

# Financials: Microfinance

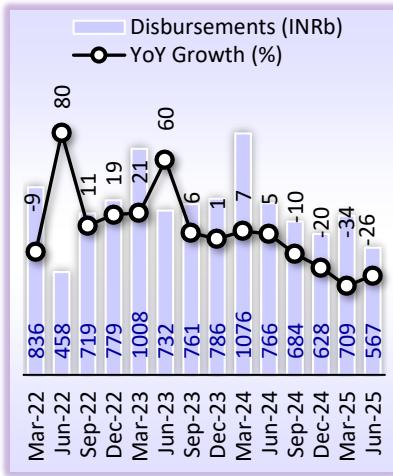
## Valuation snapshot

Companies	Rating	TP
CREDAG	BUY	1,660
FUSION	Upgrade to BUY	240
SPANDANA	Downgrade to NEUTRAL	280

**MFI industry's GLP declined ~17% YoY to ~INR3.5t (as of Jun'25)**



**MFI disbursements declined 26% YoY in 1QFY26**

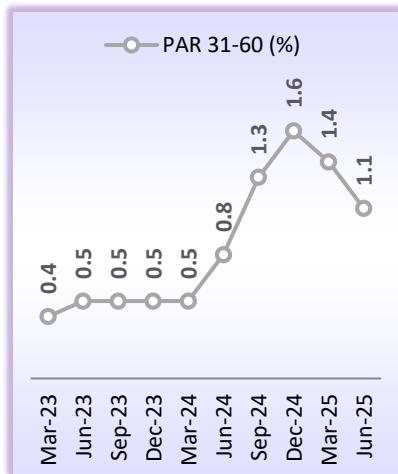


## Microfinance reset: Industry poised for a 2HFY26 revival

**On the road to normalization; structural shifts powering the next growth cycle**

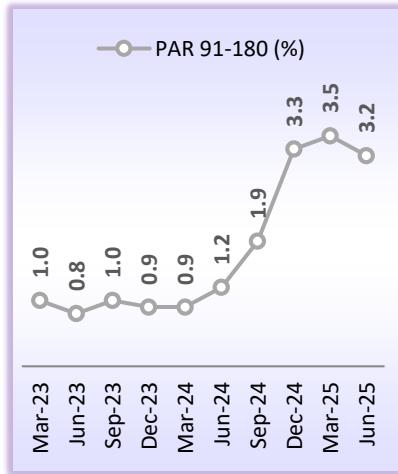
- The Microfinance (MFI) industry is experiencing a directional improvement, though the pace of recovery is slower than initially anticipated when the NBFC-MFIs reported their Jun'25 quarterly numbers. Several lenders had forecasted a complete recovery by the end of the second quarter (2QFY26), with a return to normalcy in the second half of the year. However, current sentiment suggests this recovery could be delayed by 30-45 days, or potentially by a full quarter.
- A key observation is the trend in flow rates (the rate of new delinquencies). While these rates are still decreasing, the improvement has become less pronounced in Jul-Aug'25, indicating a potential plateau or a "status quo" situation compared to the sharper reductions seen before Jun'25.
- While over-leveraging was a key concern, additional challenges, such as the Karnataka ordinance and Tamil Nadu Bill, further delayed the recovery trajectory, extending the normalization timeline for players. Although the sector is on a recovery path, the rebound remains uneven across players and states.
- Over the past year, MFI companies have undertaken several structural shifts in their operations, including: 1) the adoption of digital underwriting as a key operational transformation, 2) avoiding lending to over-leveraged borrowers with multiple lender exposure, and 3) diversifying their portfolios to reduce cyclical, aided by RBI's reduction in qualifying asset criteria. This structural shift will eventually lead to less cyclical in terms of credit costs and will provide multiple avenues for MFI companies to grow beyond JLG loans.
- The MFI industry has undergone a sharp but necessary contraction over the past year, with the gross loan portfolio (GLP) moderating to INR 3.5t as of Jun'25 (from INR 4.3t in Mar'24). This recalibration reflects a broad-based AUM reduction across players, driven by deliberate slowing of disbursements, forward flows, and accelerated write-offs, as companies addressed operational challenges and executed structural changes. With balance sheets now healthier and underwriting standards strengthened, the industry is beginning to position itself for a hopefully more sustainable growth trajectory going ahead.
- While recovery is underway, AUM growth is likely to remain subdued in 2QFY26 as most players focus on resolving residual stress and adapting to operational and strategic realignments implemented over the past year. A more pronounced acceleration in disbursements and AUM growth, along with a decline in credit costs, is expected in 2HFY26 across the sector.
- We believe the worst of this MFI credit cycle is behind us, and the MFI industry is set to gradually recover, operating with greater discipline and stronger risk management. This report provides a detailed analysis of key players, highlighting trends, recovery trajectories, and structural shifts shaping the sector. **We upgrade Fusion to BUY (TP: INR240), reiterate our BUY rating on CREDAG (TP: INR1,660), and downgrade Spandana to Neutral (TP: INR280).** We believe that the recovery will be the fastest in CREDAG, followed by Fusion and Spandana. However, in the context of current valuations, our pecking order is Fusion followed by CREDAG.

**PAR 31-60 declined in Mar'25 and further in Jun'25**



On-time collection (OTC) is emerging as a critical metric  
 - which measures the percentage of dues collected within the center meeting itself against collections made later through 'door knock'

**PAR 91-180 has started improving from 1QFY26**



We also include snippets on Muthoot Microfinance (Not Rated), Satin Credit Care (Not Rated), and IIFL Samasta (Unlisted) to provide a comprehensive overview of the NBFC-MFI sector.

**Operational transformation driven by key structural shifts**

- A key feature of the post-stress recovery phase will be the structural shift in underwriting and operating models. MFIs have strengthened their guardrails for new-to-credit customers and curtailed exposure to highly leveraged borrowers. For instance, most MFI lenders now monitor overlaps with other MFIs far more rigorously and have consciously reduced exposure to customers with three or more outstanding loans. These measures will create a more resilient portfolio and pave the way for sustainable growth.
- Proprietary underwriting scorecards, often powered by a combination of Experian/Equifax/CRIF High Mark/CIBIL data and in-house analytics, are being deployed to filter customers into more granular risk categories. Digital onboarding checks, such as time-of-day flags on loan applications or facial recognition for group meeting attendance, are soon becoming mainstream tools for ensuring discipline. These operational refinements, which were initially seen as costly or redundant, are now being validated by their impact through lower fresh slippages and stronger recoveries.
- A novel concept for the MFI sector, pre-approved loans are being offered to existing customers with no delinquencies during the recent cycle. This streamlines the process, as the system automatically determines eligibility, saving time for loan officers (field officers).
- Product evolution is emerging as a critical growth driver at the portfolio level. Aided by the RBI's revised qualifying asset norms, MFIs will diversify beyond traditional JLG loans and will look at further exploring unsecured business loans (individual retail loans), MSME, micro-LAP, and gold loans. These new offerings will enable MFI lenders to gain a higher wallet share of their existing customers (with strong repayment track record), while preserving credit discipline and robust risk management.
- On-time collection (OTC) is emerging as a critical metric. This measures the percentage of dues collected within the center meeting itself against collections made later through 'door knock'. This daily vs. monthly collection efficiency is seen as a key indicator of whether the group lending model is functioning effectively.

**Strengthening the funding landscape as lender confidence recovers**

- The ongoing credit cycle in the microfinance industry has led many lenders to incur losses as elevated credit costs have pressured profitability. This, in turn, triggered covenant breaches on several MFI borrowings, making them repayable on demand, while credit rating downgrades for a few NBFC-MFIs further increased their funding costs.
- As the industry landscape improves and many of the NBFC-MFIs gradually return to profitability, banks will regain confidence, which will lead to better availability of funding and easing of borrowing cost pressures.

Industry data suggests that worst of the forward flows are behind, with improvement observed over the past two quarters, although the pace of recovery remains slower than desired.

Assam, as a region, could require caution while in Rajasthan, manpower availability and stability are significant issues

In Karnataka, the collection efficiencies for NBFC-MFIs have been improving

While most NBFC-MFIs are guiding for normalized credit costs from 2HFY26, we expect a more meaningful earnings recovery to materialize only from 4QFY26 or in FY27.

### Better PAR trends and enhanced collection efficiency

- The industry data clearly suggests that the worst of the PAR and forward flows are behind, with improvement observed over the past two quarters, although the pace of recovery remains slower than desired.
- Collections from overdue accounts have improved significantly, supported by intensified recovery efforts, targeted legal actions, and strengthened operational measures such as SMS reminders, tele-calling, and follow-ups. Encouragingly, MFIs are also witnessing recoveries from the written-off pool, which would also support profitability in the near term.

### Regional factors influencing portfolio quality

- Assam, as a region, could require caution since a few entities have been offering higher ticket sizes there. The fundamental issue in Assam is that customers do not have the kind of absorption capacity to repay higher ticket-size loans due to their income levels. Unlike regions such as AP and Telangana, where customers might absorb slightly higher limits, in Assam, lenders should not use the full extent of guardrails and avoid granting additional loans that push customers to the overall limit.
- For a few MFIs in the state of Rajasthan, manpower availability and stability are significant issues, making it difficult to enforce changes. This lack of stability and high attrition has even hindered full recovery. More broadly, states like Punjab and Jharkhand are also showing some weakness due to recent floods. For MFIs, the impact of rains is generally a temporary, seasonal issue that resolves within two to three weeks, rather than a structural problem.
- In Karnataka, the situation and collection efficiencies have been improving. While some secured, small-ticket lenders remain cautious, most MFIs report that problems stemming from the MFI ordinance have subsided since early Apr'25, with customers no longer pushing back on repayments.

### Accelerated write-offs and legacy flows to weigh on near-term earnings

- Although fresh slippages have moderated significantly, legacy stress has to be provided for, which will keep the credit costs slightly elevated in the near term. This will weigh on near-term profitability for a few companies as they navigate through this phase.
- While most NBFC-MFIs are guiding for normalized credit costs from 2HFY26, supporting an improvement in profitability, we expect a more meaningful earnings recovery to materialize only from 4QFY26 or in FY27. This improvement will be driven by a combination of stronger AUM growth, minor NIM expansion from a gradual decline in the cost of borrowings, a reduction in interest income reversals, a moderation in cost ratios as AUM growth accelerates, and lower credit costs.

### The JLG model: Group for collection, not just joint liability

- While banks have been vocal about the weakening of the JLG model, they paradoxically still insist on JLG loans as underlying assets for their term loans. Microfinance serves as a seasoning period for customers, who can then graduate to individual loans. A sudden shift away from the group model will be

risky, as it would disrupt the operational economics that allow a single employee to manage 300-400 customers.

- While the group structure is maintained, its purpose is evolving. The group structure in MFI is there for better collection rather than solely for joint liability, making it financially sensible and easier to collect from customers (even from those with larger ticket sizes).

### Valuation and View

- Business growth remains a secondary focus for most MFI players, as the primary concern is stabilizing asset quality and collections. The consensus is that only after overcoming the "hump of collections" will institutions pivot to growth strategies focused on disbursements and AUM growth.
- The MFI sector is emerging out of a stress cycle, with signs of normalization visible in collection efficiencies, flow rates, and PAR trends. Profitability in the very near term (over the next one to two quarters) will remain weighed down by muted AUM growth, high-cost ratios, and elevated credit costs. However, we expect earnings to exhibit a strong recovery from 4QFY26 or FY27 onwards. NBFC-MFIs (except CREDAG) are trading at undemanding valuations of 0.5x-1.1x FY27E BV, factoring in near-term stress but not fully capturing the upside from structural shifts in underwriting, portfolio diversification, and subsequent improvement in operating leverage.
- We believe that the worst of this MFI asset quality cycle is now clearly behind us, and companies with stronger risk frameworks, prudent geographic diversification, and better access to funding will outperform peers as the industry normalizes. **We upgrade Fusion to BUY (TP: INR240), reiterate our BUY rating on CREDAG (TP: INR1,660), and downgrade Spandana to Neutral (TP: INR280).**

Upgrade Fusion to BUY, reiterate BUY on CREDAG, and downgrade Spandana to Neutral.

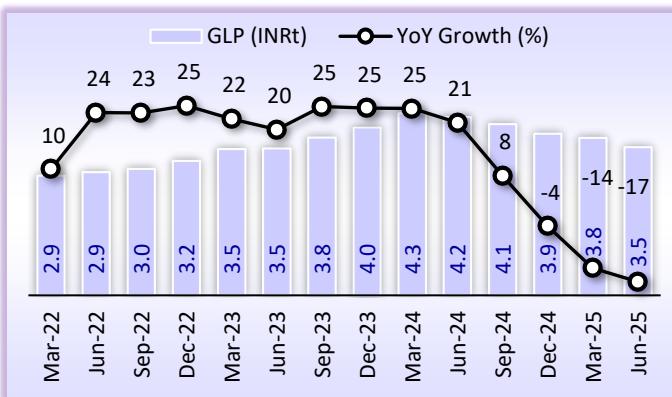
### Valuation summary of NBFC-MFIs

Val summary	Rating	CMP (INR)	TP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
					FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
CreditAccess	Buy	1,417	1,660	222	52.6	108.3	488	596	2.8	5.0	11.4	20.0	26.9	13.1	2.9	2.4
Fusion Finance	Buy	193	240	31	-0.02	20.8	126	172	0	4.3	0	14.0	-	9.3	1.5	1.1
Spandana Sphoorty	Neutral	256	280	18	-83	30	244	297	-8.3	3.2	-27.7	11.1	-	8.5	1.0	0.9
Muthoot Microfinance*	NR	165	NA	28	11.6	22.9	169	191	1.8	3.1	7.1	12.7	14.2	7.2	1.0	0.9
Satin credit care*	NR	145	NA	16	23.7	32.7	255	287	2.8	3.1	12.5	14.0	6.1	4.4	0.6	0.5

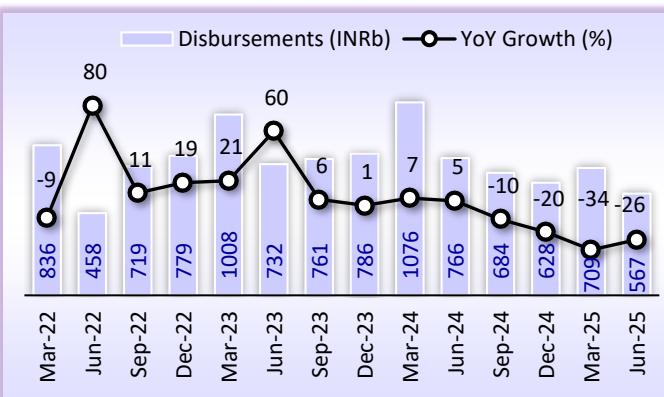
Note: \*refers to Bloomberg estimates and NR denotes Not Rated; Source: Company, MOFSL

## MFI industry overview

MFI industry's GLP declined ~17% YoY as of Jun'25



MFI disbursements declined 26% YoY in 1QFY26



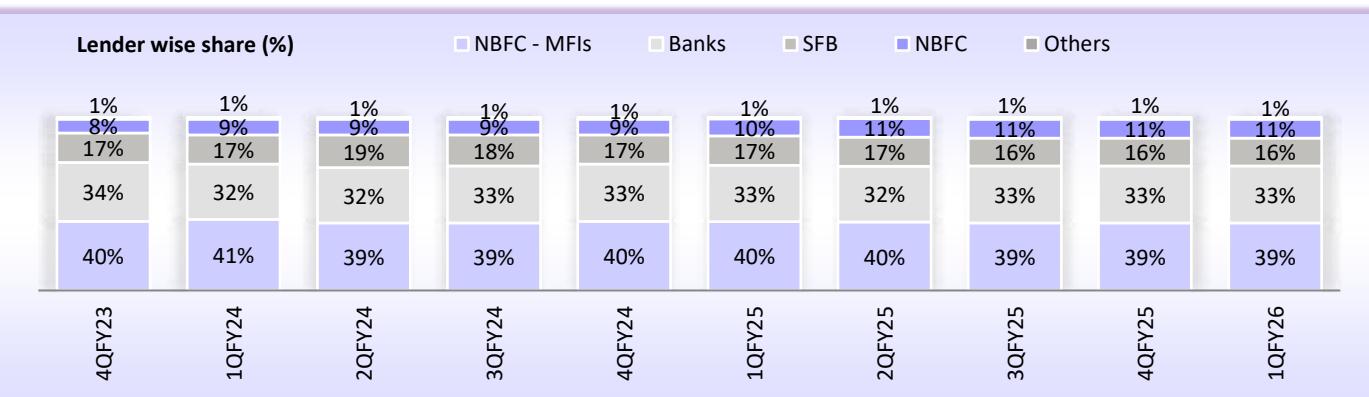
Unique borrowers have continued to dip



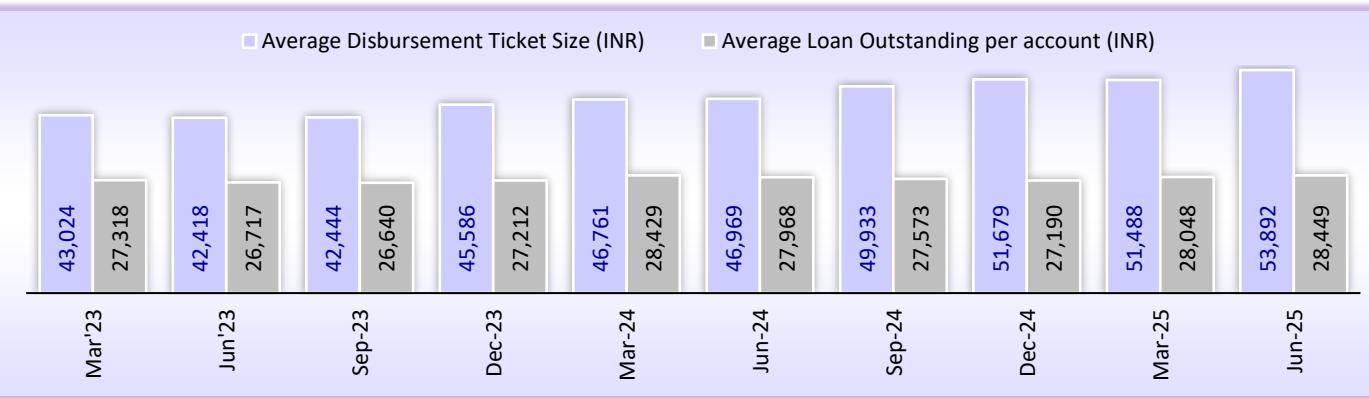
Number of loan accounts have continued to decline



