

Fusion Microfinance

| | |
|-----------------|---|
| Estimate change | ↓ |
| TP change | ↔ |
| Rating change | ↔ |

CMP: INR585

TP: INR720 (+23%)

Buy

NIM expands; credit costs elevated from Punjab portfolio

Healthy business momentum despite calibrated growth in few states

- FUSION's 3QFY24 PAT was up 23% YoY but flat QoQ at ~INR1.26b, missing our estimate by 7% because of high credit costs. For 9MFY24, PAT grew ~37% YoY to INR3.7b.
- NII surged ~34% YoY to ~INR3.4b (in line), while PPOP jumped ~42% YoY to ~INR2.6b (in line). Net credit costs in 3QFY24 stood at ~INR940m, while annualized credit costs rose ~85bp QoQ to ~4.0%.
- Disbursements grew 24% YoY to INR27.1b despite calibrating its growth in few geographies and halting disbursements in Punjab since Dec'23. AUM increased by ~24% YoY to ~INR107b.
- We cut our FY24/FY25 EPS estimates by ~4%/2% to account for higher operating expenses and credit costs. We model a CAGR of 24% in AUM and 31% in PAT over FY23-FY26E, driven by strong borrower additions, operating leverage, and lower credit costs. We estimate RoA/RoE of ~5.6%/22% in FY26. FUSION currently trades at 1.3x FY26E P/BV and we believe its valuations could re-rate as it demonstrates credibility around normalization in credit costs from FY25 onwards. **Maintain BUY with a TP of INR720 (based on 1.6x FY26E P/BV).**
- **Key risks include:** a) credit costs remaining elevated even in the next fiscal year b) regulatory guidelines regarding loan pricing, and c) increase in competitive intensity leading to sustained NIM compression.

Yield expansion and moderation in CoB led to ~40bp NIM expansion

- Yields rose ~20bp QoQ to 21.9% despite an interest income reversal of INR188m from portfolio reclassification. CoB declined ~20bp QoQ to ~10.4%, leading to a ~40bp increase in spreads to ~11.5%.
- The share of foreign bank borrowings in the borrowing mix dropped ~1pp to ~14.7% in 3QFY24 (vs. 15.8% in 2Q), while the share of private sector banks increased ~4pp QoQ to ~38%. The company aims to diversify its liability mix to reduce dependence on bank term loans.
- Marginal CoB declined ~10bp QoQ to 10.45%. The management has no immediate plans to lower lending rates but can evaluate passing on the benefits of low CoB to borrowers in the future. We model NIMs of 14.2%/14.0%/13.9% in FY24/FY25/FY26.

Asset quality deterioration from Punjab portfolio

- GS3/NS3 rose ~35bp/~10bp QoQ to 3.05%/0.77%. The deterioration in asset quality was mainly due to the re-classification of a part of the Punjab portfolio of ~INR800m from Stage 1 into Stage 3.
- Collection efficiency (CE), including arrears, improved marginally to ~97.9% (vs. 97.6% in 2Q). Excluding Punjab, CE stood at 98.4%. In Punjab, it was 82% in Dec'23 and further declined by ~5-6% in early Jan'24 and has been stable since then.

| | |
|-----------------------|------------|
| Bloomberg | FUSION IN |
| Equity Shares (m) | 100 |
| M.Cap.(INRb)/(USD\$b) | 59.1 / 0.7 |
| 52-Week Range (INR) | 691 / 375 |
| 1, 6, 12 Rel. Per (%) | -5/-18/15 |
| 12M Avg Val (INR M) | 199 |

Financials & Valuations (INR b)

| Y/E March | FY24E | FY25E | FY26E |
|--------------|-------|-------|-------|
| Total Income | 16.0 | 19.0 | 22.9 |
| PPP | 10.1 | 11.9 | 14.5 |
| PAT | 5.2 | 7.1 | 8.8 |
| EPS (INR) | 51.7 | 70.4 | 87.6 |
| EPS Gr. (%) | 34 | 36 | 24 |
| BV (INR) | 283 | 354 | 441 |

Valuations

| | | | |
|---------------|------|------|------|
| NIM (%) | 14.2 | 14.0 | 13.9 |
| C/I ratio (%) | 36.8 | 37.5 | 36.8 |
| RoAA (%) | 4.9 | 5.5 | 5.6 |
| RoE (%) | 20.1 | 22.1 | 22.1 |

Valuations

| | | | |
|----------|------|-----|-----|
| P/E (x) | 11.3 | 8.3 | 6.7 |
| P/BV (x) | 2.1 | 1.7 | 1.3 |

