98	101	104	98	101	100	102
Pure coverage (%)	54	59	63	56	66	69	69

Source: MOFSL, Company

Slippages in 1QFY24 increased to INR19.4b (8.5% annualized) partly due to recognition of 90dpd ECLGS loans as NPA based on recent RBI circular

Exhibit 238: Slippages trends over the past few quarters



Source: MOFSL, RBI, Company

In 1QFY24 Slippages in EEB book formed ~29% of the SMA book of 4QFY23

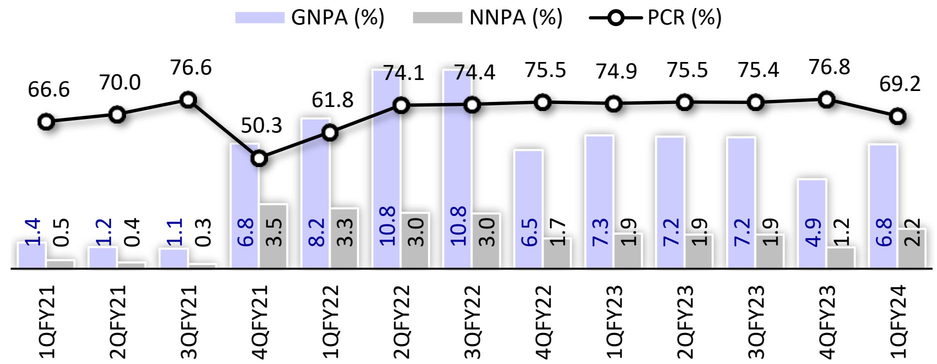
Exhibit 239: SMA book has moderated over the quarters, but still remains elevated

EEB Book	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
SMA 1 (INR b)	13.9	13.7	10.4	7.4	7.7
SMA 2 (INR b)	32.7	30.6	14.2	13.6	7.2 *
EEB Slippages (INR b)		36.2	28.5	7.3	9.2
EEB Slippages as % of EEB loans		6.7	5.4	1.3	1.8%

* Decline in 1QFY24 to reclassification of ECLGS linked advances to NPA Source: MOFSL, Company

GNPA/NNPA ratios have deteriorated in 1QFY24 to 6.8%/2.2% and PCR also moderated to 69.2%.

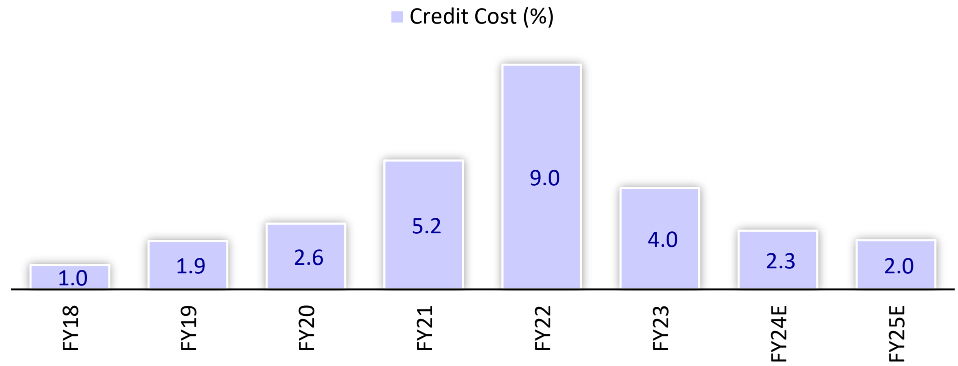
Exhibit 240: Asset quality trends over the past few quarters



Source: MOFSL, Company

Credit costs have been highly volatile over the past years

Exhibit 241: Credit cost trends over the past years – to moderate sharply over FY24 & FY25