NBFC-MFIs still hold the largest share of outstanding MFI loans

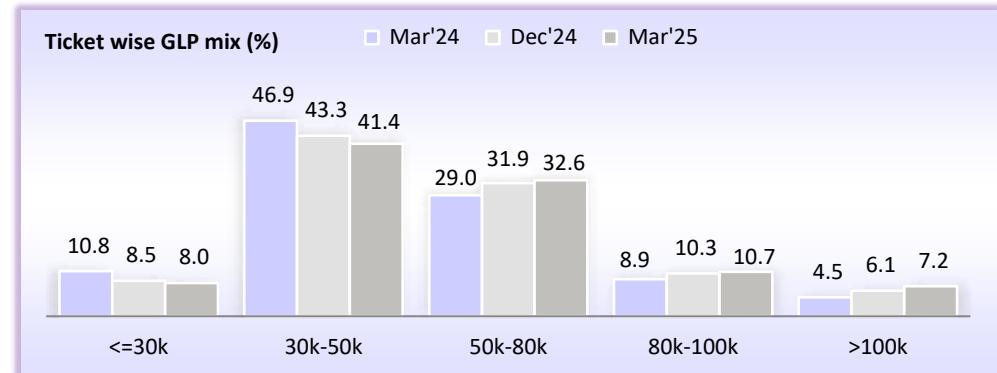


Average disbursement ticket size in Microfinance has continued to rise



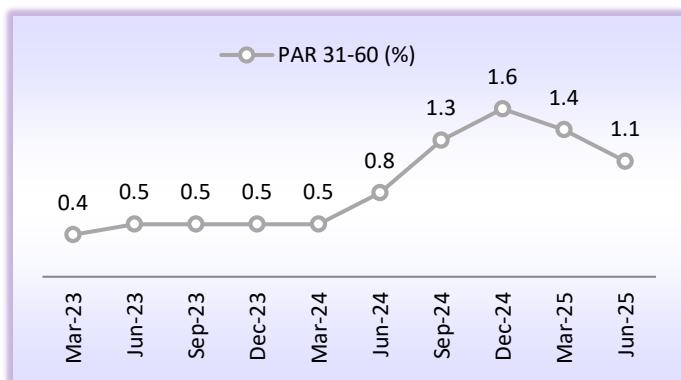
Source: MFIN, MOFSL

**More than 70% of MFI loans are between ticket sizes of INR30k-INR80k (as on Mar'25)**



Source: CRIF, MOFSL

**PAR 31-60 declined in Mar'25 and further in Jun'25**



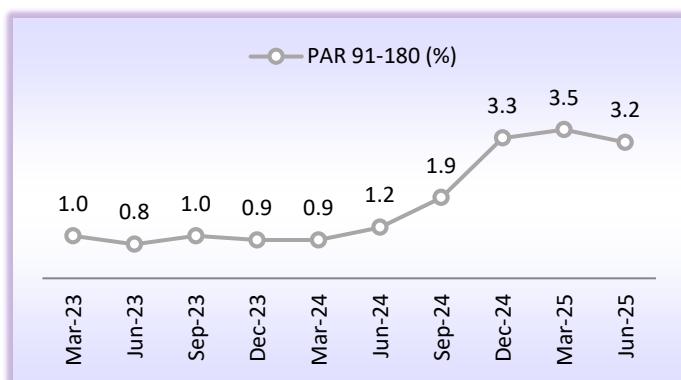
Source: MFIN, MOFSL

**PAR 61-90 remained stable as of Jun'25**



Source: MFIN, MOFSL

**PAR 91-180 has started improving from 1QFY26**



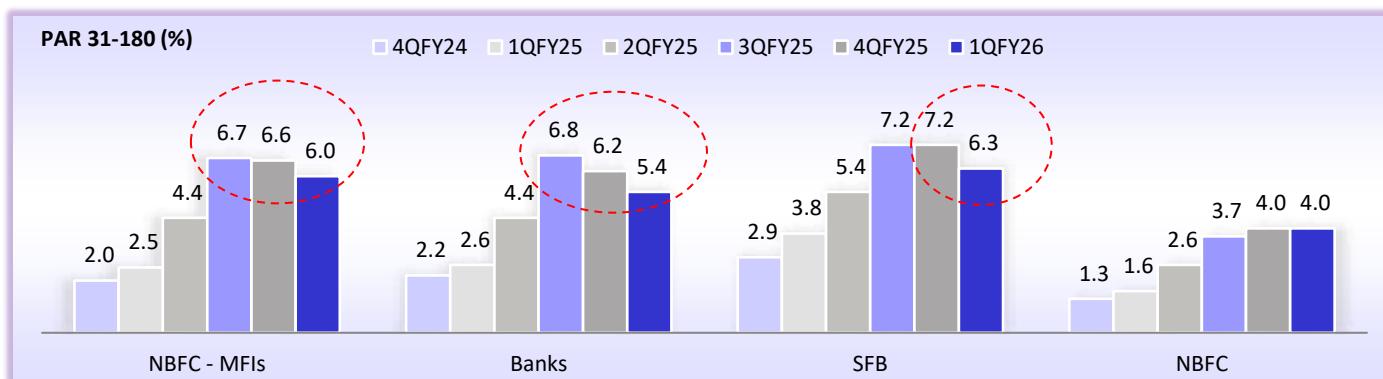
Source: MFIN, MOFSL

**PAR >180 has continued to rise**



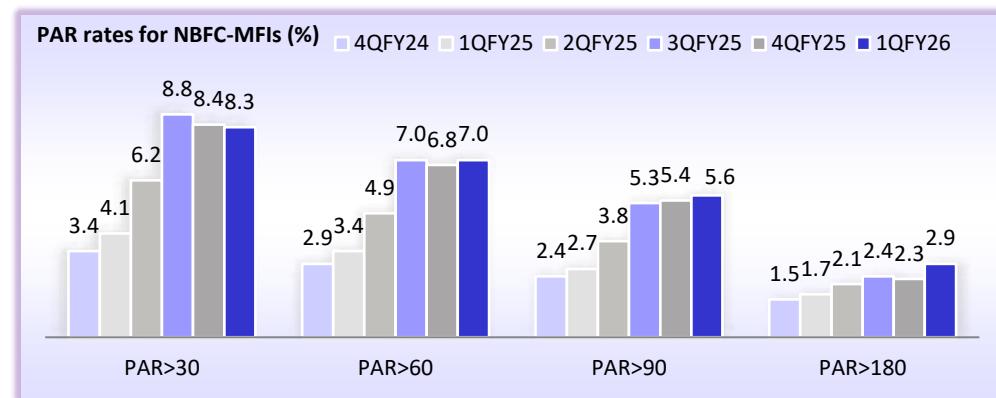
Source: MFIN, MOFSL

**Broad-based decline in PAR>30 across lenders over the past two quarters**



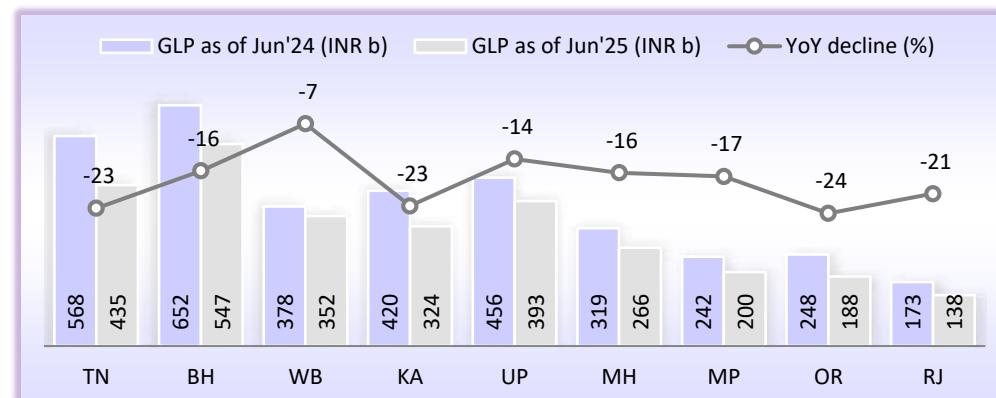
Source: MFIN, MOFSL

**PAR>30 for NBFC-MFIs has exhibited improvement from 1QFY26**



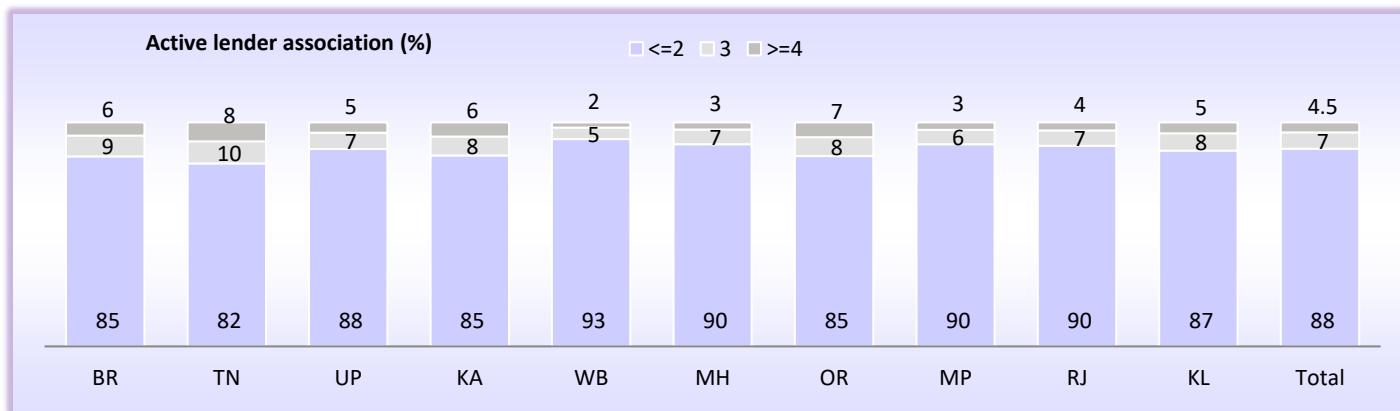
Source: MFIN, MOFSL

**TN, KA, and OR witnessed the steepest GLP contraction over the last 12 months**



Source: MFIN, MOFSL

**Overall, 11.7% of borrowers had  $\geq 3$  active lender associations as of Mar'25**



Source: CRIF, MOFSL; Data as of Mar'25

# CreditAccess Grameen

BSE SENSEX	S&P CNX
81,160	24,891



Bloomberg	CREDAG IN
Equity Shares (m)	160
M.Cap.(INRb)/(USDb)	226.4 / 2.6
52-Week Range (INR)	1431 / 750
1, 6, 12 Rel. Per (%)	2/41/20
12M Avg Val (INR M)	1243

## Financials & Valuations (INR b)

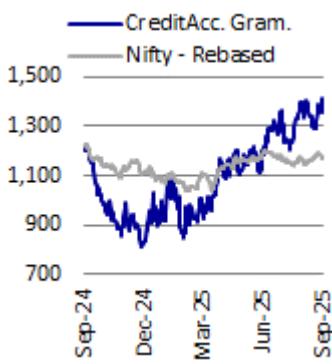
Y/E March	FY25	FY26E	FY27E
NII	36.0	38.8	45.4
Total Income	38.1	41.9	48.9
PPoP	26.4	28.0	33.2
PAT	5.3	8.4	17.3
EPS (INR)	33	53	108
EPS Gr. (%)	-63	58	106
BV (INR)	436	488	596
Ratios (%)			
NIM	14.6	15.0	14.8
C/I ratio	30.7	33.2	32.2
Credit cost	7.5	6.2	3.2
RoA	1.9	2.8	5.0
RoE	7.9	11.4	20.0
Valuations			
P/E (x)	42.6	26.9	13.1
P/BV (x)	3.3	2.9	2.4

## Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	66.4	66.4	66.6
DII	12.8	12.7	16.3
FII	12.1	11.4	10.9
Others	8.7	9.5	6.3

FII Includes depository receipts

## Stock's performance (one-year)



**CMP: INR1,417 TP: INR1,660 (+17%)**

**Buy**

## Normalization in sight; poised for a stronger 2H

Industry normalization few quarters away but CREDAG set for a strong recovery

- CreditAccess Grameen (CREDAG) continues to demonstrate resilience in a challenging operating environment, leveraging its strong franchise, disciplined underwriting, and proactive risk management practices. Management's consistent focus on operational efficiency and prudent growth positions CREDAG well to sustain momentum as conditions normalize.
- While 2QFY26 is expected to broadly mirror 1Q in terms of operating performance, with steady credit costs and a flat AUM, profitability is likely to clock a gradual recovery. A more meaningful rebound is anticipated in 2HFY26, underpinned by stronger business momentum and improvement in PAR rates.
- The company indicated that it has moved past the recent stress cycle, with incremental PAR stabilizing at ~40bp and expected to decline further from 3Q onwards. It also expects to complete its accelerated write-off exercise in 2Q, thereby clearing all historical stress. While this may result in elevated credit costs during 2Q, the company remains confident of meeting its full-year guidance.
- The funding environment has turned favorable for CREDAG, with the marginal cost of funds easing to ~9.3-9.4%. At the portfolio level, CoF has moderated to 9.7% from 9.8% and is likely to dip further to ~9.5% by year-end. With this expected reduction, management anticipates an expansion in margins going forward.
- With AUM growth expected to accelerate in 2HFY26 and operating leverage gains beginning to materialize, the company anticipates RoAs to trend upwards towards 4% in 2HFY26. The company is also pursuing product diversification, supported by a reduction in qualifying asset criteria.
- CREDAG is well-placed to embark on a healthy loan growth trajectory as delinquency trends show further signs of normalization. CREDAG trades at 2.4x FY27E P/BV, and its premium valuation over MFI peers is likely to be sustained, driven by stronger confidence in its ability to return to normalcy ahead of its peers. Reiterate **BUY** with a TP of INR1,660 (based on 2.5x Sep'27E P/BV).

## Improvement in PAR rates driving moderation in credit costs

- CREDAG has been witnessing steady MoM improvement in PAR levels, with Aug'25 showing better performance than Jul'25. The Sept'25 trend will be an important indicator of whether this momentum can be sustained. While rainfall-related disruptions have impacted a few states, the company has managed to recover within 2-3 weeks.
- Management expects FY26 credit costs to remain within the guided range, as most of the historical stress has already been absorbed through accelerated write-offs, leaving limited residual risk. With PAR levels normalizing, we expect the company to comfortably meet its credit cost guidance, and even in the event of a minor setback, the impact would likely be limited to 30-40bp, underscoring strong earnings visibility going forward.

### Evolving industry landscape with strengthening operations

- CREDAG highlighted that most stressed customers have already exited the system, and the broader industry is expected to normalize by the end of FY27. It also noted that all MFI players are strictly adhering to the recent MFIN guardrails, a trend that is visibly reflected across the sector.
- While some banks have been vocal about the weakening of the JLG model, CREDAG's internal belief is that the MFI group loan serves as a "seasoning period" for customers, who can then graduate to individual loans. An abrupt shift away from the group model is seen as risky, as it would disrupt the operational economics that allow a single employee to efficiently manage 350-400 customers. The company takes NACH mandates for all individual loans, but not for group loans.
- Attrition has eased over the past six months, supported by improved employee retention initiatives. CREDAG has also strengthened operational processes across select geographies to address gaps, with enhanced and stricter collection practices. These measures include reminder calls, letters, direct customer interactions, and the deployment of additional quality teams to reinforce collections.

### Diversifying into a non-MFI portfolio without any tradeoff in margins

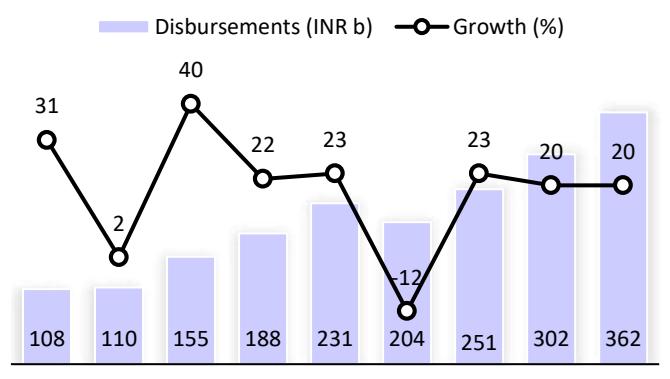
- CREDAG is proactively diversifying its portfolio by leveraging its existing customer base while retaining the MFI business as its primary entry point and gradually expanding into other retail products.
- In the non-MFI segment, the company plans to focus on unsecured business loans suited to its customer profile, alongside loans against property and affordable home loans. Additionally, a pilot for 2W is currently going on.