Shareholding pattern (%)

| As On | Dec-23 | Sep-23 | Dec-22 |
|------------|--------|--------|--------|
| Promoter | 57.7 | 67.9 | 68.2 |
| DII | 22.8 | 15.4 | 12.8 |
| FII/FIIFII | 7.2 | 5.7 | 5.7 |
| Others | 12.3 | 9.6 | 13.4 |

FII Includes depository receipts

- The management has taken corrective measures, including engagements at the administrative level in Punjab and customer education against miscreants who are misleading borrowers into believing that their loans will be waived off.
- Write-offs in 3QFY24 stood at ~INR810m. FUSION utilized ~INR200m from the management overlay for write-offs, mainly comprising Punjab.
- A large part of the stress in the Punjab portfolio has been accounted for in 3QFY24 and the management expects FY24 credit costs to be contained at ~3.5%, further they expects it to normalize in FY25. We expect credit costs to decline to 2.2%/2.0% in FY25/FY26.

Adding strength to distribution through branch expansion

- The company's borrower base rose to ~3.8m as of Dec'23 from 3.7m as of Sep'23.
- FUSION added 78 branches in 3QFY24 and ~70% of these branches were added outside its top 5 states. With a branch count of >1,240, FUSION remains committed to diversification and will also focus on new states, Karnataka, AP, and Telangana.
- CRAR stood at ~27.9%. It maintained healthy liquidity, with ~INR13.6b of cash and cash equivalents (~12.3% of total assets).

Highlights from the management commentary

- Guides for cross-cycle RoA of 4.25%-4.5% and RoE of ~18-20%.
- Front-loaded some of the asset quality stress and credit costs so that it can start FY25 on a clean slate. The company does not plan to further utilize the management overlay in the next quarter.

Valuation and view

- FUSION has a stable and experienced management team. The company's digital orientation through its 'touch and tech' strategy has positioned it well to deliver a strong operating performance. It enjoys a strong rural presence, with its portfolio comprising ~93% of rural AUM.
- FUSION, in our view, can deliver a calibrated CAGR of 24% in AUM and 31% in PAT over FY23-FY26E. It is also poised to deliver industry-leading RoA/RoE of 5.6%/22% in FY26, aided by: a) scale and productivity benefits leading to a decline in the cost ratios, and b) moderation in credit costs as the last tranche of elevated write-offs happen in 4QFY24 and subsequently the credit costs normalize around ~2.0%. **Maintain BUY with a TP of INR720 (based on 1.6x FY26E P/BV).**