Source: MOFSL, Company

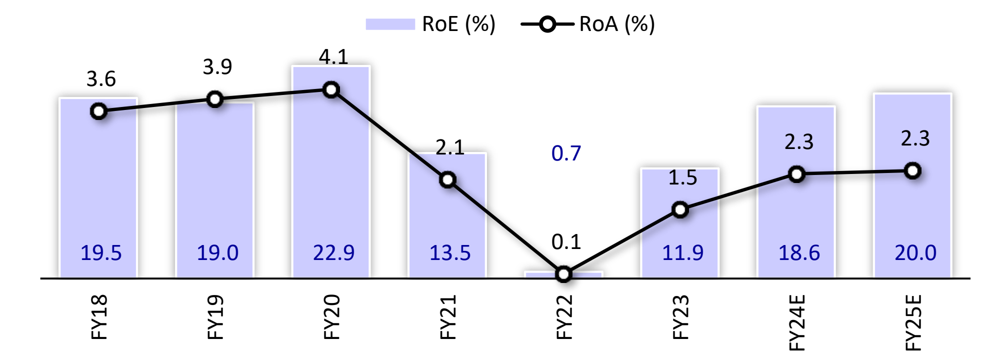
Exhibit 242: EEB loans: Trends in SMA and NPA books across Assam, West Bengal, and overall bank (%)

SMA Book - Assam	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
SMA (1-30)	21.8	10.0	4.6	2.5	7.7	5.4	2.5	1.1	1.2
SMA (31-60)	19.5	8.7	3.1	1.6	3.0	3.4	1.7	0.8	0.6
SMA (61-90)	5.1	4.5	5.7	4.4	18.9	15.2	6.5	5.6	0.4
NPA (>90 days)	17.0	24.3	23.4	14.2	15.3	25.7	28.9	23.8	32.5
Total SMA book	**46.4**	**23.2**	**13.4**	**8.5**	**29.6**	**24.0**	**10.7**	**7.5**	2.2
Total Stress book	**63.4**	**47.5**	**36.8**	**22.7**	**44.9**	**49.7**	**39.6**	**31.3**	34.7
SMA Book - West Bengal									
SMA (1-30)	26.6	12.4	6.3	3.9	5.3	5.1	3.0	1.5	1.7
SMA (31-60)	12.1	8.7	3.5	2.1	2.8	3.1	2.1	1.3	1.0
SMA (61-90)	2.6	1.8	3.2	2.2	6.2	6.9	3.0	2.6	1.2
NPA (>90 days)	12.7	17.8	18.2	12.0	14.0	11.8	12.9	9.3	12.3
Total SMA book	**41.3**	**22.9**	**13.0**	**8.2**	**14.3**	**15.1**	**8.1**	**5.4**	3.9
Total Stress book	**54.0**	**40.7**	**31.2**	**20.2**	**28.3**	**26.9**	**21.0**	**14.7**	16.2
SMA Book - Rest of India									
SMA (1-30)	23.2	10.1	4.6	2.4	3.8	4.6	3.8	2.3	3.4
SMA (31-60)	5.5	5.2	2.3	1.3	2.0	2.1	1.9	1.4	1.9
SMA (61-90)	1.3	2.7	1.9	1.1	2.9	3.5	2.0	1.9	1.7
NPA (>90 days)	3.8	6.5	7.4	3.2	4.4	5.3	5.1	1.4	4.1
Total SMA book	**30.0**	**18.0**	**8.8**	**4.8**	**8.7**	**10.2**	**7.7**	**5.6**	7.0
Total Stress book	**33.8**	**24.5**	**16.2**	**8.0**	**13.1**	**15.5**	**12.8**	**7.0**	11.1
SMA Book - Total									
SMA (1-30)	24.6	11.1	5.3	3.0	4.7	4.8	3.4	1.9	2.6
SMA (31-60)	10.1	7.1	2.9	1.6	2.4	2.6	2.0	1.3	1.5
SMA (61-90)	2.4	2.5	2.9	1.9	5.6	5.7	2.7	2.4	1.4
NPA (>90 days)	9.3	13.6	13.7	7.8	9.2	9.4	9.7	5.9	9.3
Total SMA book	**37.1**	**20.7**	**11.1**	**6.5**	**12.7**	**13.1**	**8.1**	**5.6**	**5.5**
Total Stress book	**46.4**	**34.3**	**24.8**	**14.3**	**21.9**	**22.5**	**17.8**	**11.5**	**14.8**