### Valuation and View

- CREDAG has successfully navigated a period of industry-wide challenges, demonstrating remarkable resilience and a return to normal operational efficiency. With stress largely absorbed through accelerated write-offs, the company is well-positioned to pursue a healthy loan growth trajectory with limited risk of incremental forward flows.
- We expect CREDAG to deliver AUM/PAT CAGR of ~20%/59% over FY25-FY28 and RoA/RoE of 5.1%/20% in FY27. **We reiterate our BUY rating on the stock with a TP of INR1,660 (based on 2.5x Sep'27E P/BV).**

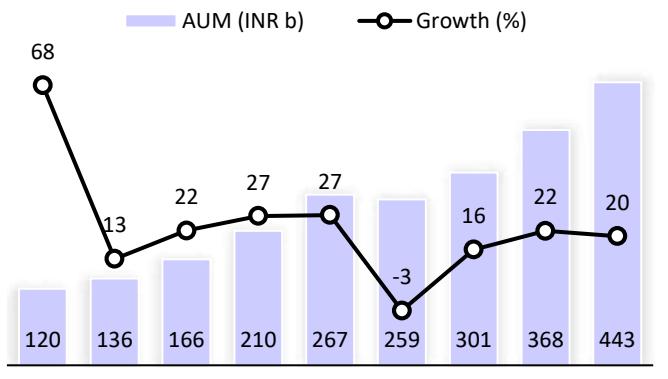
## STORY IN CHARTS

Exhibit 1: Disbursement CAGR of ~21% over FY25-FY28E



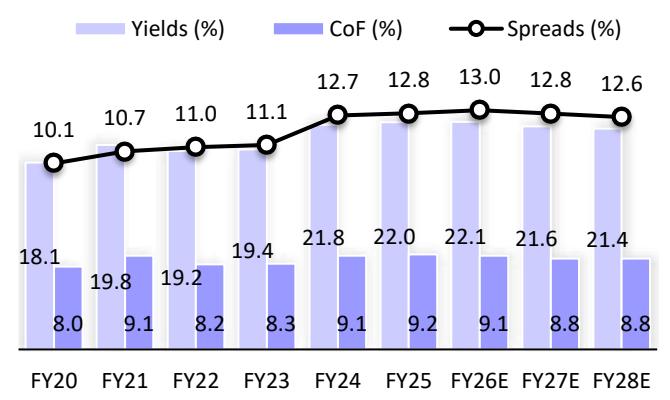
Source: MOFSL, Company

Exhibit 2: AUM CAGR of ~20% over FY25-28E



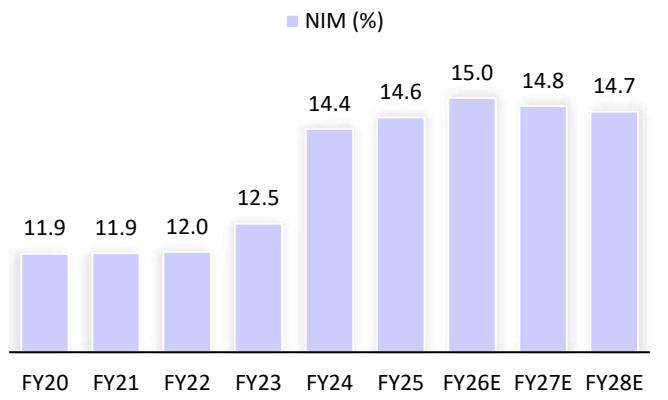
Source: MOFSL, Company

Exhibit 3: Expect ~20bp expansion in spreads in FY26



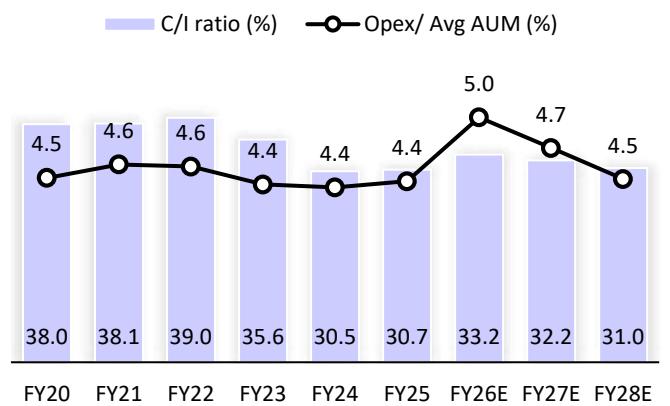
Source: MOFSL, Company

Exhibit 4: Expect a NIM expansion of ~40bp in FY26



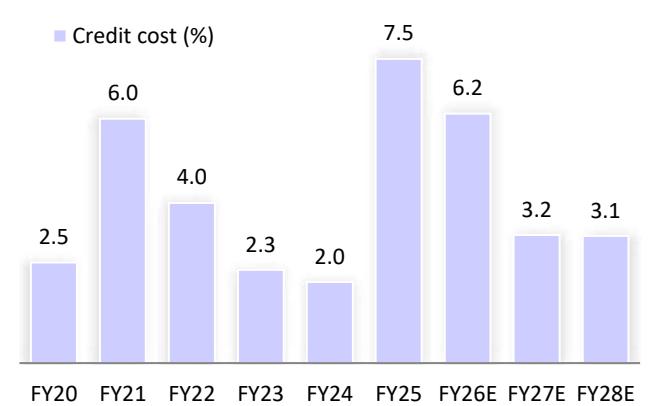
Source: MOFSL, Company

Exhibit 5: Cost ratios to improve from FY27E



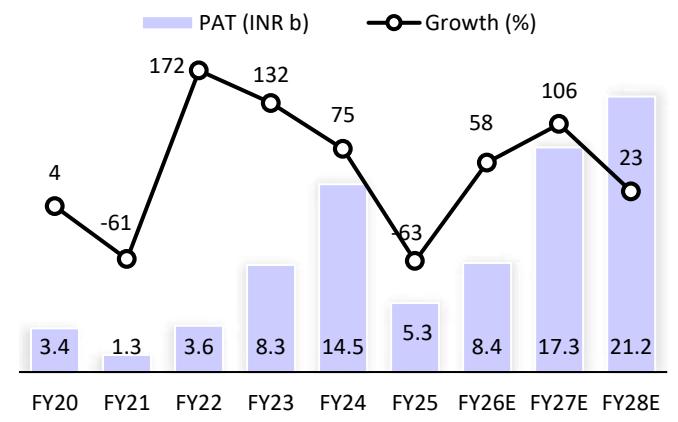
Source: MOFSL, Company

Exhibit 6: Credit costs to moderate in FY26/FY27E



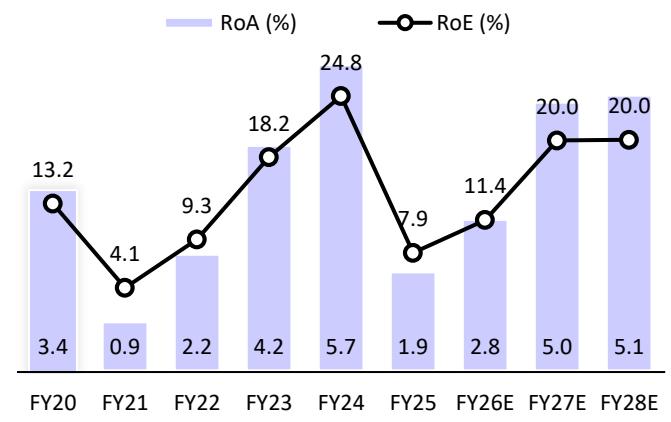
Source: MOFSL, Company

**Exhibit 7: Expect a PAT CAGR of ~59% over FY25-28**



Source: MOFSL, Company

**Exhibit 8: RoA/RoE at 5.1%/20.0% in FY28E**



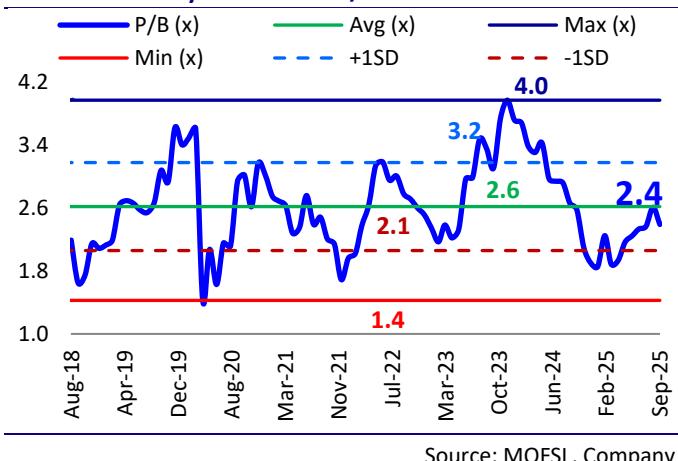
Source: MOFSL, Company

**Exhibit 9: We cut our FY26E EPS by ~7% to factor in slightly higher credit costs**

INR B	Old Est.		New Est.		% change	
	FY25	FY26	FY25	FY26	FY25	FY26
NII	38.8	45.2	38.8	45.4	-0.1	0.6
Other Income	3.1	3.4	3.1	3.5	0.0	1.9
<b>Total Income</b>	<b>41.9</b>	<b>48.6</b>	<b>41.9</b>	<b>48.9</b>	<b>0.0</b>	<b>0.6</b>
Operating Expenses	13.9	15.8	13.9	15.8	0.0	0.0
<b>Operating Profits</b>	<b>28.0</b>	<b>32.8</b>	<b>28.0</b>	<b>33.2</b>	<b>-0.1</b>	<b>1.0</b>
Provisions	16.0	10.2	16.8	10.1	4.9	-1.4
<b>PBT</b>	<b>12.0</b>	<b>22.6</b>	<b>11.2</b>	<b>23.1</b>	<b>-6.7</b>	<b>2.0</b>
Tax	3.0	5.6	2.8	5.8	-6.7	2.0
<b>PAT</b>	<b>9.0</b>	<b>16.9</b>	<b>8.4</b>	<b>17.3</b>	<b>-6.7</b>	<b>2.0</b>
AUM	301	368	301	368		
Borrowings	231	277	230	278		
RoA	3.0	4.9	2.8	5.0		
RoE	12.2	19.5	11.4	20.0		

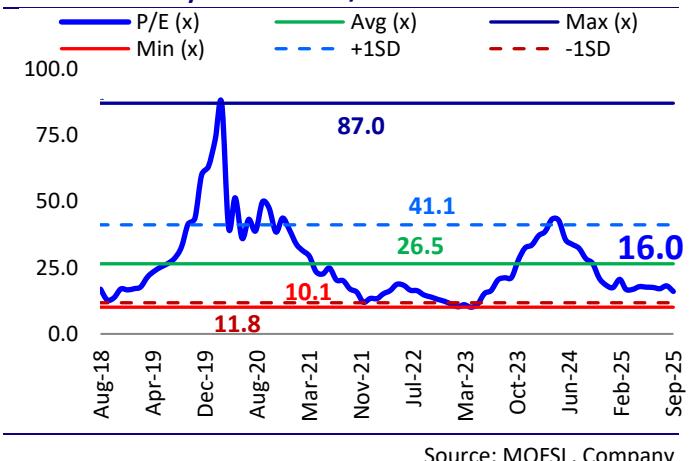
Sources: MOFSL

**Exhibit 10: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 11: One-year forward P/E**



Source: MOFSL, Company

## Financials and valuations

Income Statement										(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	12,183	16,334	22,900	25,673	33,271	49,001	55,468	58,543	67,785	81,037
Interest Expended	4,168	5,783	9,287	9,841	12,129	17,324	19,476	19,725	22,371	26,587
<b>Net Interest Income</b>	<b>8,016</b>	<b>10,551</b>	<b>13,613</b>	<b>15,832</b>	<b>21,143</b>	<b>31,677</b>	<b>35,992</b>	<b>38,818</b>	<b>45,413</b>	<b>54,450</b>
Change (%)	58.4	31.6	29.0	16.3	33.5	49.8	13.6	7.9	17.0	19.9
Other Income	650	721	1,760	1,825	2,237	2,725	2,094	3,087	3,505	3,951
<b>Net Income</b>	<b>8,666</b>	<b>11,271</b>	<b>15,373</b>	<b>17,657</b>	<b>23,379</b>	<b>34,402</b>	<b>38,086</b>	<b>41,905</b>	<b>48,919</b>	<b>58,401</b>
Change (%)	67.3	30.1	36.4	14.9	32.4	47.1	10.7	10.0	16.7	19.4
Operating Expenses	2,940	4,283	5,856	6,885	8,315	10,493	11,702	13,893	15,767	18,092
<b>Operating Income</b>	<b>5,726</b>	<b>6,989</b>	<b>9,517</b>	<b>10,772</b>	<b>15,064</b>	<b>23,910</b>	<b>26,384</b>	<b>28,012</b>	<b>33,152</b>	<b>40,309</b>
Change (%)	81.9	22.1	36.2	13.2	39.8	58.7	10.3	6.2	18.3	21.6
Provisions and W/Offs	749	2,373	7,714	5,968	4,010	4,518	19,295	16,800	10,094	12,017
<b>PBT</b>	<b>4,977</b>	<b>4,616</b>	<b>1,803</b>	<b>4,805</b>	<b>11,054</b>	<b>19,392</b>	<b>7,089</b>	<b>11,212</b>	<b>23,058</b>	<b>28,291</b>
Tax	1,760	1,261	490	1,237	2,794	4,933	1,775	2,803	5,764	7,073
Tax Rate (%)	35.4	27.3	27.2	25.7	25.3	25.4	25.0	25.0	25.0	25.0
<b>PAT</b>	<b>3,218</b>	<b>3,355</b>	<b>1,313</b>	<b>3,568</b>	<b>8,261</b>	<b>14,459</b>	<b>5,314</b>	<b>8,409</b>	<b>17,293</b>	<b>21,219</b>
Change (%)	51.4	4.3	-60.9	171.7	131.5	75.0	-63.2	58.2	105.6	22.7
Proposed Dividend (Incl Tax)	0	0	0	0	0	1,594	0	0	0	0

Balance Sheet										(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	1,436	1,440	1,556	1,559	1,589	1,594	1,597	1,597	1,597	1,597
Reserves & Surplus	22,215	25,902	35,360	38,218	49,481	64,106	67,963	76,372	93,665	1,14,884
<b>Net Worth</b>	<b>23,651</b>	<b>27,342</b>	<b>36,916</b>	<b>39,777</b>	<b>51,070</b>	<b>65,700</b>	<b>69,560</b>	<b>77,969</b>	<b>95,262</b>	<b>1,16,481</b>
<b>Borrowings</b>	<b>48,666</b>	<b>95,397</b>	<b>1,09,413</b>	<b>1,29,207</b>	<b>1,63,123</b>	<b>2,18,410</b>	<b>2,04,458</b>	<b>2,30,497</b>	<b>2,77,942</b>	<b>3,26,313</b>
Change (%)	34.3	96.0	14.7	18.1	26.2	33.9	-6.4	12.7	20.6	17.4
Other liabilities	1,257	3,163	4,264	4,964	4,389	4,352	4,005	4,235	4,479	4,738
<b>Total Liabilities</b>	<b>73,574</b>	<b>1,25,902</b>	<b>1,50,592</b>	<b>1,73,948</b>	<b>2,18,581</b>	<b>2,88,462</b>	<b>2,78,022</b>	<b>3,12,700</b>	<b>3,77,683</b>	<b>4,47,532</b>
Cash and bank balances	6,156	7,176	24,844	17,614	14,364	13,139	14,428	14,070	16,565	18,254
<b>Loans and Advances</b>	<b>66,028</b>	<b>1,10,989</b>	<b>1,17,205</b>	<b>1,47,653</b>	<b>1,90,433</b>	<b>2,51,050</b>	<b>2,42,745</b>	<b>2,76,375</b>	<b>3,37,309</b>	<b>4,03,852</b>
Change (%)	34.9	68.1	5.6	26.0	29.0	31.8	-3.3	13.9	22.0	19.7
Fixed Assets	187	5,793	5,734	5,739	968	1,214	1,307	1,438	1,653	1,901
Investments	2	456	5	5	4,545	14,389	8,930	9,377	9,845	10,338
Intangible Assets		0	0	4,673	5,061	4,923	4,764	4,764	4,764	4,764
Other Assets	1,200	1,488	2,804	2,937	3,208	3,747	5,849	6,677	7,547	8,423
<b>Total Assets</b>	<b>73,572</b>	<b>1,25,447</b>	<b>1,50,587</b>	<b>1,73,942</b>	<b>2,18,581</b>	<b>2,88,462</b>	<b>2,78,022</b>	<b>3,12,700</b>	<b>3,77,683</b>	<b>4,47,532</b>

E: MOSL Estimates

## Financials and valuations

Ratios (%)										
AUM and Disbursements (INR m)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>AUM</b>	<b>71,590</b>	<b>1,19,960</b>	<b>1,35,870</b>	<b>1,65,990</b>	<b>2,10,320</b>	<b>2,67,140</b>	<b>2,59,480</b>	<b>3,01,455</b>	<b>3,67,970</b>	<b>4,42,934</b>
YoY growth (%)	43.9	67.6	13.3	22.2	26.7	27.0	-2.9	16.2	22.1	20.4
<b>Disbursements</b>	<b>82,212</b>	<b>1,08,040</b>	<b>1,10,104</b>	<b>1,54,670</b>	<b>1,88,090</b>	<b>2,31,340</b>	<b>2,04,370</b>	<b>2,51,375</b>	<b>3,01,650</b>	<b>3,61,980</b>
YoY growth (%)	35.2	31.4	1.9	40.5	21.6	23.0	-11.7	23.0	20.0	20.0
Ratios (%)										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)										
Yield on Portfolio	20.1	18.1	19.8	19.2	19.4	21.8	22.0	22.1	21.6	21.4
Cost of Borrowings	9.8	8.0	9.1	8.2	8.3	9.1	9.2	9.1	8.8	8.8
Interest Spread	10.3	10.1	10.7	11.0	11.1	12.7	12.8	13.0	12.8	12.6
Net Interest Margin	13.9	11.9	11.9	12.0	12.5	14.4	14.6	15.0	14.8	14.7
Profitability Ratios (%)										
RoE	16.9	13.2	4.1	9.3	18.2	24.8	7.9	11.4	20.0	20.0
RoA (on balance sheet)	5.2	3.4	0.9	2.2	4.2	5.7	1.9	2.8	5.0	5.1
Debt: Equity (x)	2.1	3.5	3.0	3.2	3.2	3.3	2.9	3.0	2.9	2.8
Leverage (x)	3.3	3.9	4.3	4.2	4.3	4.4	4.0	4.0	4.0	3.8
Efficiency Ratios (%)										
Int. Expended/Int.Earned	34.2	35.4	40.6	38.3	36.5	35.4	35.1	33.7	33.0	32.8
Op. Exps./Net Income	33.9	38.0	38.1	39.0	35.6	30.5	30.7	33.2	32.2	31.0
Empl. Cost/Op. Exps.	63.3	61.2	64.9	63.6	62.0	63.8	62.4	64.1	64.4	64.6
Other Income/Net Income	7.5	6.4	11.5	10.3	9.6	7.9	5.5	7.4	7.2	6.8
Asset quality										
GNPA	385	1,738	5,487	5,587	2,364	3,026	12,256	11,128	9,533	8,186
NNPA	109	458	1,686	1,974	808	877	4,287	3,672	3,051	2,619
GNPA %	0.6	1.5	4.5	3.7	1.2	1.2	4.8	3.8	2.7	2.0
NNPA %	0.2	0.4	1.4	1.3	0.4	0.3	1.7	1.3	0.9	0.6
PCR %	71.7	73.6	69.3	64.7	65.8	71.0	65.0	67.0	68.0	68.0
Valuation										
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Book Value (INR)	165	190	237	255	321	412	436	488	596	729
BV Growth (%)	47.2	15.3	25.0	7.5	25.9	28.3	5.6	12.1	22.2	22.3
<b>Price-BV (x)</b>	<b>7.5</b>	<b>6.0</b>	<b>5.6</b>	<b>4.4</b>	<b>3.4</b>	<b>3.3</b>	<b>2.9</b>	<b>2.4</b>	<b>1.9</b>	
EPS (INR)	22.4	23.3	8.4	22.9	52.0	90.7	33.3	52.6	108.3	132.8
EPS Growth (%)	35.5	3.9	-63.8	171.2	127.1	74.5	-63.3	58.2	105.6	22.7
<b>Price-Earnings (x)</b>	<b>60.8</b>	<b>167.9</b>	<b>61.9</b>	<b>27.3</b>	<b>15.6</b>	<b>42.6</b>	<b>26.9</b>	<b>13.1</b>	<b>10.7</b>	
Dividend per share	0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
<b>Dividend Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