Fusion: Quarterly Performance

(INR M)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | 3QFY24E | v/s Est. |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|-----------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 3,294 | 3,998 | 4,202 | 4,507 | 4,790 | 4,968 | 5,400 | 5,779 | 16,001 | 20,937 | 5,206 | 4 |
| Interest Expenses | 1,432 | 1,573 | 1,680 | 1,742 | 1,835 | 1,910 | 2,015 | 2,155 | 6,428 | 7,915 | 1,983 | 2 |
| Net Interest Income | 1,862 | 2,424 | 2,522 | 2,765 | 2,955 | 3,058 | 3,386 | 3,623 | 9,573 | 13,022 | 3,224 | 5 |
| YoY Growth (%) | 47.1 | 115.4 | 59.0 | 62.0 | 58.7 | 26.1 | 34.2 | 31.0 | 68.4 | 36.0 | 28 | |
| Other Income | 311 | 526 | 463 | 700 | 738 | 745 | 732 | 747 | 1,999 | 2,962 | 720 | 2 |
| Total Income | 2,173 | 2,950 | 2,985 | 3,465 | 3,693 | 3,803 | 4,118 | 4,371 | 11,572 | 15,984 | 3,943 | 4 |
| YoY Growth (%) | 53.5 | 97.4 | 67.3 | 46.8 | 70.0 | 28.9 | 38.0 | 26.2 | 64.1 | 38.1 | 32 | |
| Operating Expenses | 971 | 1,077 | 1,147 | 1,253 | 1,339 | 1,385 | 1,515 | 1,637 | 4,448 | 5,876 | 1,440 | 5 |
| Operating Profit | 1,202 | 1,873 | 1,838 | 2,211 | 2,354 | 2,418 | 2,603 | 2,734 | 7,124 | 10,108 | 2,503 | 4 |
| YoY Growth (%) | 61.1 | 156.3 | 91.8 | 47.8 | 95.8 | 29.1 | 41.6 | 23.6 | 81.2 | 41.9 | 36 | |
| Provisions & Loan Losses | 201 | 612 | 499 | 692 | 759 | 762 | 938 | 781 | 2,004 | 3,240 | 693 | 35 |
| Profit before Tax | 1,001 | 1,261 | 1,339 | 1,519 | 1,595 | 1,656 | 1,665 | 1,953 | 5,120 | 6,868 | 1,810 | -8 |
| Tax Provisions | 249 | 310 | 314 | 374 | 390 | 399 | 401 | 486 | 1,248 | 1,676 | 443 | -10 |
| Net Profit | 752 | 951 | 1,025 | 1,145 | 1,205 | 1,257 | 1,265 | 1,466 | 3,871 | 5,192 | 1,367 | -7 |
| YoY Growth (%) | 1,605 | 2,860 | 10,835 | 768 | 60 | 32 | 23 | 28 | 1,680 | 34 | 33 | -30 |
| Key Parameters (%) | | | | | | | | | | | | |
| Yield on loans | 19.5 | 20.3 | 20.7 | 21.0 | 21.5 | 21.7 | 21.9 | | | | | |
| Cost of funds | 10.1 | 10.1 | 10.4 | 10.4 | 10.6 | 10.6 | 10.4 | | | | | |
| Spread | 9.4 | 10.2 | 10.3 | 10.6 | 10.9 | 11.1 | 11.5 | | | | | |
| NIM | 9.4 | 10.2 | 10.3 | 10.6 | 10.9 | 11.1 | 11.5 | | | | | |
| Credit cost | 0.2 | 0.8 | 0.6 | 0.8 | 0.8 | 0.8 | 1.0 | | | | | |
| Cost to Income Ratio (%) | 44.7 | 36.5 | 38.4 | 36.2 | 36.3 | 36.4 | 36.8 | | | | | |
| Tax Rate (%) | 24.9 | 24.6 | 23.5 | 24.6 | 24.5 | 24.1 | 24.1 | | | | | |
| Performance ratios (%) | | | | | | | | | | | | |
| Avg o/s per borrower (INR '000) | 25 | 25 | 25 | 26 | 26 | 26 | 27 | | | | | |
| AUM/ RO (INR m) | 12.0 | 12.5 | 12.9 | 14.0 | 14.0 | 14.0 | 13.0 | | | | | |
| AUM/ Branch (INR m) | 78 | 79 | 84 | 88 | 91 | 88 | 9 | | | | | |
| Borrower/ Branch (INR m) | 3,116 | 3,223 | 3,381 | 3,452 | 3,513 | 3,381 | 3,260 | | | | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| AUM (INR B) | 73.9 | 80.5 | 86.5 | 93.0 | 97.1 | 100.3 | 106.9 | | | | | |
| Change YoY (%) | 59.6 | 54.5 | 44.5 | 37.0 | 31.4 | 24.6 | 23.6 | | | | | |
| Disbursements (INR B) | 19.8 | 20.5 | 21.9 | 23.7 | 22.8 | 23.4 | 27.1 | | | | | |
| Change YoY (%) | | 27.4 | 22.2 | 17.7 | 15.2 | 14.2 | 24.0 | | | | | |
| Borrowings (INR B) | 60.1 | 65.5 | 65.4 | 67.8 | 71.9 | 75.3 | 80.2 | | | | | |
| Change YoY (%) | | | | 17.4 | 19.6 | 15.0 | 22.7 | | | | | |
| Borrowings/Loans (%) | 90.4 | 93.0 | 86.5 | 84.3 | 85.5 | 86.6 | 85.8 | | | | | |
| Debt/Equity (x) | 4.2 | 4.3 | 3.0 | 2.9 | 2.9 | 2.9 | 3.0 | | | | | |
| Asset Quality (%) | | | | | | | | | | | | |
| GS 3 (INR M) | 2,529 | 2,803 | 2,894 | 2,889 | 2,790 | 2,411 | 2,939 | | | | | |
| G3 % | 3.7 | 3.8 | 3.7 | 3.5 | 3.2 | 2.7 | 3.0 | | | | | |
| NS 3 (INR M) | 928 | 799 | 751 | 708 | 664 | 569 | 730 | | | | | |
| NS3 % | 1.4 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 0.8 | | | | | |
| PCR (%) | 63.3 | 71.5 | 74.0 | 75.5 | 76.2 | 76.4 | 75.2 | | | | | |
| ECL (%) | 3.5 | 3.9 | 3.7 | 3.7 | 3.8 | 3.3 | 3.2 | | | | | |
| Return Ratios - YTD (%) | | | | | | | | | | | | |
| ROA (Rep) | 4.0 | 4.8 | 4.7 | 5.0 | 5.0 | 4.9 | 4.7 | | | | | |
| ROE (Rep) | 21.8 | 26.0 | 22.0 | 20.2 | 20.2 | 20.0 | 19.1 | | | | | |

E: MOFSL Estimates



Highlights from the management commentary

Business update

- AUM grew 24% YoY to INR107b.
- Disbursements stood at ~INR27.2b and grew ~16% QoQ despite calibrating its growth in some geographies and maintaining one of the lowest ticket sizes in the industry.
- Added ~78 new branches in 3Q; 70% of the new branches were added in Non-Top 5 states.
- Total customer base stood at 3.8m, which grew ~11% YoY (in line with the guidance of 10-12%).
- FUSION has a credit rating of A+ from all three credit rating agencies.
- 3QFY24 PAT of ~INR1.26b grew ~23% YoY and 9MFY24 PAT of INR3.7b grew ~37% YoY.