Source: MOFSL, Company

We note that credit cost in the MFI business tends to demonstrate high volatility during stressful periods, but cycles are generally shorter and earnings recovery is fairly sharp

Exhibit 243: Recovery in RoE tends to be sharp; expect FY25 RoE at ~20% vs. 0.7% in FY22



Source: MOFSL, Company

Exhibit 244: DuPont analysis: Return ratios to pick up strongly from FY24 onwards

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income	**8.1**	**8.9**	**8.5**	**7.3**	**6.9**	**6.3**	**6.5**	**6.5**
Other Income	**1.9**	**2.1**	**2.1**	**2.0**	**2.2**	**1.7**	**1.5**	**1.5**
Total Income	**10.0**	**11.0**	**10.6**	**9.3**	**9.1**	**8.0**	**8.0**	**7.9**
Operating Expenses	**3.5**	**3.6**	**3.3**	**2.7**	**2.8**	**3.1**	**3.4**	**3.5**
Employees	1.8	2.0	1.8	1.6	1.7	1.8	2.0	2.0
Others	1.7	1.6	1.4	1.1	1.1	1.3	1.4	1.4
Operating Profits	**6.5**	**7.4**	**7.4**	**6.5**	**6.3**	**4.8**	**4.6**	**4.5**
Core operating Profits	**6.4**	**7.4**	**7.2**	**6.3**	**6.1**	**4.7**	**4.5**	**4.4**
Provisions	**1.0**	**1.5**	**1.9**	**3.7**	**6.2**	**2.8**	**1.6**	**1.4**
NPA	0.6	1.3	0.8	4.2	4.1	2.7	1.5	1.3
Others	0.4	0.1	1.1	(0.5)	2.1	0.1	0.1	0.1
PBT	**5.5**	**6.0**	**5.5**	**2.9**	**0.1**	**2.0**	**3.0**	**3.1**
Tax	1.9	2.1	1.4	0.7	0.0	0.5	0.7	0.8
RoA	**3.6**	**3.9**	**4.1**	**2.1**	**0.1**	**1.5**	**2.3**	**2.3**
Leverage (x)	5.4	4.9	5.6	6.3	7.3	8.0	8.2	8.6
RoE	**19.5**	**19.0**	**22.9**	**13.5**	**0.7**	**11.9**	**18.6**	**20.0**

Financials and valuations

Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	48.0	66.4	108.9	125.2	138.7	159.0	206.7	243.2
Interest Expense	17.7	21.5	45.6	49.6	51.6	66.5	97.2	113.0
Net Interest Income	**30.3**	**45.0**	**63.2**	**75.6**	**87.1**	**92.6**	**109.6**	**130.2**
Growth (%)	26.2	48.3	40.7	19.6	15.2	6.3	18.3	18.8
Non-Interest Income	7.1	10.6	15.5	20.2	28.2	24.7	25.4	29.5
Total Income	**37.4**	**55.6**	**78.7**	**95.9**	**115.4**	**117.3**	**135.0**	**159.7**
Growth (%)	32.8	48.7	41.6	21.8	20.4	1.7	15.1	18.3
Operating Expenses	13.1	18.1	24.3	28.2	35.2	46.4	57.2	69.8
Pre Provision Profits	**24.3**	**37.5**	**54.5**	**67.7**	**80.1**	**70.9**	**77.8**	**89.9**
Growth (%)	35.5	54.2	45.3	24.3	18.4	-11.5	9.7	15.6
Core PPoP	**23.8**	**37.1**	**53.3**	**65.5**	**77.4**	**69.8**	**76.4**	**88.3**
Growth (%)	34.6	55.7	43.7	22.8	18.2	-9.8	9.5	15.5
Provisions (excl tax)	3.7	7.4	13.9	38.2	78.8	42.0	27.0	27.8
PBT	**20.6**	**30.1**	**40.5**	**29.5**	**1.3**	**28.9**	**50.8**	**62.1**
Tax	7.1	10.6	10.3	7.4	0.0	7.0	12.4	15.2
Tax Rate (%)	34.6	35.2	25.4	25.2	2.2	24.1	24.5	24.5
PAT	**13.5**	**19.5**	**30.2**	**22.1**	**1.3**	**21.9**	**38.3**	**46.9**
Growth (%)	21.0	45.0	54.9	-27.1	-94.3	1,644.6	74.7	22.3

Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	11.9	11.9	16.1	16.1	16.1	16.1	16.1	16.1
Reserves & Surplus	81.9	100.1	135.9	158.0	157.7	179.7	200.9	236.4
Net Worth	**93.8**	**112.0**	**152.0**	**174.1**	**173.8**	**195.8**	**217.0**	**252.5**
Deposits	**338.7**	**432.3**	**570.8**	**779.7**	**963.3**	**1,080.7**	**1,296.8**	**1,556.2**
Growth (%)	45.8	27.6	32.0	36.6	23.5	12.2	20.0	20.0
of which CASA Dep	**116.2**	**176.2**	**210.3**	**338.3**	**400.8**	**388.0**	**469.5**	**577.3**
Growth (%)	70.0	51.6	19.4	60.9	18.5	-3.2	21.0	23.0
Borrowings	2.9	5.2	163.8	169.6	199.2	247.1	284.2	332.5
Other Liabilities & Prov.	7.7	14.9	30.6	26.8	52.3	34.1	40.2	48.2
Total Liabilities	**443.1**	**564.4**	**917.2**	**1,150.2**	**1,388.7**	**1,557.7**	**1,838.2**	**2,189.4**
Current Assets	55.1	58.0	83.5	62.3	93.2	82.5	76.2	81.7
Investments	83.7	100.4	153.5	251.6	290.8	323.7	391.6	473.9
Growth (%)	51.8	19.9	52.9	63.9	15.6	11.3	21.0	21.0
Loans	**297.1**	**396.4**	**666.3**	**816.1**	**939.7**	**1,047.6**	**1,244.4**	**1,495.1**
Growth (%)	76.5	33.4	68.1	22.5	15.1	11.5	18.8	20.1
Fixed Assets	2.4	3.3	3.7	4.9	5.9	8.5	9.6	10.7
Other Assets	4.8	6.3	10.1	15.3	59.0	95.4	116.4	128.0
Total Assets	**443.1**	**564.4**	**917.2**	**1,150.2**	**1,388.7**	**1,557.7**	**1,838.2**	**2,189.4**

Asset Quality	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA	3.7	8.2	9.9	57.6	63.8	53.0	51.3	53.9
NNPA	1.7	2.3	3.9	28.6	15.6	12.3	12.0	13.5
GNPA Ratio	1.2	2.0	1.5	6.8	6.5	4.9	4.0	3.5
NNPA Ratio	0.6	0.6	0.6	3.5	1.7	1.2	1.0	0.9
Credit Cost	1.0	1.9	2.6	5.2	9.0	4.0	2.3	2.0
PCR (Excl Tech. write off)	53.7	72.1	60.8	50.3	75.5	76.8	76.6	75.0