E: MOSL Estimates

# Fusion Microfinance

BSE SENSEX	S&P CNX
81,160	24,891



Bloomberg	FUSION IN
Equity Shares (m)	101
M.Cap.(INRb)/(USDb)	26.4 / 0.3
52-Week Range (INR)	245 / 124
1, 6, 12 Rel. Per (%)	15/33/-15
12M Avg Val (INR M)	123

## Financials & Valuations (INR b)

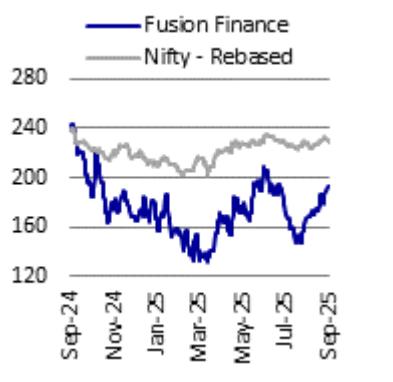
Y/E March	FY25	FY26E	FY27E
Total Income	15.3	12.2	13.4
PPP	7.4	4.2	5.7
PAT	-12.2	0.0	3.4
EPS (INR)	-121.7	0	21
EPS Gr. (%)	-	-	-
BV (INR)	163	126	172
<b>Valuations</b>			
NIM (%)	14.3	14.6	15.3
C/I ratio (%)	51.7	65.8	57.3
RoAA (%)	-12.2	0.0	4.3
RoE (%)	-54.5	0.0	14.0
<b>Valuations</b>			
P/E (x)	-	-	9.3
P/BV (x)	1.2	1.5	1.1

## Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	55.0	57.7	57.7
DII	12.6	16.9	22.8
FII	3.2	2.1	4.3
Others	29.2	23.3	15.2

FII Includes depository receipts

## Stock's performance (one-year)



**CMP: INR193 TP: INR240 (+24%) Upgrade to BUY**

## Strategic and operational turnaround driving a recovery

Improved operations and technology, boosting collections and productivity

- Fusion Microfinance (Fusion) has undertaken a strategic and operational revamp across credit policies, processes, technology, and management structure. These changes are already visible in stronger disbursements, improved collection efficiency, and greater employee and lender confidence.
- The company has strengthened its operational and technological efficiencies by empowering front-end staff, adopting more supportive supervisory practices, and implementing digital onboarding, which has simplified sales processes, lowered attrition, and improved productivity. Notably, the six-month attrition has fallen below 50% for the first time, demonstrating enhanced employee satisfaction and retention.
- Fusion has strengthened its underwriting standards by introducing tougher guardrails than industry norms, applying district-level risk filters, and enhancing customer assessment metrics. These measures have driven a notable improvement in collection efficiency, rising to ~90% at center meetings (from below 80%) and 94% for same-day collections. Flow rates have also declined to below 4% from 5.7% in 4QFY25, while recovery efforts on written-off books are contributing to incremental write-backs.
- With operations normalizing, Fusion is targeting monthly MFI disbursements of INR5–5.5b, with plans to scale up to INR7–8b from FY27 without adding operating cost pressure. Supported by factors such as the potential provision release from the elevated Stage 2 PCR and reclamation of its DTA, the company expects to return to profitability by 3QFY26.
- Fusion has taken meaningful steps to strengthen its operating model, including sharper underwriting filters, improved collection efficiency, and technological enhancements that support productivity and asset quality. With these operational and strategic changes now in place, Fusion is well-positioned to accelerate growth and deliver a sustained improvement in profitability. We expect earnings momentum to gather pace from 2HFY26, supported by relatively better disbursement traction, sustained decline in credit costs, and gradual operating leverage benefits. We estimate Fusion to deliver AUM/PPOP CAGR of 8%/3% over FY25–28E, with RoA/RoE improving to 4.3%/14% in FY27E.
- At the current valuation of 1.1x FY27E BV, the stock offers an attractive entry point, factoring in much of the past stress but not fully reflecting the medium-term recovery potential. We upgrade Fusion to BUY with a revised TP of INR240 (based on 1.3x Sep'27E P/BV).

## Improved credit discipline and asset quality

- Fusion has tightened its underwriting framework with stricter credit rules and guardrails, enabling better identification and rejection of high-risk customers while extending more credit to low-risk borrowers.
- The new loan book is built with tougher criteria than industry norms, rejecting customers with 30+dpd in the last 12 months (vs. 60+ days industry standard) and applying stricter norms in high-risk districts while allowing flexibility in low-risk areas.

- Fusion has introduced a focused multi-channel recovery strategy for previously written-off or 90+dpd provisioned accounts, leveraging data analytics for propensity-based collections, technology partners for multi-language outreach, and voice bots, alongside redeployed internal teams. This represents a significant departure from historical practices, given the traditionally challenging nature of recoveries in these segments. As a result, write-backs are expected to rise from INR60m in 1QFY26 to INR130-140m in the coming quarters.

#### **Streamlined senior management structure**

- Fusion has expanded decision-making authority from a small group of 1-3 individuals to an Executive Committee of 8-9 members, with conflicting roles segregated and filled by dedicated professionals, including external hires for critical functions.
- Fusion's blend of internal promotions and external expertise has strengthened specialized capabilities, created growth opportunities within the organization, and ensured a smooth leadership transition with a cohesive strategic direction and no power struggles.

#### **Operational and technological enhancements drive productivity gains**

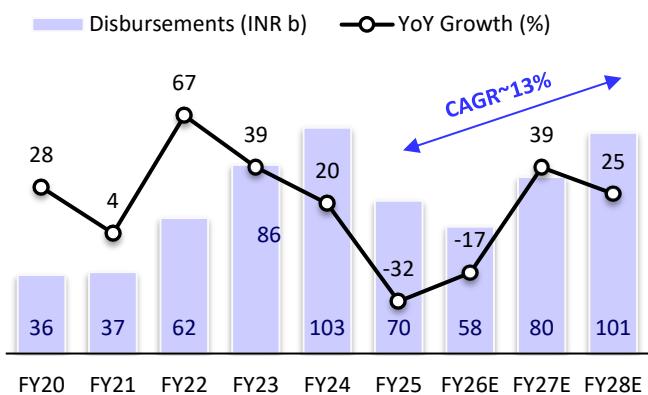
- Fusion has heavily invested in improving technological and operational efficiency, introducing a pre-approved loan system that now constitutes 50-60% of the business. Monthly eligibility checks for existing customers have driven approval rates in this segment to 40-45% from 12-13%, with all safeguards pre-validated.
- Additionally, the entire customer onboarding and loan acquisition process is now paperless, reducing operational rejection rates to 3-4% and facilitating smoother disbursements for front-end staff. These improvements have also increased the average ticket size from ~INR48-49K six months ago to ~INR56-57K at present.

#### **Valuation and view**

- Fusion has taken meaningful steps to strengthen its operating model, including sharper underwriting filters, improved collection efficiency, and technological enhancements that support productivity and asset quality. These measures have set the foundation for sustainable growth and a gradual return to profitability from 3QFY26.
- Despite the operational and strategic improvements, Fusion remains in a consolidation phase, with more meaningful earnings recovery expected only from FY27, while near-term growth is likely to remain constrained by prudent credit policies. We expect Fusion to deliver an AUM/PPOP CAGR of 8%/3% over FY25-FY28, with an RoA/RoE of 4.3%/14% in FY27.
- The stock currently trades at 1.1x FY27E P/BV, which offers an attractive entry point, factoring in much of the past stress but not fully reflecting the medium-term recovery potential. **We upgrade Fusion to BUY with a revised TP of INR240 (based on 1.3x Sep'27E P/BV).**

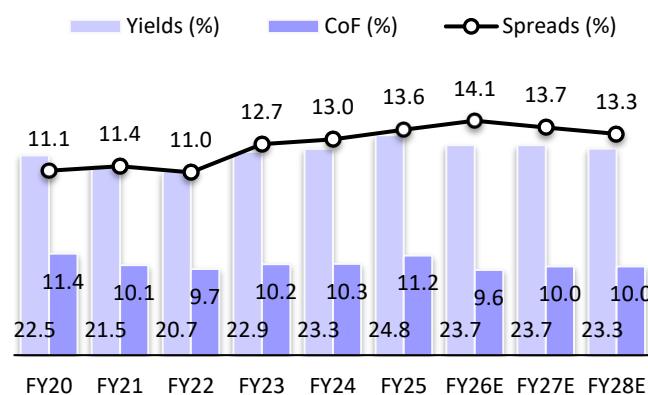
## STORY IN CHARTS

Exhibit 12: Disbursements to clock a 13% CAGR...



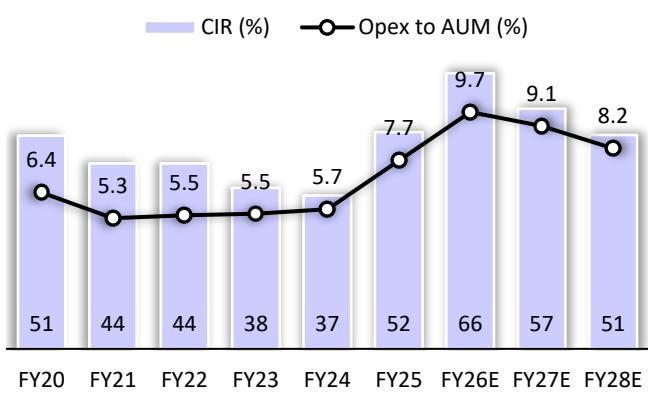
Source: MOFSL, Company

Exhibit 14: Expect spreads to improve in FY26



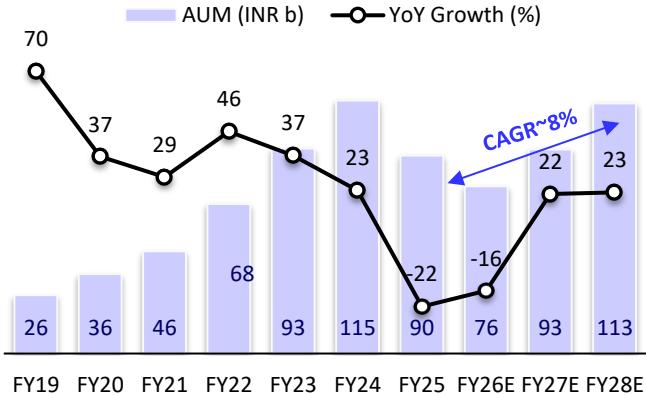
Source: MOFSL, Company

Exhibit 16: Cost ratios to increase in FY26 and will start improving from FY27



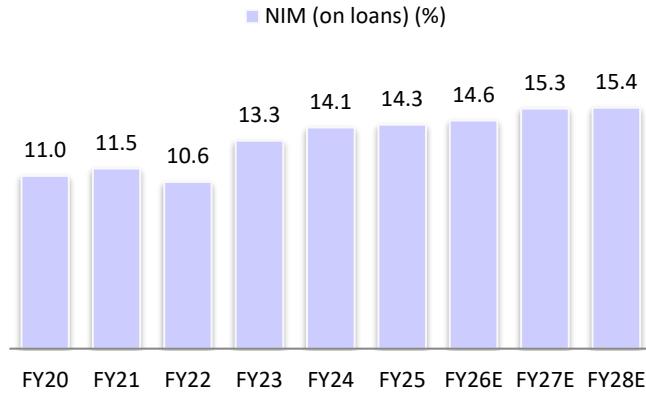
Source: MOFSL, Company

Exhibit 13: ...driving an 8% CAGR in AUM over FY25-FY28E



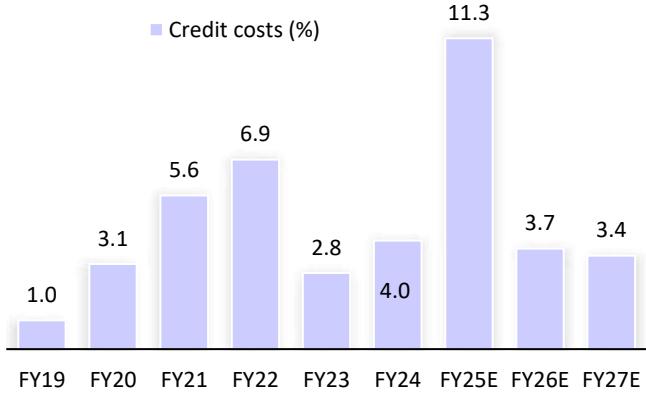
Source: MOFSL, Company

Exhibit 15: Expect NIM to improve in FY26/FY27

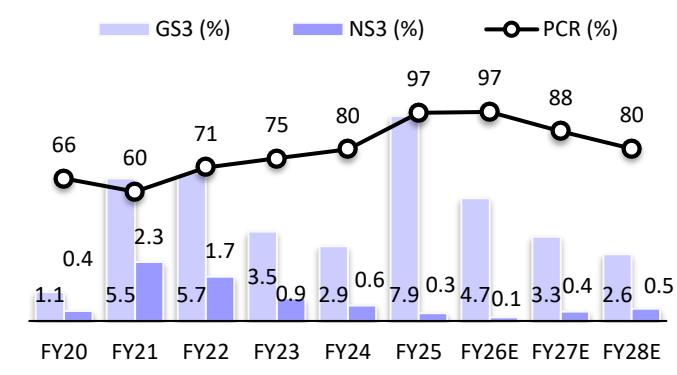


Source: MOFSL, Company

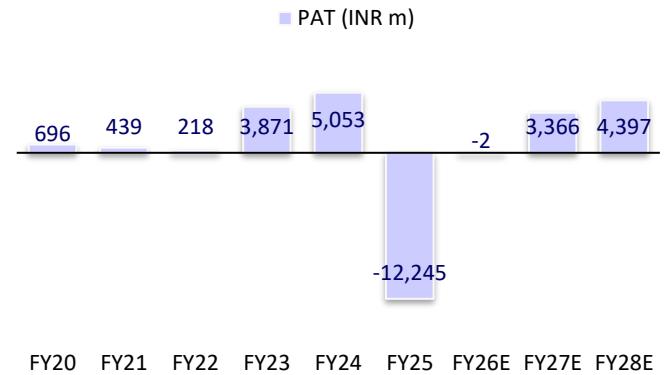
Exhibit 17: Credit costs to moderate in FY26/FY27E



Source: MOFSL, Company

**Asset quality to improve in FY26/FY27E (%)**


Source: MOFSL, Company

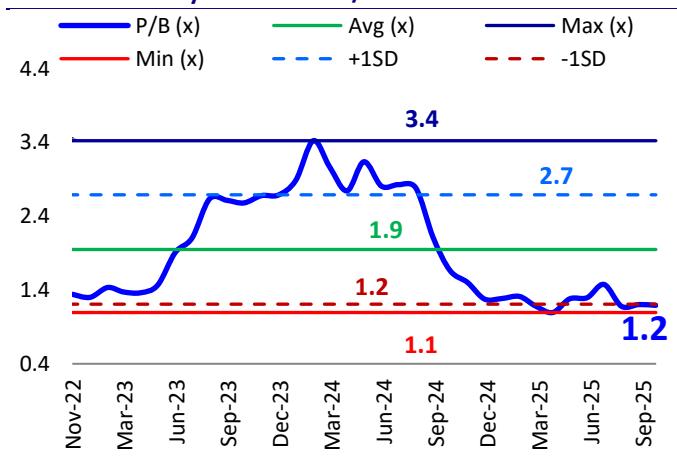
**Exhibit 18: Profitability to improve from FY27**


Source: MOFSL, Company

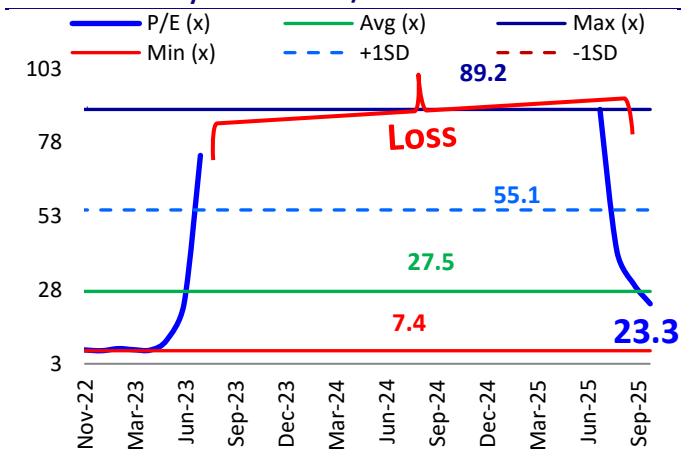
We raise our FY26E EPS to factor in slightly lower credit costs; we increase our FY27E EPS by ~17% to factor in the tax benefits