Guidance

- On track to deliver AUM growth of mid-20s in FY24.
- Confident of FY24 credit costs to be contained at ~3.5% and normalized credit costs from FY25 onward.
- Guides for cross-cycle RoA of 4.25%-4.5% and RoE of ~18-20%.
- Disbursement momentum will continue despite calibration in few states.
- GS3 of 1.75%-2.0% is sustainable - there is still a pool of loans, which would be written-off.

Yields, CoB and Margins

- CoB declined ~10bp QoQ to 10.45%. It will look to further diversify its liability mix to reduce dependence on bank loans.
- NIM expanded ~42bp QoQ to 11.54%, in line with guidance of ~11.2-11.5%.
- Once it sees benefits on CoB, it might pass on the benefits to customers, but there are no such immediate plans to reduce lending rates.

Asset Quality

- FUSION in its 2Q earnings call highlighted lower CE in Rajasthan, Gujarat, and Haryana.
- 60+dpd in Punjab was >20% as of Jan'24.
- GS3/NS3 stood at ~3.05%/0.77%.
- Punjab portfolio of ~INR805m was reclassified from Stage 1 to Stage 3. Fusion has ~16% provisions on the Punjab portfolio.
- Targets to open total 200 branches in FY24 (including 150+ branches opened in 9MFY24).
- 270+dpd loans were written-off particularly from the Punjab portfolio.
- Front-loaded some of the asset quality stress and credit costs so that it can start FY25 on a clean slate. It does not plan to utilize the management overlay in the next quarter.
- Out of ~102 branches in TN, only ~19-20 branches were impacted by the floods; however, collections have started recovering in those branches too.

Updates on Punjab/Haryana portfolio

- Only certain districts of Punjab were impacted by the narrative of loan waivers.
- CE in Punjab stood at ~82% in Dec'23 but dropped by 5-6% in the first few days of Jan'24. CE has now stabilized and may not deteriorate further.

- Completely stopped disbursements in Punjab since Dec'23
- Expects some slippages in 4Q from in Punjab and Haryana; Collection patterns have stabilized in the last 10-12 days
- Engaging with the Punjab administration and reaching out to customers to educate them against these mischievous elements. MFIN delegation has met the Finance Minister of Punjab and there could be some action soon.
- Two Fusion MFI veterans are looking into Punjab collections. Also, it is engaging local people to impress upon customers the impact it can have on their bureau scores and their inability to borrow from other MFIs as well.
- The situation is evolving in Punjab and a majority of stress in Punjab has already been taken in 3QFY24.
- The Punjab portfolio declined to INR3.62b as of Jan'24, while the Haryana portfolio stood at ~INR2.5b.

Others

- About 70% of new branches were added in non-Top 5 states. 67 branches (out of 156 branches) were added in AP, Telangana, and Karnataka.
- It remains committed to new states like Karnataka, AP, and Telangana - for the long term, it focuses on its strategy of diversification.
- Derecognized interest income of ~INR188m because of reclassification of a Stage 1 portfolio into Stage 3.
- The cost-income ratio rose by ~40bp QoQ due to the opening of 78 branches pan-India and additional manpower of 1,155 in the quarter.
- Average outstanding stood at INR27.2k (which is one of the lowest in MFI industry as per MFIN data).
- Top 5 States form ~70.4% of the AUM. UP stood at INR23.3b, Bihar at INR20b, Odisha at INR12.17b, MP at INR9.7b and TN at INR6.9b.
- Average yields of ~23% and loan processing fees of ~1.25% on two-year loans.
- ~60% of the MSME book (AUM of INR4.6b) is secured.

Story in charts

Exhibit 1: Disbursements grew 24% YoY...