E: MOFSL Estimates

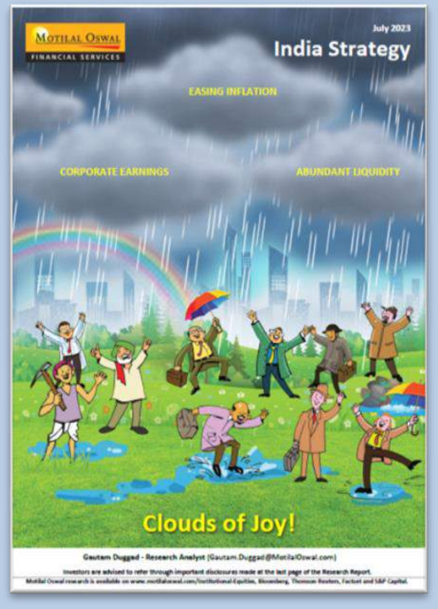
Financials and valuations

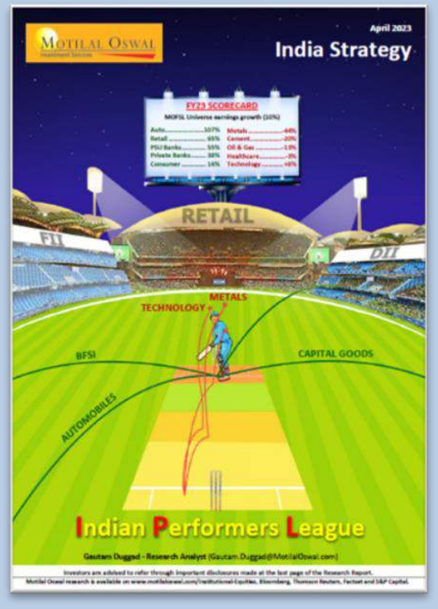
Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY21**	**FY23**	**FY24E**	**FY25E**
Spread Analysis (%)								
Avg. Yield- on Earning Assets	**13.9**	**14.2**	**15.4**	**12.7**	**11.7**	**11.8**	**13.3**	**13.0**
Avg. Yield on loans	16.4	16.5	17.9	14.7	13.9	14.2	15.7	15.4
Avg. Yield on Investments	7.1	6.7	6.6	5.9	5.5	6.4	6.8	6.9
Avg. Cost of Int. Bear. Liab.	**6.5**	**6.0**	**8.3**	**6.2**	**5.1**	**5.6**	**7.0**	**6.9**
Avg. Cost of Deposits	5.9	5.4	6.6	5.9	5.0	5.4	5.9	5.8
Interest Spread	**7.5**	**8.2**	**7.2**	**6.5**	**6.6**	**6.2**	**6.2**	**6.2**
Net Interest Margin	**8.8**	**9.6**	**9.0**	**7.7**	**7.4**	**6.9**	**7.0**	**7.0**
Capitalisation Ratios (%)								
CAR	31.5	29.2	27.4	23.5	20.1	19.8	18.0	17.2
Tier I	*30.3*	*27.9*	*25.2*	*22.5*	*18.9*	*18.7*	*17.1*	*16.5*
Tier II	*1.2*	*1.3*	*2.2*	*1.0*	*1.2*	*1.1*	*0.9*	*0.7*
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	87.7	91.7	116.7	104.7	97.6	96.9	96.0	96.1
CASA Ratio	34.3	40.8	36.8	43.4	41.6	35.9	36.2	37.1
Cost/Assets	3.0	3.2	2.6	2.4	2.5	3.0	3.1	3.2
Cost/Total Income	35.0	32.6	30.8	29.4	30.5	39.5	42.4	43.7
Cost/Core income	35.4	32.8	31.3	30.1	31.3	39.9	42.8	44.2
Int. Expense/Int. Income	36.9	32.3	41.9	39.6	37.2	41.8	47.0	46.5
Fee Income/Total Income	17.7	18.4	18.2	18.8	22.1	20.1	17.8	17.5
Non Int. Inc./Total Income	18.9	19.1	19.7	21.1	24.5	21.0	18.8	18.5
Empl. Cost/Total Expense	52.6	55.7	56.3	59.1	60.6	58.6	58.4	58.4
Investment/Deposit Ratio	24.7	23.2	26.9	32.3	30.2	29.9	30.2	30.5
Profitability Ratios and Valuation								
RoE	19.5	19.0	22.9	13.5	0.7	11.9	18.6	20.0
RoA	3.6	3.9	4.1	2.1	0.1	1.5	2.3	2.3
RoRWA	5.5	5.6	6.2	3.3	0.2	2.2	3.3	3.4
Book Value (INR)	79	94	94	108	108	122	135	157
Growth (%)	93.7	19.4	0.5	14.5	-0.2	12.7	10.8	16.4
Price-BV (x)	**2.8**	**2.4**	**2.3**	**2.1**	**2.1**	**1.8**	**1.6**	**1.4**
Adjusted BV (INR)	78	93	93	96	101	116	130	151
Price-ABV (x)	**2.9**	**2.4**	**2.4**	**2.3**	**2.2**	**1.9**	**1.7**	**1.5**
EPS (INR)	11.8	16.4	21.6	13.7	0.8	13.6	23.8	29.1
Growth (%)	15.8	39.1	31.9	-36.5	-94.3	1,644.5	74.7	22.3
Price-Earnings (x)	**18.9**	**13.6**	**10.3**	**16.2**	**283.9**	**16.3**	**9.3**	**7.6**
Dividend Per Share (INR)	0.0	1.2	3.8	1.0	0.0	4.7	5.9	7.1
Dividend Yield (%)	**0.0**	**0.5**	**1.7**	**0.5**	**0.0**	**2.1**	**2.7**	**3.2**