INR b	Old Est.		New Est.		% Change	
	FY26	FY27	FY26	FY27	FY26	FY27
NII	10.6	11.3	10.6	11.4	0.0	0.6
Other Income	1.4	2.1	1.5	2.0	11.3	-4.1
<b>Total Income</b>	<b>12.0</b>	<b>13.4</b>	<b>12.2</b>	<b>13.4</b>	<b>1.3</b>	<b>-0.1</b>
Operating Expenses	8.0	7.4	8.0	7.7	0.0	4.3
<b>Operating Profits</b>	<b>4.0</b>	<b>6.1</b>	<b>4.2</b>	<b>5.7</b>	<b>4.0</b>	<b>-5.5</b>
Provisions	4.5	2.3	4.2	2.4	-6.6	2.9
<b>PBT</b>	<b>-0.5</b>	<b>3.8</b>	<b>0.0</b>	<b>3.4</b>	-	<b>-10.6</b>
Tax	-0.1	0.9	0.0	0.0	-	-
<b>PAT</b>	<b>-0.4</b>	<b>2.9</b>	<b>0.0</b>	<b>3.4</b>	-	<b>16.8</b>
AUM	76	92	76	93	0.0	0.9
Borrowings	47	54	47	55	0.0	1.7
RoA	-0.5	3.7	0.0	4.3	-	15.2
RoE	-2.1	12.3	0.0	14.0	-	13.8

Sources: MOFSL, Company

**Exhibit 19: One-year forward P/B**


Source: MOFSL, Company

**Exhibit 20: One-year forward P/E**


Source: MOFSL, Company

## Financials and valuations

Income Statement (INR m)										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	4,694	6,665	8,276	10,643	16,001	20,919	21,342	15,964	16,482	20,085
Interest Expenses	2,540	3,377	3,751	4,960	6,428	7,908	8,439	5,322	5,096	6,158
<b>Net Interest Income</b>	<b>2,154</b>	<b>3,288</b>	<b>4,525</b>	<b>5,684</b>	<b>9,573</b>	<b>13,011</b>	<b>12,904</b>	<b>10,642</b>	<b>11,385</b>	<b>13,927</b>
Change (%)	82.7	52.7	37.6	25.6	68.4	35.9	-0.8	-17.5	7.0	22.3
Other Operating Income	249	538	282	869	1,418	2,248	1,855	878	1,277	1,836
Other Income	27	100	173	501	580	957	491	668	735	808
<b>Net Income</b>	<b>2,431</b>	<b>3,926</b>	<b>4,980</b>	<b>7,054</b>	<b>11,572</b>	<b>16,216</b>	<b>15,250</b>	<b>12,188</b>	<b>13,397</b>	<b>16,571</b>
Change (%)	86.0		26.8	41.6	64.1	40.1	-6.0	-20.1	9.9	23.7
<b>Operating Expenses</b>	<b>1,540</b>	<b>1,999</b>	<b>2,204</b>	<b>3,123</b>	<b>4,448</b>	<b>5,935</b>	<b>7,886</b>	<b>8,024</b>	<b>7,679</b>	<b>8,455</b>
Change (%)	-5.2		10.2	41.7	42.5	33.4	32.9	1.7	-4.3	10.1
Employee Expenses	1,033	1,483	1,686	2,331	3,255	4,312	5,732	5,847	5,379	5,917
Depreciation	24	26	39	54	74	90	117	140	161	185
Other Operating Expenses	483	490	479	738	1,119	1,532	2,037	2,037	2,138	2,352
<b>Operating Income</b>	<b>891</b>	<b>1,927</b>	<b>2,776</b>	<b>3,931</b>	<b>7,124</b>	<b>10,281</b>	<b>7,365</b>	<b>4,164</b>	<b>5,719</b>	<b>8,116</b>
Change (%)	-381.4		44.0	41.6	81.2	44.3	-28.4	-43.5	37.3	41.9
Provisions and w/offs	207	927	2,208	3,687	2,004	3,649	18,695	4,167	2,353	2,754
<b>PBT</b>	<b>684</b>	<b>1,000</b>	<b>568</b>	<b>244</b>	<b>5,120</b>	<b>6,633</b>	<b>-11,330</b>	<b>-3</b>	<b>3,366</b>	<b>5,362</b>
Tax Provisions	177	304	128	27	1,248	1,580	915	0	0	965
Tax Rate (%)	25.9	30.4	22.6	10.9	24.4	23.8	-8.1	15.0	0.0	18.0
<b>PAT</b>	<b>507</b>	<b>696</b>	<b>439</b>	<b>218</b>	<b>3,871</b>	<b>5,053</b>	<b>-12,245</b>	<b>-2</b>	<b>3,366</b>	<b>4,397</b>
Change (%)	-229	37	-37	-50	-	31	-	-	-	31

Balance Sheet (INR m)										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	616	790	790	828	1,003	1,006	1,006	1,311	1,617	1,617
Reserves & Surplus	5,643	11,199	11,673	12,552	22,216	27,475	15,427	19,118	26,179	30,576
<b>Net Worth</b>	<b>6,259</b>	<b>11,989</b>	<b>12,464</b>	<b>13,380</b>	<b>23,219</b>	<b>28,482</b>	<b>16,433</b>	<b>20,430</b>	<b>27,795</b>	<b>32,192</b>
<b>Borrowings</b>	<b>29,286</b>	<b>29,737</b>	<b>44,323</b>	<b>57,758</b>	<b>67,784</b>	<b>86,159</b>	<b>64,020</b>	<b>46,856</b>	<b>55,071</b>	<b>68,093</b>
Change (%)	83.3		49.0	30.3	17.4	27.1	-25.7	-26.8	17.5	23.6
Other liabilities	561	674	1,593	1,767	2,632	3,103	2,473	2,968	3,562	4,274
<b>Total Liabilities</b>	<b>36,105</b>	<b>42,400</b>	<b>58,379</b>	<b>72,905</b>	<b>93,635</b>	<b>1,17,743</b>	<b>82,927</b>	<b>70,254</b>	<b>86,428</b>	<b>1,04,560</b>
<b>Cash and Bank balance</b>	<b>9,905</b>	<b>8,177</b>	<b>13,353</b>	<b>11,536</b>	<b>10,650</b>	<b>15,532</b>	<b>8,531</b>	<b>6,175</b>	<b>7,275</b>	<b>6,749</b>
Investments	5	5	0	0	0	21	21	21	21	21
<b>Loans</b>	<b>25,720</b>	<b>33,430</b>	<b>43,607</b>	<b>59,182</b>	<b>80,416</b>	<b>99,479</b>	<b>72,612</b>	<b>62,104</b>	<b>76,981</b>	<b>95,424</b>
Change (%)	99.2		30.4	35.7	35.9	23.7	-27.0	-14.5	24.0	24.0
Fixed Assets	55	60	183	192	212	224	298	343	377	415
Other Assets	420	727	1,237	1,995	2,357	2,488	1,466	1,612	1,774	1,951
<b>Total Assets</b>	<b>36,105</b>	<b>42,400</b>	<b>58,379</b>	<b>72,905</b>	<b>93,635</b>	<b>1,17,743</b>	<b>82,927</b>	<b>70,254</b>	<b>86,428</b>	<b>1,04,560</b>

E: MOFSL Estimates

## Financials and valuations

AUM and Disbursements (INR m)										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>AUM</b>	26,414	36,065	46,378	67,860	92,960	1,14,761	89,800	75,819	92,556	1,13,488
YoY Growth (%)	<b>70</b>	<b>37</b>	<b>29</b>	<b>46</b>	<b>37</b>	<b>23</b>	<b>-22</b>	<b>-16</b>	<b>22</b>	<b>23</b>
<b>Disbursements</b>	25,720	35,740	37,103	61,798	85,962	1,02,945	69,710	57,859	80,424	1,00,531
YoY Growth (%)	<b>99</b>	<b>39</b>	<b>4</b>	<b>67</b>	<b>39</b>	<b>20</b>	<b>-32</b>	<b>-17</b>	<b>39</b>	<b>25</b>
E: MOFSL Estimates										
Ratios										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)										
Avg. Yield on Loans	24.3	22.5	21.5	20.7	22.9	23.3	24.8	23.7	23.7	23.3
Avg. Cost of Funds	11.2	11.4	10.1	9.7	10.2	10.3	11.2	9.6	10.0	10.0
Spread of loans	13.1	11.1	11.4	11.0	12.7	13.0	13.6	14.1	13.7	13.3
NIM (on gross loans)	10.9	11.0	11.5	10.6	13.3	14.1	14.3	14.6	15.3	15.4
Profitability Ratios (%)										
RoA	1.8	1.8	0.9	0.3	4.6	4.8	-12.2	0.0	4.3	4.6
RoE	11.3	7.6	3.6	1.7	21.2	19.5	-54.5	0.0	14.0	14.7
Debt: Equity (x)	4.7	2.5	3.6	4.3	2.9	3.0	3.9	2.3	2.0	2.1
Leverage (x)	5.8	3.5	4.7	5.4	4.0	4.1	5.0	3.4	3.1	3.2
CAR	26.9	35.8	27.3	21.9	27.9	26.1	19.2	27.8	31.0	0.0
o/w Tier 1	23.8	33.1	25.5	19.9	26.6	25.5	18.6	27.1	30.4	0.0
Int. Expended / Int.Earned	54.1	50.7	45.3	46.6	40.2	37.8	39.5	33.3	30.9	30.7
Other Inc. / Net Income	11.4	16.3	9.1	19.4	17.3	19.8	15.4	12.7	15.0	16.0
Efficiency Ratios (%)										
Int. Expended/Int.Earned										
CIR	63.4	50.9	44.3	44.3	38.4	36.6	51.7	65.8	57.3	51.0
Opex/ AUM	7.3	6.4	5.3	5.5	5.5	5.7	7.7	9.7	9.1	8.2
Empl. Cost/Op. Exps.	67.1	74.2	76.5	74.6	73.2	72.7	72.7	72.9	70.1	70.0
Asset Quality										
GNPA (INR m)	404	384	2,559	3,584	2,889	2,973	6,457	3,292	2,729	2,647
NNPA (INR m)	145	130	1,024	1,030	708	603	224	99	328	529
GNPA (%)	1.5	1.1	5.5	5.7	3.5	2.9	7.9	4.7	3.3	2.6
NNPA (%)	0.6	0.4	2.3	1.7	0.9	0.6	0.3	0.1	0.4	0.5
PCR (%)	64	66	60	71	75	80	97	97	88	80
Credit costs (%)	1.0	3.1	5.6	6.9	2.8	4.0	20.7	5.7	3.2	3.0
Valuations										
Valuations	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Book Value (INR)	102	152	158	162	231	283	163	126	172	199
BV Growth (%)	64	49	4	3	43	22	-42	-23	36	16
<b>P/BV</b>	<b>1.9</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>0.8</b>	<b>0.7</b>	<b>1.2</b>	<b>1.5</b>	<b>1.1</b>	<b>1.0</b>
EPS (INR)	8	9	6	3	39	50	-122	0.0	21	27
EPS Growth (%)										
EPS Growth (%)		7	-37	-53	-	30	-	-	-	-
<b>Price-Earnings (x)</b>	<b>23.5</b>	<b>21.9</b>	<b>34.7</b>	<b>73.4</b>	<b>5.0</b>	<b>3.8</b>	<b>-</b>	<b>-</b>	<b>9.3</b>	<b>7.1</b>

E: MOFSL Estimates

# Spandana Sphoorty

BSE SENSEX	S&P CNX
81,160	24,891

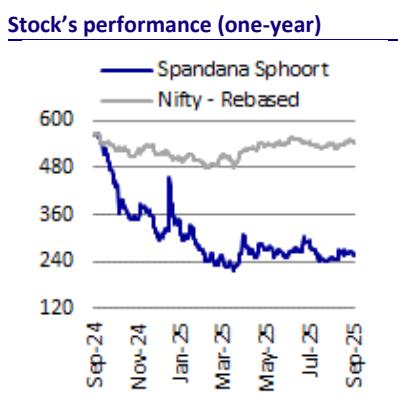


Bloomberg	SPANDANA IN
Equity Shares (m)	71
M.Cap.(INRb)/(USDb)	20.4 / 0.2
52-Week Range (INR)	578 / 184
1, 6, 12 Rel. Per (%)	2/2/-51
12M Avg Val (INR M)	219

Financials & Valuations (INR b)			
Y/E March	FY25	FY26E	FY27E
NII	12.6	5.0	7.9
Total Income	14.9	6.8	11.1
PPoP	6.1	-0.7	4.8
PAT	-10.4	-6.7	2.7
EPS (INR)	-145	-83	30
EPS Gr. (%)	-	-	-
BV (INR)	369	244	297
Ratios (%)			
NIM	15.1	9.1	13.2
C/I ratio	59.3	110.5	56.6
Credit cost	23.8	14.9	3.6
RoA	-9.5	-8.3	3.2
RoE	-33.0	-27.7	11.1
Valuations			
P/E (x)	-	-	8.5
P/BV (x)	0.7	1.0	0.9

Shareholding pattern (%)			
As On	Jun-25	Mar-25	Jun-24
Promoter	48.1	48.1	56.9
DII	5.7	6.5	9.0
FIIIFIIII	19.8	19.8	22.8
Others	26.4	25.6	11.4

FII Includes depository receipts



**CMP: INR256 TP: INR280 (+9%) Downgrade to Neutral**

## Navigating the recovery phase!

### Residual stress on the balance sheet still to be provided for

- Spandana Sphoorty (Spandana) is currently in a distinct recovery phase, navigating the aftermath of elevated credit costs and a temporary pause in disbursements. Management believes the current period represents the final leg of high credit costs, with growth and improved performance expected to emerge in the coming quarters.
- In a strategic move to prioritize portfolio quality over aggressive growth, Spandana paused its disbursement activities from Feb'25 until the third week of May'25. This decision was driven by the management's discomfort with a deferred industry-wide lending guideline, which they felt did not create a level playing field, especially after witnessing a significant ~INR6b inflow into the GNPA bucket in the 3QFY25.
- The pause was effectively utilized to strengthen the company's credit rule engine with measures going beyond standard industry guardrails. As a result, the quality of the new loan book has improved materially, with only nine delinquencies out of ~140K loans disbursed since May'25, translating into a collection efficiency of 99.9% on the fresh portfolio.
- Elevated credit costs from the stressed pool, along with a gradual pickup in disbursements, suggest that a meaningful earnings expansion will be more back-ended and visible only from FY27 onwards. Given this delayed recovery trajectory and muted near-term catalysts, **we downgrade Spandana to Neutral** with a **TP of INR280** (based on 0.9x Sep'27E P/BV).

### Disbursement pick-up to drive a recovery in growth from 2HFY26

- Following the disbursement pause during Feb-May'25, the company has resumed lending with tighter controls and a calibrated growth approach. Disbursement momentum is expected to accelerate from 3Q/4QFY26, translating into a visible pickup in AUM.
- Management is targeting a loan book of INR60-65b by FY26-end and INR85b by FY27. We model an AUM CAGR of ~10% over FY25-28E.

### Profitability to improve, driven by improvement in cost ratios

- Spandana is undertaking active cost rationalization, with employee strength reduced from 20k in 4QFY25 to 16k in 1QFY26 and expected to decline further by end-2Q. Additionally, the company is in the process of closing ~200 branches, which should drive a steady reduction in operating expenses over the coming quarters.
- The company has intensified its recovery efforts on the ~INR25b 90+dpd pool by sending frequent SMS alerts, demand notices, and selective legal notices, which have proven effective. Recoveries are expected to be in the range of ~INR500m per quarter, thereby improving profitability.

### Operational enhancements driving better asset quality outcomes

- Spandana utilized the disbursement pause from Feb-May'25 to strengthen and refine its operational processes and control framework, which has already translated into improved asset quality outcomes. **Key enhancements include:**
- 1. **Household-level assessment:** Although not required by regulation, Spandana now evaluates repayment obligations and delinquency at the household level rather than solely for the individual borrower. For existing customers, delinquency is capped at 30 days versus the industry norm of 60 days, while new borrowers must have zero delinquency.
- 2. **Enhanced JLG discipline:** To ensure adherence to the Joint Liability Group (JLG) model, loan applications are processed exclusively during center meetings in the presence of group members. Additionally, at least 50% of the center members must qualify for a new loan before any disbursement is made.
- Additionally, several manual oversight processes have been digitized, enhancing operational efficiency, transparency, and governance.

### Valuation and view

- Spandana is charting a clear path to exit its current loss-making phase and return to profitability by 4QFY26. The company has stepped up recovery efforts on its ~INR25b 90+dpd pool through frequent SMS alerts, demand notices, and selective legal action, which have yielded encouraging results.
- Elevated credit costs from the stressed pool, along with a gradual pickup in disbursements, suggest that a meaningful earnings expansion will be more back-ended and visible only from FY27 onwards. Given this delayed recovery trajectory and muted near-term catalysts, **we downgrade Spandana to Neutral, with a TP of INR280** (based on 0.9x Sep'27E P/BV).

## STORY IN CHARTS

Exhibit 21: Disbursement CAGR of ~13% over FY25-28E...