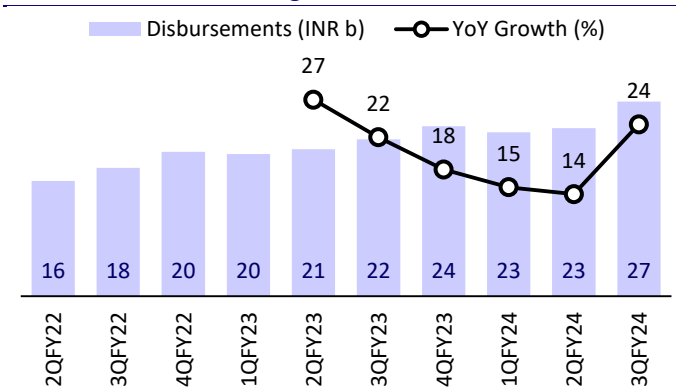


Exhibit 2: ...driving 24% YoY growth in AUM

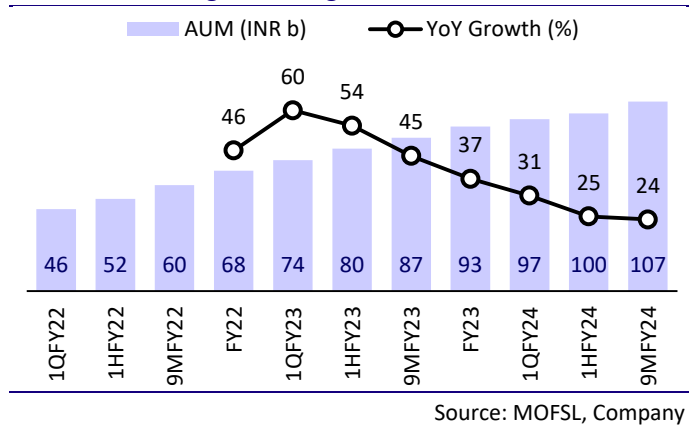
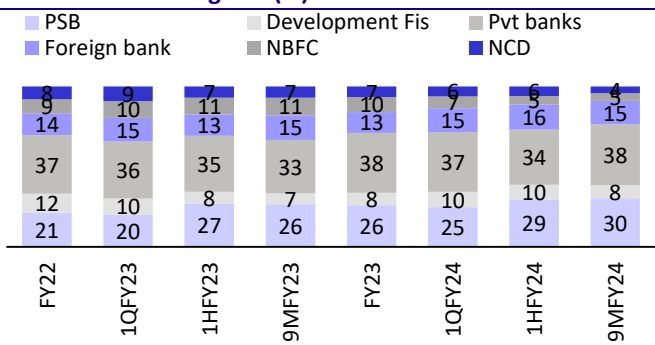
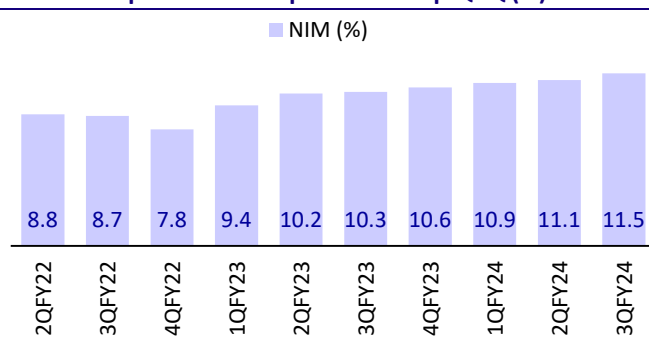


Exhibit 3: Borrowing mix (%)



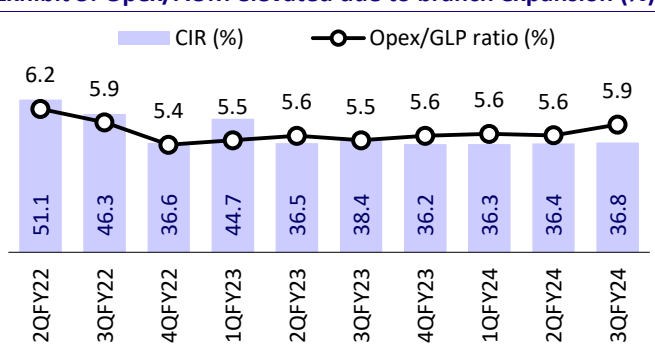
Source: MOFSL, Company

Exhibit 4: Reported NIM expanded ~40bp QoQ (%)



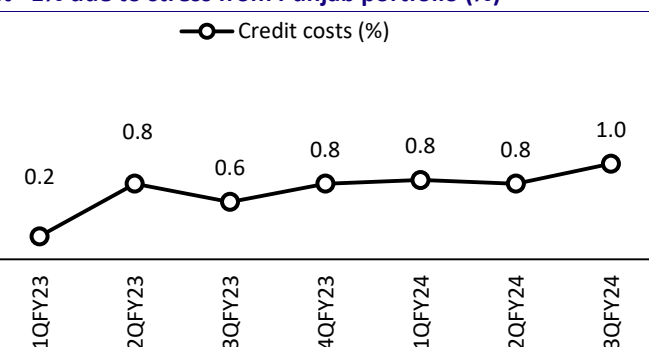
Source: MOFSL, Company

Exhibit 5: Opex/AUM elevated due to branch expansion (%)