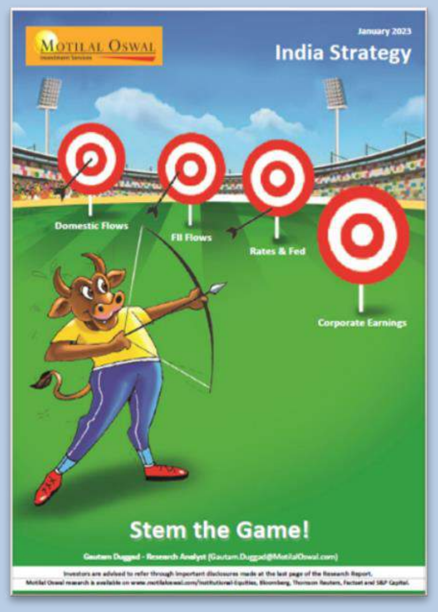
E: MOFSL Estimates

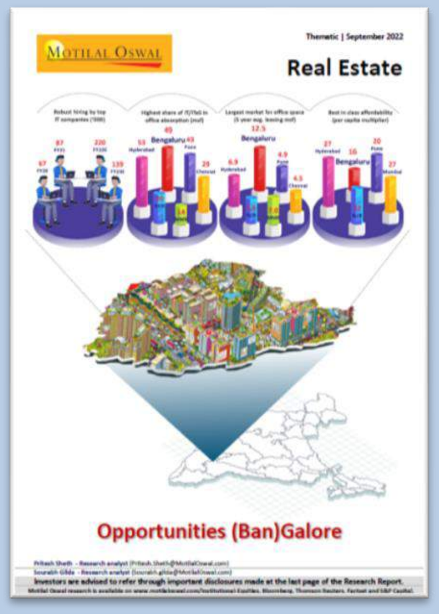
REPORT GALLERY

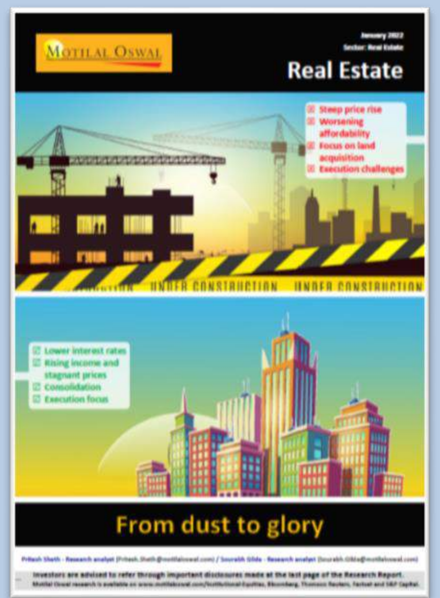
RECENT STRATEGY/THEMATIC REPORTS

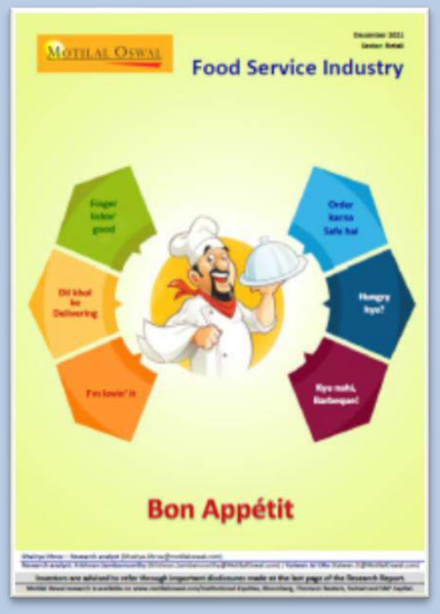