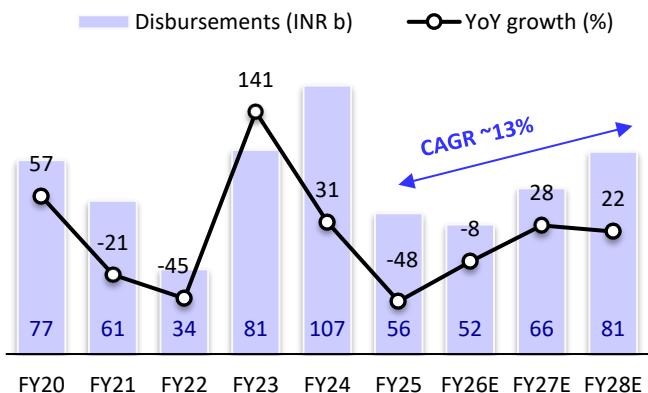


Exhibit 22: ...driving an AUM CAGR of 10%

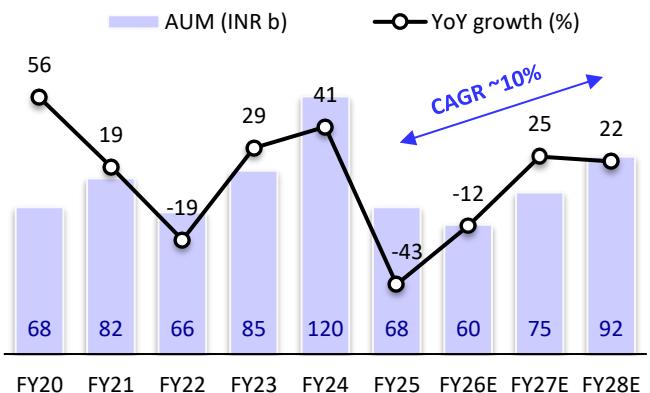


Exhibit 23: Spreads to dip in FY26E due to a decline in yields

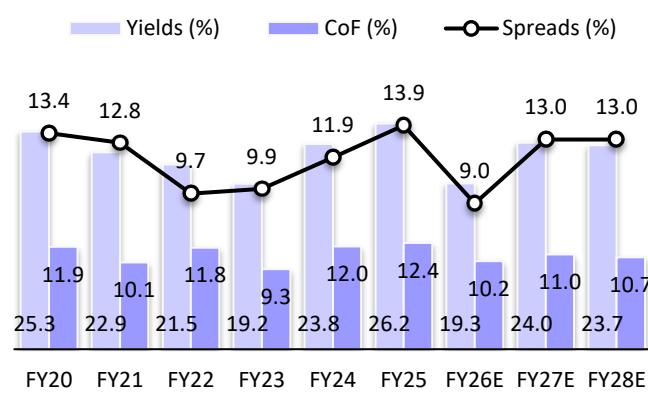


Exhibit 24: NIM to improve from FY27

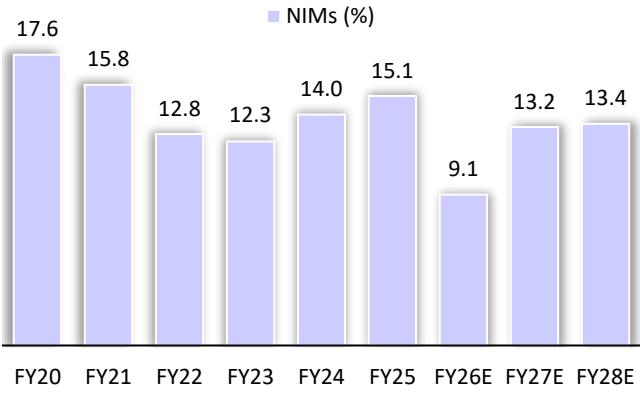


Exhibit 25: Opex/AUM to moderate from FY27

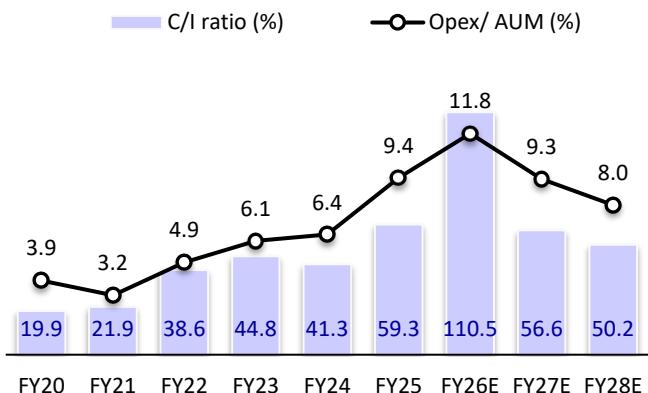


Exhibit 26: ECL/EAD to decline in FY26/FY27E

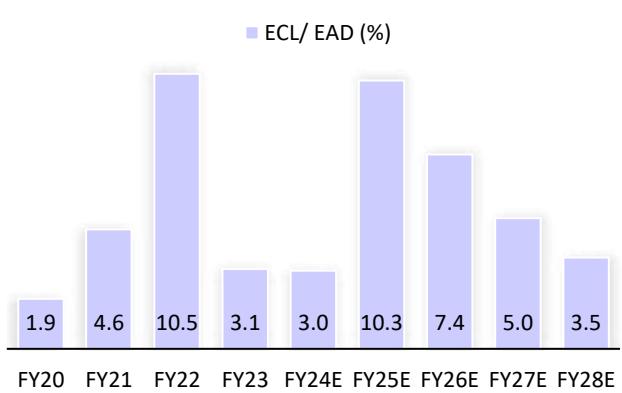


Exhibit 27: Expect credit costs at ~15% in FY26

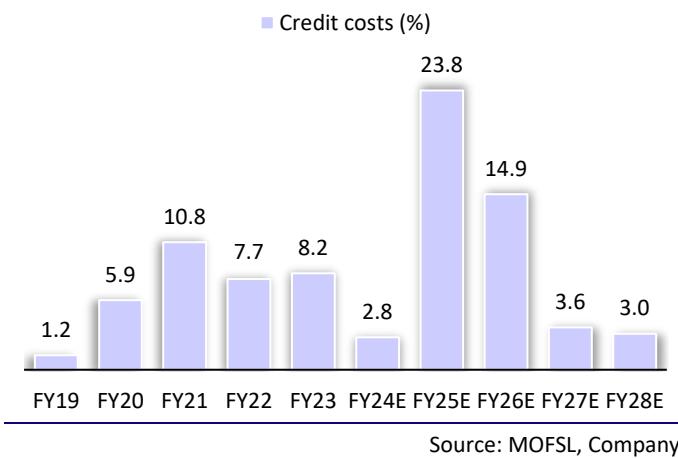
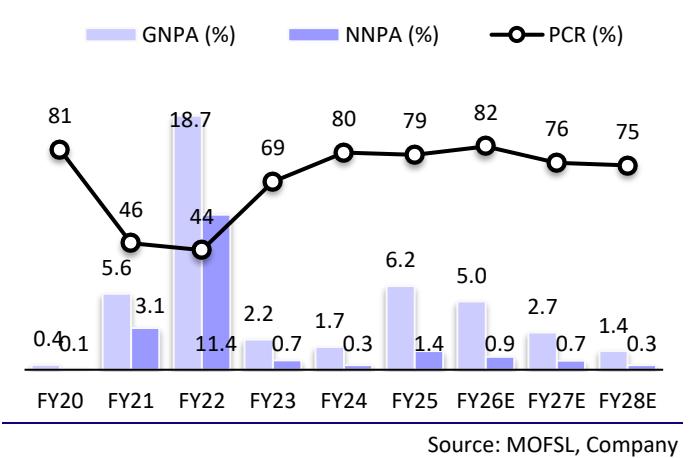


Exhibit 28: GS3 to remain elevated at ~5% in FY26E



We raise our FY26E EPS to factor in higher growth and lower credit costs

INR B	Old Est.		New Est.		% Change	
	FY26	FY27	FY26	FY27	FY26	FY27
NII	4.6	6.9	5.0	7.9	7.4	13.9
Other Income	1.5	2.3	1.8	3.3	19.5	38.9
<b>Total Income</b>	<b>6.2</b>	<b>9.3</b>	<b>6.8</b>	<b>11.1</b>	<b>10.4</b>	<b>20.2</b>
Operating Expenses	7.5	6.3	7.5	6.3	0.0	0.0
<b>Operating Profits</b>	<b>-1.4</b>	<b>3.0</b>	<b>-0.7</b>	<b>4.8</b>	-	<b>63.5</b>
Provisions	9.7	1.8	8.2	2.2	-15.6	21.7
<b>PBT</b>	<b>-11.0</b>	<b>1.2</b>	<b>-8.9</b>	<b>2.7</b>	-	<b>125.9</b>
Tax	-2.8	0.0	-2.2	0.0	-	-
<b>PAT</b>	<b>-8.3</b>	<b>1.2</b>	<b>-6.7</b>	<b>2.7</b>	-	<b>125.9</b>
AUM	54	66	60	75	10.3	13.2
Borrowings	46	57	52	65	12.9	13.2
RoA	-10.8	1.6	-8.3	3.2	-23.3	101.6
RoE	-35.6	5.5	-27.7	11.1	-22.3	103.7

Exhibit 29: One-year forward P/B

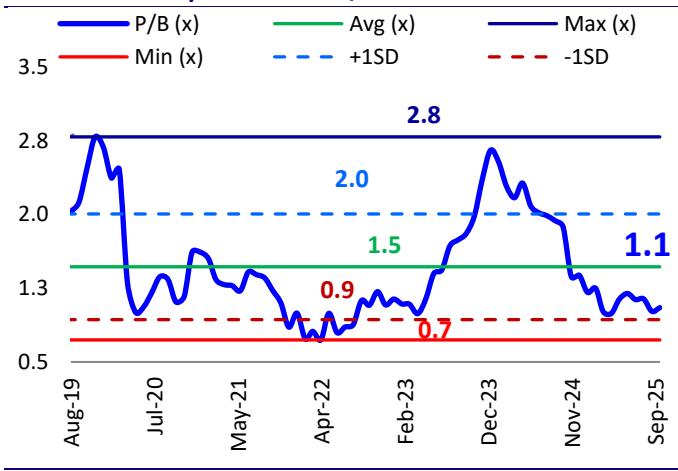
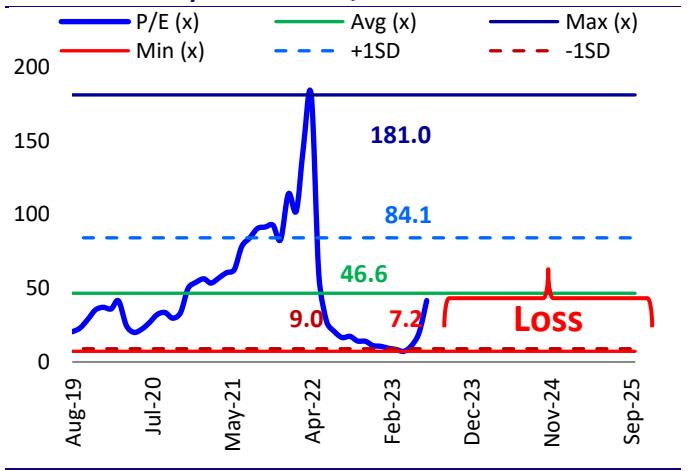


Exhibit 30: One-year forward P/E



## Financials and valuations

Income Statement <span style="float: right;">(INR m)</span>										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	9,979	11,692	13,627	13,365	12,775	22,381	21,943	10,538	14,314	17,700
Interest Expenses	3,579	3,563	4,232	5,401	4,579	9,268	9,323	5,549	6,430	7,685
<b>Net Interest Income</b>	<b>6,400</b>	<b>8,129</b>	<b>9,395</b>	<b>7,964</b>	<b>8,196</b>	<b>13,113</b>	<b>12,621</b>	<b>4,989</b>	<b>7,884</b>	<b>10,015</b>
Change (%)	87.5	27.0	15.6	-15.2	2.9	60.0	-3.8	-60.5	58.0	27.0
Other Operating Income	452	2,661	1,199	1,263	1,233	1,625	1,608	1,253	2,549	2,434
Other Income	54	342	230	172	763	1,102	689	586	703	773
<b>Total Income</b>	<b>6,907</b>	<b>11,132</b>	<b>10,824</b>	<b>9,399</b>	<b>10,192</b>	<b>15,840</b>	<b>14,918</b>	<b>6,829</b>	<b>11,136</b>	<b>13,222</b>
Change (%)	94.1	61.2	-2.8	-13.2	8.4	55.4	-5.8	-54.2	63.1	18.7
<b>Total Operating Expenses</b>	<b>1,719</b>	<b>2,211</b>	<b>2,369</b>	<b>3,625</b>	<b>4,570</b>	<b>6,540</b>	<b>8,843</b>	<b>7,544</b>	<b>6,308</b>	<b>6,631</b>
Change (%)	58.5	28.7	7.1	53.0	26.1	43.1	35.2	-14.7	-16.4	5.1
Employee Expenses	1,310	1,707	1,715	2,284	3,057	4,732	6,318	5,244	4,300	4,515
Depreciation	70	88	76	92	109	204	227	232	250	270
Other Operating Expenses	339	416	577	1,249	1,404	1,604	2,298	2,068	1,758	1,846
<b>Operating Profit</b>	<b>5,188</b>	<b>8,920</b>	<b>8,456</b>	<b>5,774</b>	<b>5,621</b>	<b>9,300</b>	<b>6,075</b>	<b>-715</b>	<b>4,828</b>	<b>6,591</b>
Change (%)	109.8	71.9	-5.2	-31.7	-2.6	65.4	-34.7	-111.8	-775.1	36.5
<b>Total Provisions</b>	<b>453</b>	<b>2,736</b>	<b>6,451</b>	<b>4,806</b>	<b>5,443</b>	<b>2,594</b>	<b>19,863</b>	<b>8,165</b>	<b>2,154</b>	<b>2,274</b>
% Loan loss provisions to Avg loans ratio	1.2	5.9	10.8	7.7	8.2	2.8	23.8	14.9	3.6	3.0
<b>PBT</b>	<b>4,735</b>	<b>6,185</b>	<b>2,004</b>	<b>969</b>	<b>178</b>	<b>6,706</b>	<b>-13,788</b>	<b>-8,880</b>	<b>2,674</b>	<b>4,317</b>
Tax Provisions	1,616	2,666	550	270	54	1,699	-3,436	-2,229	0	0
Tax Rate (%)	34.1	43.1	27.4	27.9	30.5	25.3	24.9	25.1	0.0	0.0
<b>PAT</b>	<b>3,119</b>	<b>3,518</b>	<b>1,455</b>	<b>698</b>	<b>124</b>	<b>5,007</b>	<b>-10,352</b>	<b>-6,651</b>	<b>2,674</b>	<b>4,317</b>
Change (%)	66.0	12.8	-58.7	-52.0	-82.3	3,940.0	-306.7	-35.7	-140.2	61.4
Balance Sheet <span style="float: right;">(INR m)</span>										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	596	643	643	691	710	713	713	800	887	887
Reserves & Surplus	18,298	25,616	26,848	30,185	30,280	35,733	25,617	20,879	25,466	29,783
Non-controlling interest	9	13	20	24	2	3	2	2	2	2
<b>Net Worth</b>	<b>18,904</b>	<b>26,272</b>	<b>27,511</b>	<b>30,899</b>	<b>30,992</b>	<b>36,449</b>	<b>26,333</b>	<b>21,682</b>	<b>26,355</b>	<b>30,672</b>
<b>Borrowings</b>	<b>29,677</b>	<b>30,253</b>	<b>53,733</b>	<b>37,721</b>	<b>60,743</b>	<b>94,246</b>	<b>56,556</b>	<b>51,922</b>	<b>64,982</b>	<b>78,668</b>
Change (%)	27.3	1.9	77.6	-29.8	61.0	55.2	-40.0	-8.2	25.2	21.1
Other Liabilities	736	3,248	4,526	2,143	2,091	3,130	2,046	2,146	2,355	2,585
<b>Total Liabilities</b>	<b>49,317</b>	<b>59,774</b>	<b>85,769</b>	<b>70,763</b>	<b>93,826</b>	<b>1,33,825</b>	<b>84,935</b>	<b>75,750</b>	<b>93,692</b>	<b>1,11,925</b>
Cash and Bank	3,518	2,571	13,810	12,022	10,045	18,941	18,438	13,744	16,585	18,704
Investments	1	4,875	23	24	1,894	1,118	1,098	1,038	1,040	1,337
<b>Loans</b>	<b>42,678</b>	<b>49,767</b>	<b>69,330</b>	<b>55,184</b>	<b>77,598</b>	<b>1,10,143</b>	<b>57,084</b>	<b>52,289</b>	<b>66,991</b>	<b>82,375</b>
Change (%)	38.1	16.6	39.3	-20.4	40.6	41.9	-48.2	-8.4	28.1	23.0
Fixed Assets	268	339	380	313	249	300	342	383	425	468
Other Assets	2,853	2,221	2,225	3,220	4,040	3,323	7,974	8,296	8,651	9,041
<b>Total Assets</b>	<b>49,317</b>	<b>59,774</b>	<b>85,769</b>	<b>70,763</b>	<b>93,826</b>	<b>1,33,825</b>	<b>84,935</b>	<b>75,750</b>	<b>93,692</b>	<b>1,11,925</b>

E: MOFSL Estimates

## Financials and valuations

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>AUM</b>	<b>43,720</b>	<b>68,290</b>	<b>81,570</b>	<b>65,810</b>	<b>85,110</b>	<b>1,19,730</b>	<b>68,190</b>	<b>60,090</b>	<b>75,018</b>	<b>91,778</b>
Change (%)	38	56	19	-19	29	41	-43	-12	25	22
<b>Disbursements</b>	<b>49,157</b>	<b>77,222</b>	<b>60,990</b>	<b>33,740</b>	<b>81,320</b>	<b>1,06,900</b>	<b>56,050</b>	<b>51,566</b>	<b>66,004</b>	<b>80,525</b>
Change (%)	27	57	-21	-45	141	31	-48	-8	28	22
<b>Ratios</b>										
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Spreads Analysis (%)</b>										
Avg. Yield on Loans	27.1	25.3	22.9	21.5	19.2	23.8	26.2	19.3	24.0	23.7
Avg Cost of Funds	13.5	11.9	10.1	11.8	9.3	12.0	12.4	10.2	11.0	10.7
Spread of loans	13.6	13.4	12.8	9.7	9.9	11.9	13.9	9.0	13.0	13.0
NIM (on loans)	17.4	17.6	15.8	12.8	12.3	14.0	15.1	9.1	13.2	13.4
<b>Profitability Ratios (%)</b>										
RoE	19.0	15.6	5.4	2.4	0.4	14.8	-33.0	-27.7	11.1	15.1
RoA	7.2	6.5	2.0	0.9	0.2	4.4	-9.5	-8.3	3.2	4.2
Int. Expended / Int.Earned	35.9	30.5	31.1	40.4	35.8	41.4	42.5	52.7	44.9	43.4
Other Inc. / Net Income	7.3	27.0	13.2	15.3	19.6	17.2	15.4	26.9	29.2	24.3
<b>Efficiency Ratios (%)</b>										
Op. Exps. / Net Income	24.9	19.9	21.9	38.6	44.8	41.3	59.3	110.5	56.6	50.2
Empl. Cost/Op. Exps.	76.2	77.2	72.4	63.0	66.9	72.4	71.4	69.5	68.2	68.1
<b>Asset-Liability Profile (%)</b>										
Loans/Borrowings Ratio	1.4	1.6	1.3	1.5	1.3	1.2	1.0	1.0	1.0	1.0
Assets/Equity	2.6	2.3	3.1	2.3	3.0	3.7	3.2	3.5	3.6	3.6
<b>Asset Quality (%)</b>										
GNPA (INR m)	3,628	180	4,095	11,489	1,775	1,905	3,915	2,827	1,931	1,165
GNPA (%)	7.8	0.4	5.6	18.7	2.2	1.7	6.2	5.0	2.7	1.4
NNPA (INR m)	5.5	34.6	2,193.8	6,442.7	549.1	385.1	827.1	508.8	463.5	291.4
NNPA (%)	0.0	0.1	3.1	11.4	0.7	0.3	1.4	0.9	0.7	0.3
PCR (%)	99.8	80.8	46.4	43.9	69.1	79.8	78.9	82.0	76.0	75.0
Credit costs	1.2	5.9	10.8	7.7	8.2	2.8	23.8	14.9	3.61	3.04
Valuations	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Book Value (INR)	317	408	427	447	437	511	369	244	297	346
BV Growth (%)	-32	29	5	5	-2	17	-28	-34	22	16
P/BV	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
EPS (INR)	52.3	54.7	22.6	10.1	1.7	70.2	-145.2	-83.1	30.1	48.7
EPS Growth (%)	-17	5	-59	-55	-83	3,922	-307	-43	-136	61
P/E	<b>4.9</b>	<b>4.7</b>	<b>11.3</b>	<b>25.3</b>	<b>146.6</b>	<b>3.6</b>	<b>-1.8</b>	<b>-3.1</b>	<b>8.5</b>	<b>5.3</b>
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