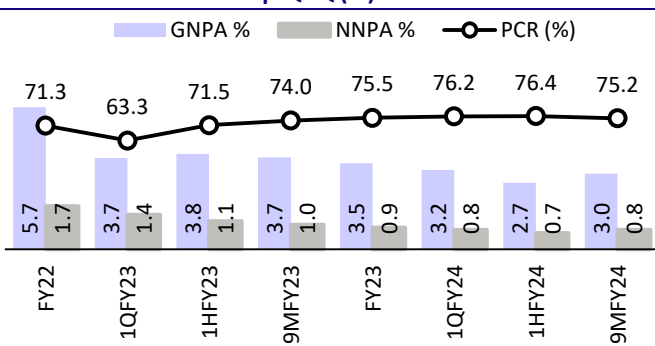
Source: MOFSL, Company

Exhibit 6: Credit costs (non-annualized) remained elevated at ~1% due to stress from Punjab portfolio (%)



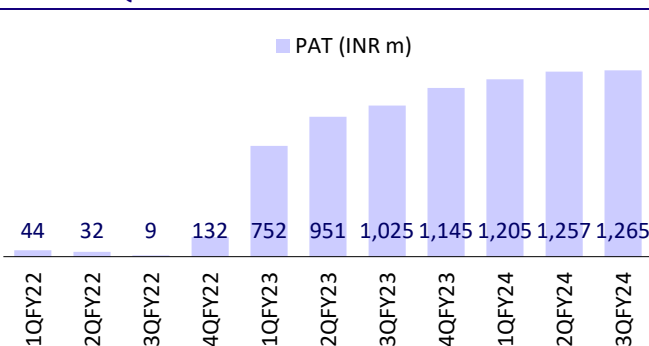
Source: MOFSL, Company

Exhibit 7: GS3 rose ~35bp QoQ (%)



Source: MOFSL, Company

Exhibit 8: 3QFY24 PAT stood at ~INR1.3b



Source: MOFSL, Company

Exhibit 9: Cut our FY24/FY25 EPS estimates by ~4%/2% to factor in higher opex and credit costs

| INR B | Old Est. | | | New Est. | | | % change | | |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 |
| NII | 12.7 | 15.7 | 19.6 | 13.0 | 15.8 | 19.4 | 2.5 | 0.5 | -0.9 |
| Other Income | 2.9 | 3.1 | 3.4 | 3.0 | 3.2 | 3.5 | 3.8 | 3.4 | 3.1 |
| Total Income | 15.6 | 18.8 | 23.0 | 16.0 | 19.0 | 22.9 | 2.7 | 0.9 | -0.3 |
| Operating Expenses | 5.7 | 7.0 | 8.3 | 5.9 | 7.1 | 8.4 | 3.7 | 2.2 | 1.0 |
| Operating Profits | 9.9 | 11.8 | 14.6 | 10.1 | 11.9 | 14.5 | 2.2 | 0.2 | -1.0 |
| Provisions | 2.7 | 2.3 | 2.8 | 3.2 | 2.5 | 2.8 | 19.6 | 10.9 | 0.0 |
| PBT | 7.2 | 9.6 | 11.8 | 6.9 | 9.4 | 11.6 | -4.4 | -2.3 | -1.2 |
| Tax | 1.8 | 2.3 | 2.9 | 1.7 | 2.3 | 2.9 | -4.8 | -2.3 | -1.2 |
| PAT | 5.4 | 7.2 | 8.9 | 5.2 | 7.1 | 8.8 | -4.2 | -2.3 | -1.2 |
| AUM | 115 | 144 | 177 | 115 | 144 | 177 | 0.2 | 0.0 | 0.0 |
| Borrowings | 83 | 101 | 122 | 85 | 101 | 122 | 2.2 | 0.0 | 0.0 |
| RoA | 5.2 | 5.6 | 5.7 | 4.9 | 5.5 | 5.6 | -5.0 | -2.8 | -0.9 |
| RoE | 20.9 | 22.4 | 22.1 | 20.1 | 22.1 | 22.1 | -3.8 | -1.4 | -0.1 |