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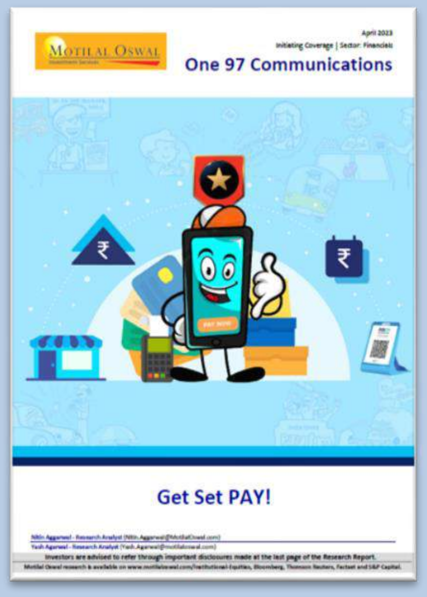

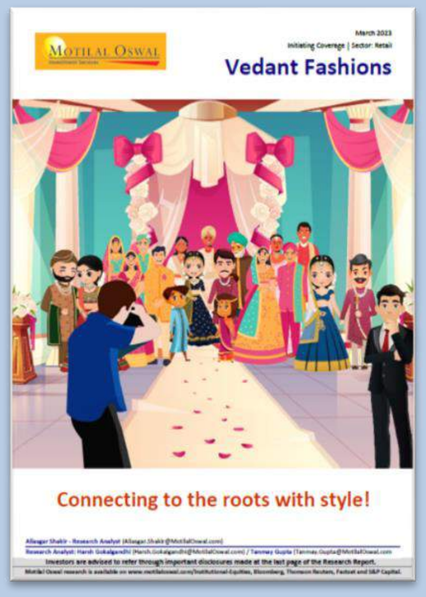

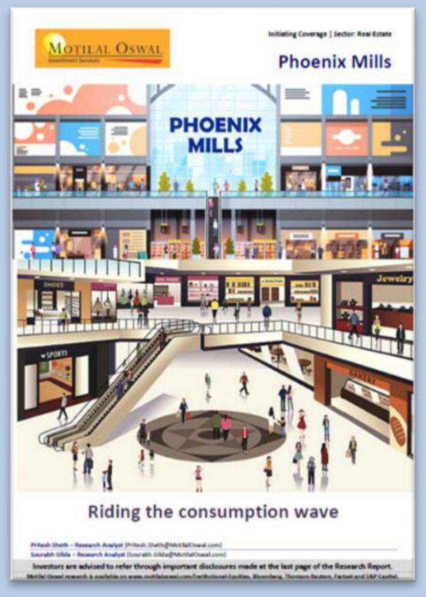

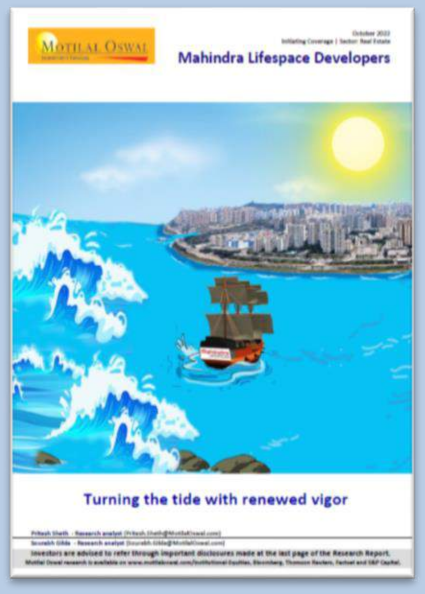

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