E: MOFSL Estimates

# Muthoot Microfin

BSE SENSEX	S&P CNX
81,160	24,891



## Financials & Valuations (INR m)

Y/E March	FY23	FY24	FY25
NII	7,416	11,075	14,394
Total Income	8,973	13,892	16,343
PPoP	4,362	7,544	7,534
PAT	1,639	4,496	-2,225
EPS (INR)	11.7	26.9	-13.3
EPS Gr. (%)	-	129.9	-149.4
BV (INR)	116	168	157
<b>Ratios (%)</b>			
NIM	11.9	12.6	12.4
C/I ratio	51%	46%	54%
RoA	2.3	4.5	-2.0
RoE	11.1	20.3	-8.2

## CMP: INR165

Not rated

### Ahead of the curve in the MFI industry!

Credit costs to normalize in 2HFY26; diversification efforts underway

- Muthoot Microfinance (MML) continues to be well-positioned relative to its peers, sustaining profitability in all but one quarter. This resilience stems from proactive measures, including moderating disbursements at early signs of stress, avoiding overleveraged customers, employing robust underwriting scorecards, and leveraging natural catastrophe insurance.
- With collection efficiency improving markedly across both current and past-due accounts, and further gains expected, the company plans to accelerate growth in the coming quarters by diversifying its loan book, leveraging generative AI for underwriting, and expanding its geographic and customer reach.
- The company is seeing broad-based improvement in collection efficiencies across all geographies, including Karnataka. This has given management confidence that credit costs will remain at the lower end of the guided range, with 2HFY26 expected to see normalized credit costs of 2.5-3%.
- MML expects margins to expand, supported by strong liability management and consistent access to funds, which will reduce borrowing costs alongside higher lending yields. The company anticipates margins to rise from 11.75% in 1QFY26 to 12.5-12.75% by the end of FY26.
- Management expects disbursements of INR100b and AUM growth of 20% in FY26, with growth expected to be driven by increased ticket sizes, new customer acquisitions through expansion into newer geographies, and diversification into non-MFI products such as individual loans, micro-LAP, and gold loans.

### Poised for a strong, diversified loan growth in FY26

- MML is witnessing signs of recovery with strong disbursements in Jul'25, and future growth is expected to come from higher ATS among existing borrowers (~62%) as they move to higher loan cycles alongside onboarding less-leveraged new customers, expansion of its branch network with deeper penetration in Assam, TN, and AP, and diversification into non-JLG products such as co-lending gold loans, micro MSME, and micro-LAP.
- The company has successfully leveraged its parent's expertise in underwriting and gold loan management as a strategic moat, disbursing ~INR2b under these products, which have so far delivered a ~100% on-time repayment record.
- MML aims to gradually reduce its reliance on group loans from the current ~95% to 85%/15% and eventually to 70%/30% over the longer term, while leveraging Gen-AI capabilities to strengthen underwriting for individual loans.

### Disciplined approach boosting collections and credit quality

- MML has seen a marked improvement in collections, with recoveries from overdue accounts tripling to ~INR180m in Jul'25 and overall CE rising to ~93% and expected to improve further. The recovery remains broad-based across states, with minimal stress in Jharkhand and Odisha, visible signs of improvement in Karnataka (expected to normalize by 3QFY26), and no emerging stress in eastern markets such as Assam.
- Over the past 12-15 months, MML has outperformed peers on the back of a robust risk framework. This includes 1) a dedicated credit structuring team to strengthen underwriting and collections, 2) a prudent approach of curtailing disbursements in 1QFY25 while peers remained aggressive, 3) the use of a 40-parameter scorecard to focus lending toward low- and very low-risk borrowers, and 4) a conscious reduction in exposure to overleveraged customers, with 4+ lender exposure expected to decline below ~1% by Sep'25.
- MML anticipates credit costs to normalize at ~2.5-3.0% going forward. For FY26, credit costs are likely to remain at the lower end of the guided 4-6% range, with a steady 2.5-3% anticipated in the second half of the year.

### NatCat insurance: MML's shield against financial aftermath

- MML's proactive use of Natural Catastrophe Insurance (NatCat) helps mitigate credit costs arising from events like floods or heavy rains.
- MML introduced NatCat insurance after the 2018 Kerala floods, which heavily affected its then-high Kerala portfolio (45% of total AUM). The company collaborated with insurers to create a tailored product that evolved from a basic parametric model, dependent on sometimes inaccurate IMD data, into a more standardized and reliable solution.
- The product was designed to support borrowers in the initial months after a calamity when cash flow pressures are highest, offering coverage up to INR100k for household damage, physical claims for amounts above INR25k, and a simple photo-based claim process for settlements below INR25k.
- The company is confident this cover will protect its portfolio from the impact of current floods in states like Uttarakhand, Punjab, MP, and Rajasthan.

## Financials and valuations

Income Statement						(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25
Interest Income	6,084	6,210	7,286	12,906	19,736	23,695
Interest Expended	2,907	2,993	3,402	5,490	8,660	9,301
<b>Net Interest Income</b>	<b>3,177</b>	<b>3,216</b>	<b>3,885</b>	<b>7,416</b>	<b>11,075</b>	<b>14,394</b>
Change (%)		1.2	20.8	90.9	49.3	30.0
Other Income	2,583	753	1,143	1,557	2,817	1,950
<b>Net Income</b>	<b>5,761</b>	<b>3,970</b>	<b>5,028</b>	<b>8,973</b>	<b>13,892</b>	<b>16,343</b>
Change (%)		-31.1	26.7	78.5	54.8	17.6
Operating Expenses	2,844	2,565	3,269	4,611	6,349	8,809
<b>Operating Income</b>	<b>2,917</b>	<b>1,405</b>	<b>1,759</b>	<b>4,362</b>	<b>7,544</b>	<b>7,534</b>
Change (%)		-51.8	25.2	148.0	72.9	-0.1
Provisions and W/Offs	2,720	1,314	1,112	2,233	1,725	10,423
<b>PBT</b>	<b>197</b>	<b>91</b>	<b>647</b>	<b>2,129</b>	<b>5,818</b>	<b>-2,889</b>
Tax	15	20	173	490	1,323	-664
Tax Rate (%)	7.6	22.1	26.8	23.0	22.7	23.0
<b>PAT</b>	<b>182</b>	<b>71</b>	<b>474</b>	<b>1,639</b>	<b>4,496</b>	<b>-2,225</b>
Change (%)		-61.3	571.9	245.8	174.3	-149.5
Balance Sheet						(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25
Equity Share Capital	1,142	1,142	1,333	1,402	1,673	1,676
Reserves & Surplus	7,928	7,757	12,032	14,857	26,371	24,646
<b>Net Worth</b>	<b>9,070</b>	<b>8,899</b>	<b>13,366</b>	<b>16,258</b>	<b>28,044</b>	<b>26,322</b>
<b>Borrowings</b>	<b>28,964</b>	<b>29,907</b>	<b>39,716</b>	<b>64,932</b>	<b>84,248</b>	<b>79,264</b>
Change (%)		3.3	32.8	63.5	29.7	-5.9
Other liabilities	2,882	3,047	2,833	4,102	3,611	2,984
<b>Total Liabilities</b>	<b>40,916</b>	<b>41,853</b>	<b>55,915</b>	<b>85,292</b>	<b>1,15,902</b>	<b>1,08,570</b>
Cash and bank balances	13,602	7,450	9,999	11,504	15,765	11,698
<b>Loans and Advances</b>	<b>25,638</b>	<b>32,955</b>	<b>43,981</b>	<b>70,267</b>	<b>92,864</b>	<b>87,402</b>
Change (%)		28.5	33.5	59.8	32.2	-5.9
Fixed Assets	369	398	420	594	733	768
Investments	0	0	0	634	467	3,543
Intangible Assets	2	1	1	3	3	2
Other Assets	1,306	1,048	1,513	2,290	6,071	5,158
<b>Total Assets</b>	<b>40,916</b>	<b>41,853</b>	<b>55,915</b>	<b>85,292</b>	<b>1,15,902</b>	<b>1,08,570</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

AUM and Disbursements (INR m)	FY20	FY21	FY22	FY23	FY24	FY25
<b>AUM</b>	<b>49,320</b>	<b>49,867</b>	<b>62,549</b>	<b>92,083</b>	<b>1,21,935</b>	<b>1,23,567</b>
YoY growth (%)	13.3	1.1	25.4	47.2	32.4	1.3
<b>Disbursements</b>	<b>40,757</b>	<b>26,368</b>	<b>46,470</b>	<b>81,045</b>	<b>1,06,616</b>	<b>88,725</b>
YoY growth (%)	-10.6	-35.3	76.2	74.4	31.6	-16.8

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25
<b>Spreads Analysis (%)</b>						
Yield on Portfolio	18.5	20.3	17.0	19.0	20.7	19.7
Cost of Borrowings	10.8	10.6	10.4	10.9	11.2	11.0
Interest Spread	7.7	9.6	6.6	8.1	9.5	8.7
Net Interest Margin			10.3	11.9	12.6	12.4

### Profitability Ratios (%)

RoE	4.0	0.8	4.3	11.1	20.3	-8.2
RoA (on balance sheet)	0.9	0.2	1.0	2.3	4.5	-2.0
Debt: Equity (x)	3.2	3.4	3.0	4.0	3.0	3.0
Leverage (x)	4.5	4.6	4.4	5.2	4.1	4.1

### Efficiency Ratios (%)

Int. Expended/Int.Earned	47.8	48.2	46.7	42.5	43.9	39.3
Op. Exps./Net Income	49.4	64.6	65.0	51.4	45.7	53.9
Empl. Cost/Op. Exps.						
Other Income/Net Income	44.8	19.0	22.7	17.4	20.3	11.9

### Asset quality

GNPA	2,079	2,589	2,890	2,142	2,208	4,512
NNPA	1,039	1,081	1,302	858	906	1,204
GNPA %		7.4	6.3	3.0	2.3	4.8
NNPA %		3.2	2.9	1.2	0.9	1.3
PCR %		58.3	54.9	59.9	61.0	73.3

# Satin Creditcare Network

BSE SENSEX  
81,501

S&P CNX  
24,971



## Financials & Valuations (INR m)

Y/E March	FY23	FY24	FY25
NII	5.8	9.2	11.6
Total Income	11.8	12.2	14.3
PPoP	7.4	7.1	7.4
PAT	2.6	4.2	2.2
EPS (INR)	32	42	20
EPS Gr. (%)		30	-53
BV (INR)	226	242	258
<b>Ratios (%)</b>			
NIM	11.5	13.2	13.0
C/I ratio	54.3	42.6	48.4
RoA	3.5	4.8	2.1
RoE	15.0	18.5	7.9

**CMP: INR145**

**Not Rated**

## Resilient across credit cycles through proactive strategies

**Sharper underwriting and a data-driven approach to improve credit quality**

- Satin Creditcare (Satin) has demonstrated remarkable resilience amidst the sector's inherent susceptibility to credit cycles, particularly in the post-COVID era. By leveraging in-house technology, proactive risk management, and a stable leadership team, the company has maintained profitability for 16 consecutive quarters and consistently recorded lower credit costs compared to its peers.
- Satin's strategy focuses on robust underwriting, early identification of stress through data analytics, and a unique, segregated collections vertical, positioning it to navigate challenges and capitalize on growth opportunities. The company is poised for stable growth, with plans to expand its branch network significantly and a clear focus on strengthening its core Joint Liability Group (JLG) lending model.
- The company has consistently outperformed its peers by maintaining the lowest credit costs. During the peak of the COVID impact, Satin's credit cost was in the range of 11%, while in FY25, the company successfully adhered to its credit cost guidance of 4.5-5% without any upward revisions, a testament to its robust risk management framework.
- With the stress from the past credit cycle behind it, Satin is now gearing up for calibrated growth. It plans to expand its footprint by opening 400 branches in FY26, supported by strong liquidity and reduced competitive intensity. Management expects stable loan growth of 10-15% in FY26, followed by a pick-up to ~15-20% from FY27 as expansion gains traction.

## Proactive risk management and technological integration

- Satin's ability to ride the tide better stems from a series of strategic decisions implemented years before the recent crises. A key differentiator is the company's philosophy of not waiting for a crisis to react.
- Satin's proprietary tech platform, built since 2017, enables instant underwriting changes using real-time data, ensuring high-quality client onboarding and filtering out risky profiles with precision.
- Unlike peers, Satin separated sales, credit, and collections, with system-driven decisioning for approvals and a dedicated collections team since Mar'20, leading to stronger underwriting discipline and more efficient recoveries.
- Even before regulatory tightening, Satin restricted lending to the new-to-credit customers, introduced stricter scorecards, and limited exposure to over-leveraged borrowers, resulting in the industry's lowest Satin+3 exposure at just 6%.

## Strengthened operational strategy and geographical focus

- Satin has strengthened its JLG model by deploying facial recognition to verify attendance at center meetings, restructuring large groups into smaller, more accountable units, and reinstating peer discipline to improve recoveries, even from delinquent customers.

- The company has strengthened operations in weaker markets like Rajasthan, Jharkhand, and Odisha by enhancing leadership and tailoring underwriting policies to state-specific risks.
- Satin adopts a district- and branch-level approach to emerging issues, such as in Assam, enabling it to stay agile and capture quality clients when peers withdraw, thereby consolidating its position during crises.

## Financials and valuations

Income Statement		(INR m)				
Y/E March		FY20	FY21	FY22	FY23	FY24
Interest Income		10,784	11,169	11,701	11,601	17,488
Interest Expended		5,769	6,176	6,064	5,760	8,328
<b>Net Interest Income</b>		<b>5,016</b>	<b>4,993</b>	<b>5,637</b>	<b>5,841</b>	<b>9,159</b>
Change (%)		-0.5		12.9	3.6	56.8
Other Income		3,225	1,562	921	5,933	3,019
<b>Net Income</b>		<b>8,240</b>	<b>6,555</b>	<b>6,558</b>	<b>11,774</b>	<b>12,178</b>
Change (%)		-20.5		0.0	79.5	3.4
Operating Expenses		4,220	3,900	4,210	4,422	5,075
<b>Operating Income</b>		<b>4,020</b>	<b>2,654</b>	<b>2,348</b>	<b>7,352</b>	<b>7,103</b>
Change (%)		-34.0		-11.6	213.1	-3.4
Provisions and W/Offs		1,888	2,752	1,754	3,942	1,445
<b>PBT</b>		<b>2,132</b>	<b>-98</b>	<b>594</b>	<b>3,410</b>	<b>5,658</b>
Tax		569	38	191	767	1,430
Tax Rate (%)		26.7	-38.8	32.2	22.5	25.3
<b>PAT</b>		<b>1,563</b>	<b>-136</b>	<b>402</b>	<b>2,643</b>	<b>4,228</b>
Change (%)		-108.7		-396.8	557.1	60.0
Proposed Dividend (Incl Tax)						-48.8

Balance Sheet		(INR m)				
Y/E March		FY20	FY21	FY22	FY23	FY24
Equity Share Capital		517	665	746	848	1,100
Reserves & Surplus		14,011	14,246	15,317	18,289	25,573
<b>Net Worth</b>		<b>14,528</b>	<b>14,911</b>	<b>16,062</b>	<b>19,137</b>	<b>26,673</b>
<b>Borrowings</b>		<b>48,660</b>	<b>55,215</b>	<b>50,125</b>	<b>50,962</b>	<b>68,673</b>
Change (%)		13.5		-9.2	1.7	34.8
Other liabilities		8,355	8,620	7,567	6,355	5,464
<b>Total Liabilities</b>		<b>71,542</b>	<b>78,745</b>	<b>73,754</b>	<b>76,454</b>	<b>1,00,810</b>
Cash and bank balances		17,617	18,626	19,147	10,288	11,365
<b>Loans and Advances</b>		<b>47,094</b>	<b>55,150</b>	<b>48,974</b>	<b>56,842</b>	<b>79,514</b>
Change (%)		17.1		-11.2	16.1	39.9
Fixed Assets		865	875	792	833	864
Investments		5,133	2,832	3,362	7,415	8,248
Intangible Assets		38	29	21	14	4
Other Assets		795	1,233	1,459	1,062	814
<b>Total Assets</b>		<b>71,542</b>	<b>78,745</b>	<b>73,754</b>	<b>76,454</b>	<b>1,00,810</b>
E: MOSL Estimates						

## Financials and valuations

### Ratios

AUM and Disbursements (INR m)	FY20	FY21	FY22	FY23	FY24	FY25
<b>AUM</b>		<b>72,746</b>	<b>64,090</b>	<b>79,290</b>	<b>1,05,930</b>	<b>1,13,160</b>
YoY growth (%)			-11.9	23.7	33.6	6.8
<b>Disbursements</b>	<b>80,450</b>	<b>43,920</b>	<b>40,310</b>	<b>73,900</b>	<b>96,910</b>	<b>98,370</b>
YoY growth (%)	76.5	-45.4	-8.2	83.3	31.1	1.5