Source: MOFSL, Company

Financials and valuations

| Income Statement | | | | | | | | | (INR M) |
|----------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Interest Income | 2,545 | 4,694 | 6,665 | 8,276 | 10,643 | 16,001 | 20,937 | 25,351 | 30,887 |
| Interest Expenses | 1,366 | 2,540 | 3,377 | 3,751 | 4,960 | 6,428 | 7,915 | 9,589 | 11,481 |
| Net Interest Income | 1,179 | 2,154 | 3,288 | 4,525 | 5,684 | 9,573 | 13,022 | 15,762 | 19,406 |
| Change (%) | 34.8 | 82.7 | 52.7 | 37.6 | 25.6 | 68.4 | 36.0 | 21.0 | 23.1 |
| Other Operating Income | 128 | 249 | 538 | 282 | 869 | 1,418 | 2,091 | 2,317 | 2,570 |
| Other Income | 0 | 27 | 100 | 173 | 501 | 580 | 871 | 906 | 942 |
| Net Income | 1,307 | 2,431 | 3,926 | 4,980 | 7,054 | 11,572 | 15,984 | 18,985 | 22,917 |
| Change (%) | 26.2 | 86.0 | | 26.8 | 41.6 | 64.1 | 38.1 | 18.8 | 20.7 |
| Operating Expenses | 1,624 | 1,540 | 1,999 | 2,204 | 3,123 | 4,448 | 5,876 | 7,110 | 8,427 |
| Change (%) | 91.3 | -5.2 | | 10.2 | 41.7 | 42.5 | 32.1 | 21.0 | 18.5 |
| Employee Expenses | 661 | 1,033 | 1,483 | 1,686 | 2,331 | 3,255 | 4,297 | 5,156 | 6,084 |
| Depreciation | 20 | 24 | 26 | 39 | 54 | 74 | 90 | 108 | 128 |
| Other Operating Expenses | 942 | 483 | 490 | 479 | 738 | 1,119 | 1,488 | 1,846 | 2,215 |
| Operating Income | -317 | 891 | 1,927 | 2,776 | 3,931 | 7,124 | 10,108 | 11,874 | 14,490 |
| Change (%) | -269.0 | -381.4 | | 44.0 | 41.6 | 81.2 | 41.9 | 17.5 | 22.0 |
| Provisions and w/off | 220 | 207 | 927 | 2,208 | 3,687 | 2,004 | 3,240 | 2,517 | 2,844 |
| PBT | -536 | 684 | 1,000 | 568 | 244 | 5,120 | 6,868 | 9,357 | 11,646 |
| Tax Provisions | -142 | 177 | 304 | 128 | 27 | 1,248 | 1,676 | 2,292 | 2,853 |
| Tax Rate (%) | 26.5 | 25.9 | 30.4 | 22.6 | 10.9 | 24.4 | 24.4 | 24.5 | 24.5 |
| PAT | -394 | 507 | 696 | 439 | 218 | 3,871 | 5,192 | 7,065 | 8,792 |
| Change (%) | -1,062 | -229 | 37 | -37 | -50 | 1,680 | 34 | 36 | 24 |

| Balance Sheet | | | | | | | | | (INR M) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Equity Share Capital | 442 | 616 | 790 | 790 | 828 | 1,003 | 1,003 | 1,003 | 1,003 |
| Reserves & Surplus | 2,298 | 5,643 | 11,199 | 11,673 | 12,552 | 22,216 | 27,408 | 34,473 | 43,265 |
| Net Worth | 2,740 | 6,259 | 11,989 | 12,464 | 13,380 | 23,219 | 28,412 | 35,476 | 44,269 |
| Borrowings | 15,980 | 29,286 | 29,737 | 44,323 | 57,758 | 67,784 | 85,156 | 1,00,679 | 1,22,255 |
| Change (%) | 151.4 | 83.3 | | 49.0 | 30.3 | 17.4 | 25.6 | 18.2 | 21.4 |
| Other liabilities | 555 | 561 | 674 | 1,593 | 1,767 | 2,632 | 3,684 | 4,790 | 6,227 |
| Total Liabilities | 19,275 | 36,105 | 42,400 | 58,379 | 72,905 | 93,635 | 1,17,252 | 1,40,945 | 1,72,750 |
| Cash and Bank balance | 5,808 | 9,905 | 8,177 | 13,353 | 11,536 | 10,650 | 16,989 | 16,578 | 20,550 |
| Investments | 5 | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans | 12,913 | 25,720 | 33,430 | 43,607 | 59,182 | 80,416 | 97,393 | 1,21,154 | 1,48,599 |
| Change (%) | 71.9 | 99.2 | | 30.4 | 35.7 | 35.9 | 21.1 | 24.4 | 22.7 |
| Fixed Assets | 50 | 55 | 60 | 183 | 192 | 212 | 238 | 266 | 298 |
| Other Assets | 499 | 420 | 727 | 1,237 | 1,995 | 2,357 | 2,633 | 2,947 | 3,303 |
| Total Assets | 19,275 | 36,105 | 42,400 | 58,379 | 72,905 | 93,635 | 1,17,252 | 1,40,945 | 1,72,750 |

E: MOFSL Estimates

Financials and valuations

Ratios

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Spreads Analysis (%) | | | | | | | | | |
| Avg. Yield on Loans | 24.9 | 24.3 | 22.5 | 21.5 | 20.7 | 22.9 | 23.6 | 23.2 | 22.9 |
| Avg Cost of Funds | 12.2 | 11.2 | 11.4 | 10.1 | 9.7 | 10.2 | 10.4 | 10.3 | 10.3 |
| Spread of loans | 12.7 | 13.1 | 11.1 | 11.4 | 11.0 | 12.7 | 13.2 | 12.9 | 12.6 |
| NIM (on gross loans) | 11.3 | 10.9 | 11.0 | 11.5 | 10.6 | 13.3 | 14.2 | 14.0 | 13.9 |
| Profitability Ratios (%) | | | | | | | | | |
| RoA | -2.5 | 1.8 | 1.8 | 0.9 | 0.3 | 4.6 | 4.9 | 5.5 | 5.6 |
| RoE | -15.9 | 11.3 | 7.6 | 3.6 | 1.7 | 21.2 | 20.1 | 22.1 | 22.1 |
| Debt: Equity (x) | 5.8 | 4.7 | 2.5 | 3.6 | 4.3 | 2.9 | 3.0 | 2.8 | 2.8 |
| Leverage (x) | 7.0 | 5.8 | 3.5 | 4.7 | 5.4 | 4.0 | 4.1 | 4.0 | 3.9 |
| CAR | 21.9 | 26.9 | 35.8 | 27.3 | 21.9 | 27.9 | 26.3 | 25.7 | 26.1 |
| o/w Tier 1 | 15.1 | 23.8 | 33.1 | 25.5 | 19.9 | 26.6 | 25.7 | 25.3 | 25.8 |
| Int. Expended / Int.Earned | 53.7 | 54.1 | 50.7 | 45.3 | 46.6 | 40.2 | 37.8 | 37.8 | 37.2 |
| Other Inc. / Net Income | 9.8 | 11.4 | 16.3 | 9.1 | 19.4 | 17.3 | 18.5 | 17.0 | 15.3 |
| Efficiency Ratios (%) | | | | | | | | | |
| Int. Expended/Int.Earned | | | | | | | | | |
| CIR | 124.2 | 63.4 | 50.9 | 44.3 | 44.3 | 38.4 | 36.8 | 37.5 | 36.8 |
| Opex/ AUM | 13.6 | 7.3 | 6.4 | 5.3 | 5.5 | 5.5 | 5.6 | 5.5 | 5.3 |
| Empl. Cost/Op. Exps. | 40.7 | 67.1 | 74.2 | 76.5 | 74.6 | 73.2 | 73.1 | 72.5 | 72.2 |
| Asset-Liability Profile (%) | | | | | | | | | |
| Loans/Borrowings Ratio | 0.8 | 0.9 | 1.1 | 1.0 | 1.0 | 1.2 | 1.1 | 1.2 | 1.2 |
| Leverage (x) | 7.0 | 5.8 | 3.5 | 4.7 | 5.4 | 4.0 | 4.1 | 4.0 | 3.9 |
| Asset Quality | | | | | | | | | |
| GNPA (INR m) | 506 | 404 | 384 | 2,559 | 3,584 | 2,889 | 2,751 | 2,967 | 3,218 |
| NNPA (INR m) | 0 | 145 | 130 | 1,024 | 1,030 | 708 | 688 | 682 | 644 |
| GNPA (%) | 3.8 | 1.5 | 1.1 | 5.5 | 5.7 | 3.5 | 2.7 | 2.3 | 2.0 |
| NNPA (%) | 0.0 | 0.6 | 0.4 | 2.3 | 1.6 | 0.8 | 0.6 | 0.5 | 0.4 |
| PCR (%) | 100 | 64 | 66 | 60 | 71 | 75 | 75 | 77 | 80 |
| Credit costs (%) | 2.1 | 1.0 | 3.1 | 5.6 | 6.9 | 2.8 | 3.5 | 2.2 | 2.0 |
| Valuations | | | | | | | | | |
| Book Value (INR) | 62 | 102 | 152 | 158 | 162 | 231 | 283 | 354 | 441 |
| BV Growth (%) | 4 | 64 | 49 | 4 | 3 | 43 | 22 | 25 | 25 |
| P/BV | 9.4 | 5.8 | 3.9 | 3.7 | 3.6 | 2.5 | 2.1 | 1.7 | 1.3 |
| EPS (INR) | -9 | 8 | 9 | 6 | 3 | 39 | 52 | 70 | 88 |
| EPS Growth (%) | | | 7 | -37 | -53 | 1368 | 34 | 36 | 24 |
| Price-Earnings (x) | -66 | 71 | 66 | 105 | 223 | 15 | 11 | 8 | 7 |

E: MOFSL Estimates

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| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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