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25
<b>Spreads Analysis (%)</b>						
Yield on Portfolio	20.6	17.6	18.4	19.6	22.1	21.7
Cost of Borrowings	8.5	8.5	8.9	8.0	9.0	8.7
Interest Spread	12.1	9.1	9.6	11.5	13.2	13.0
Net Interest Margin	12.1	9.0	9.6	11.5	13.2	13.0

### Profitability Ratios (%)

RoE	12.0	-0.9	2.6	15.0	18.5	7.9
RoA (on balance sheet)	2.3	-0.2	0.5	3.5	4.8	2.1
Debt: Equity (x)	3.3	3.7	3.1	2.7	2.6	2.6
Leverage (x)	3.8	4.1	3.4	2.9	2.7	2.8

### Efficiency Ratios (%)

Int. Expended/Int.Earned	53.5	55.3	51.8	49.7	47.6	45.1
Op. Exps./Net Income	51.2	57.7	64.8	54.3	42.6	48.4
Empl. Cost/Op. Exps.						
Other Income/Net Income	39.1	23.8	14.0	50.4	24.8	18.9

### Asset quality

GNPA	1,578	4,976	4,458	1,930	2,187	3,475
NNPA	923	2,913	1,561	921	889	1,350
GNPA %	3.3	8.4	8.0	3.3	2.5	3.7
NNPA %					1.0	1.4
PCR %	41.5	41.4	65.0	52.3	60.4	62.3

# IIFL Samasta

**BSE SENSEX** 81,160 **S&P CNX** 24,891



## Financials & Valuations (INR m)

<b>Y/E March</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
NII	9.5	15.3	13.9
Total Income	11.7	18.9	16.9
PPoP	6.1	10.8	7.8
PAT	1.3	5.0	0.2
EPS (INR)	3	8	0
EPS Gr. (%)	105	218	-96
BV (INR)	594	668	668
<b>Ratios (%)</b>			
NIM	11.2	12.3	11.0
C/I ratio	47.4	43.1	53.7
RoA	1.7	5.0	0.2
RoE	11.0	30.2	1.0

## Unlisted

## To regain stronger ground by the end of FY26E

## Strengthening the team amid some regional challenges

- IIFL Samasta is sharpening its lending strategy with a differentiated approach to ticket sizes across geographies and customer risk profiles. Lending decisions are increasingly data-driven, with lower exposures to customers with multiple existing lender relationships and higher limits to long-tenured borrowers with proven repayment records.
- IIFL believes the MFI sector is undergoing a strategic shift, with a stronger focus on existing customers who have solid repayment records, offering them slightly higher ticket sizes while remaining within the MFIN guardrails.
- The company is witnessing stable asset quality and improving disbursals, but timely collections remain a challenge, with on-time repayment (OTR) yet to reach desired levels. Nevertheless, it remains confident of being on a stronger footing by Mar'26, assuming no unforeseen external disruptions.
- The expected improvement is being driven by internal strategic shifts, including changes in management and processes. Management shared that although the flow rate is trending down, the pace of decline remains slow.

## Navigating through collection challenges and state-specific issues

- IIFL has flagged Assam as a key area of concern, citing limited customer capacity to absorb higher ticket loans, which has prompted a cautious stance in the region. Rajasthan, too, remains challenging, driven by adverse customer behavior and operational issues related to manpower.
- High attrition and instability in local manpower continue to constrain the effective execution of collection strategies, adding to credit costs. While certain states are showing faster recovery, others remain stubbornly slow in improving collection efficiencies.
- In contrast, Tamil Nadu and Odisha have recorded meaningful improvements in collections, aided by internal management changes at the zonal level within Samasta. Karnataka, which had faced strong resistance in Feb–Mar'25 around collection practices, has also shown notable progress as customers have begun to recognize the importance of timely repayments.

## Evolving business environment and strategic realignment

- The MFI sector is undergoing a strategic shift, with lenders prioritizing existing customers with strong repayment records by gradually offering higher ticket loans. The group structure is evolving from a pure joint liability to a more collection-focused mechanism, supporting disciplined customer graduation to larger loan sizes.
- IIFL Samasta's successful experience over the past four to five years with Micro-Lap or retail unsecured business loans, which inherently involve larger ticket sizes, further validates this strategic direction towards higher ticket lending. The company is actively integrating these varied approaches to optimize its overall operational framework.

## Financials and valuations

Income Statement		(INR m)				
Y/E March		FY20	FY21	FY22	FY23	FY24
Interest Income		5,102	6,886	9,842	15,396	24,060
Interest Expended		1,772	2,546	3,951	5,870	8,804
<b>Net Interest Income</b>		<b>3,330</b>	<b>4,340</b>	<b>5,891</b>	<b>9,527</b>	<b>15,256</b>
Change (%)		30.3	35.7	61.7	60.1	-8.8
Other Income		715	135	357	2,139	3,640
<b>Net Income</b>		<b>4,045</b>	<b>4,476</b>	<b>6,248</b>	<b>11,665</b>	<b>18,896</b>
Change (%)		10.6	39.6	86.7	62.0	-10.5
Operating Expenses		2,016	2,373	3,353	5,527	8,145
<b>Operating Income</b>		<b>2,030</b>	<b>2,102</b>	<b>2,895</b>	<b>6,138</b>	<b>10,751</b>
Change (%)		3.6	37.7	112.0	75.2	-27.2
Provisions and W/Offs		595	1,281	2,306	4,553	4,180
<b>PBT</b>		<b>1,403</b>	<b>822</b>	<b>589</b>	<b>1,585</b>	<b>6,571</b>
Tax		330	155	84	303	1,541
Tax Rate (%)		23.5	18.9	14.2	19.1	23.5
<b>PAT</b>		<b>1,073</b>	<b>666</b>	<b>506</b>	<b>1,282</b>	<b>5,030</b>
Change (%)		-37.9	-24.1	153.3	292.4	-95.9

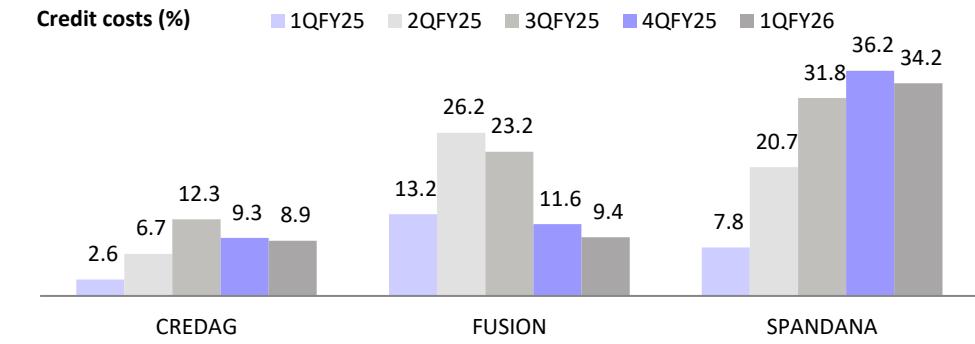
Balance Sheet		(INR m)				
Y/E March		FY20	FY21	FY22	FY23	FY25
Equity Share Capital		2,642	3,208	4,982	5,936	6,684
Reserves & Surplus		2,449	3,287	5,011	7,285	13,413
<b>Net Worth</b>		<b>5,092</b>	<b>6,495</b>	<b>9,993</b>	<b>13,222</b>	<b>20,097</b>
<b>Borrowings</b>		<b>20,349</b>	<b>35,649</b>	<b>52,589</b>	<b>72,703</b>	<b>90,047</b>
Change (%)		75.2	47.5	38.2	23.9	-22.6
Other liabilities		1,179	1,938	1,363	3,117	3,859
<b>Total Liabilities</b>		<b>26,619</b>	<b>44,082</b>	<b>63,944</b>	<b>89,041</b>	<b>1,14,003</b>
Cash and bank balances		2,809	3,331	7,106	6,095	12,734
<b>Loans and Advances</b>		<b>22,874</b>	<b>39,630</b>	<b>55,186</b>	<b>77,361</b>	<b>94,114</b>
Change (%)		73.3	39.3	40.2	21.7	-27.3
Fixed Assets		130	120	159	285	431
Investments		1	1	1	1,604	3,705
Intangible Assets						
Other Assets		806	1,000	1,492	3,696	3,019
<b>Total Assets</b>		<b>26,619</b>	<b>44,082</b>	<b>63,944</b>	<b>89,041</b>	<b>1,14,003</b>
E: MOSL Estimates						

## Financials and valuations

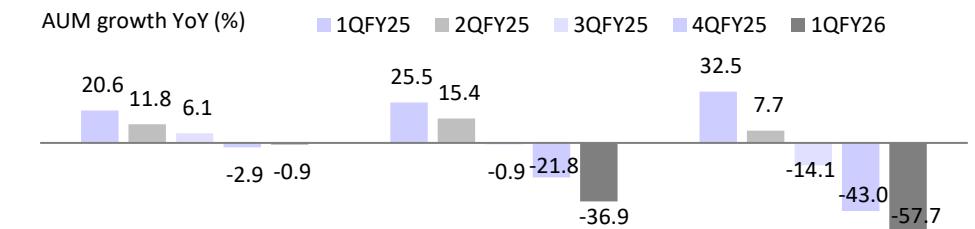
	INR m					
AUM and Disbursements (INR m)	FY20	FY21	FY22	FY23	FY24	FY25
<b>AUM</b>	<b>33,998</b>	<b>47,956</b>	<b>64,838</b>	<b>1,05,522</b>	<b>1,42,113</b>	<b>1,11,008</b>
YoY growth (%)		41.1	35.2	62.7	34.7	-21.9
<b>Disbursements</b>	<b>30,792</b>	<b>36,948</b>	<b>57,102</b>	<b>1,02,138</b>	<b>1,23,245</b>	<b>63,557</b>
YoY growth (%)		20.0	54.5	78.9	20.7	-48.4
<b>Ratios</b>						
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25
<b>Spreads Analysis (%)</b>						
Yield on Portfolio	25.0	22.0	20.8	23.2	28.1	27.4
Cost of Borrowings	9.9	9.1	9.0	9.4	10.8	10.4
Interest Spread	15.2	12.9	11.8	13.9	17.2	16.9
Net Interest Margin	11.7	10.6	10.4	11.2	12.3	11.0
<b>Profitability Ratios (%)</b>						
RoE	27.7	11.5	6.1	11.0	30.2	1.0
RoA (on balance sheet)	4.7	1.9	0.9	1.7	5.0	0.2
Debt: Equity (x)	4.0	5.5	5.3	5.5	4.5	3.4
Leverage (x)	5.2	6.8	6.4	6.7	5.7	4.5
<b>Efficiency Ratios (%)</b>						
Int. Expended/Int.Earned	34.7	37.0	40.1	38.1	36.6	37.4
Op. Exps./Net Income	49.8	53.0	53.7	47.4	43.1	53.7
Other Income/Net Income	17.7	3.0	5.7	18.3	19.3	17.7
<b>Asset quality</b>						
GNPA	343	748	1,774	1,694	1,852	3,374
NNPA			473	643	324	995
GNPA %	1.5	1.8	3.1	2.1	1.9	4.8
NNPA %	0.0	0.0	0.9	0.8	0.3	1.5
PCR %			73.3	62.0	82.5	70.5

## Peer comparison

**Exhibit 31: Credit costs easing for CREDAG and Fusion, but still elevated for Spandana**

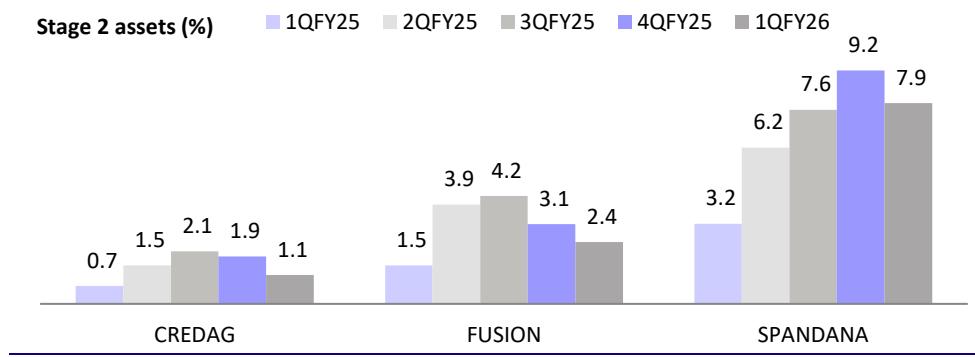


**Exhibit 32: AUM growth broadly flat for CREDAG, while it has significantly declined for Fusion and Spandana**



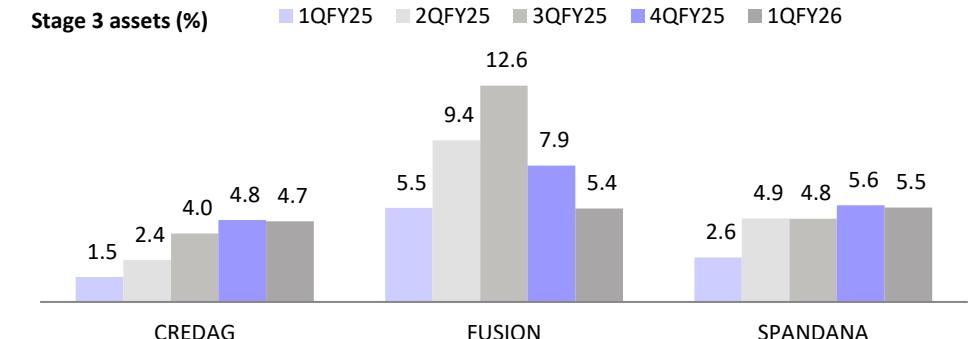
**CREDAG FUSION SPANDANA**

**Exhibit 33: CREDAG and Fusion's lower stage 2 exposure suggests limited Stage 3 slippages going forward**



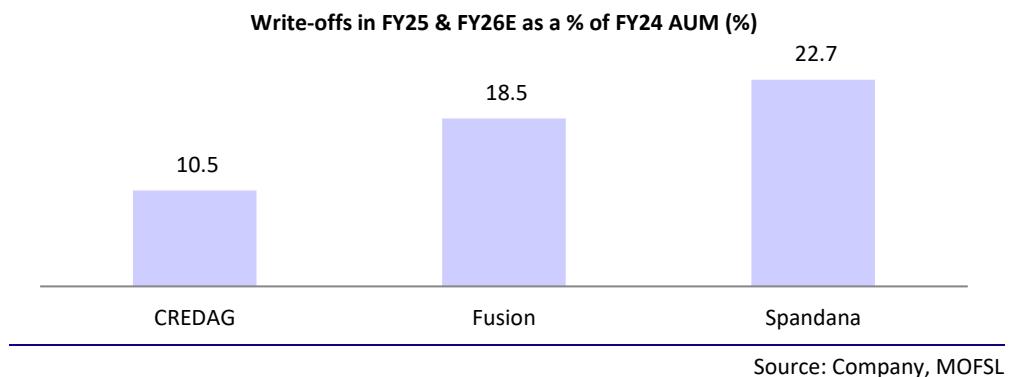
Source: Company, MOFSL

**Exhibit 34: Stage 3 assets showing good improvement for Fusion while it is broadly stable for CREDAG and Spandana**

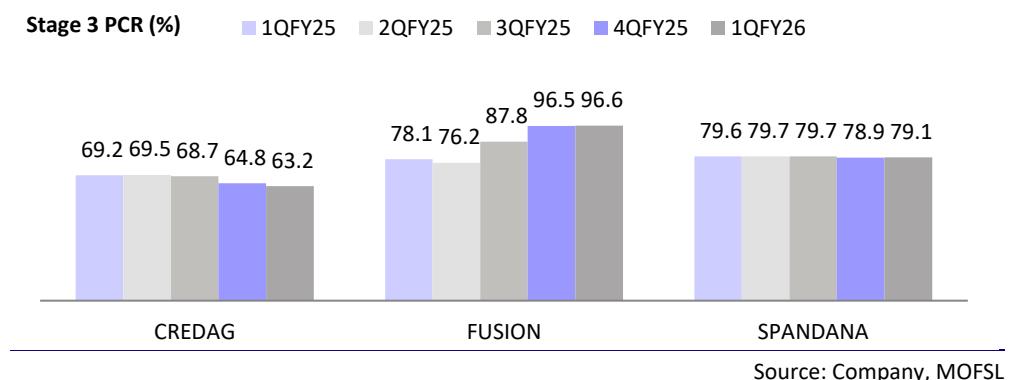


Note: For CREDAG, Stage 3 assets is 60+dpd, Source: Company, MOFSL

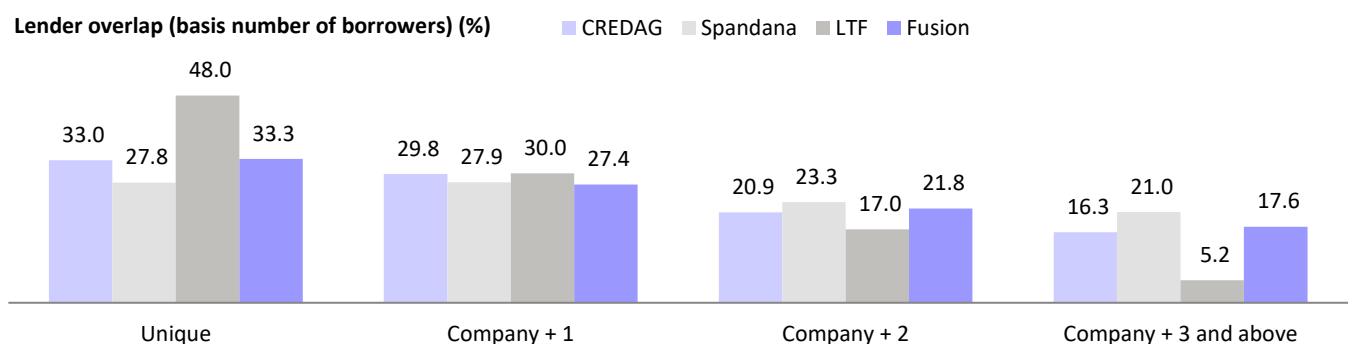
**Exhibit 35: Write-offs in FY25 & FY26E as % of FY24 AUM indicate that total write-offs are significantly elevated for Spandana and Fusion in FY25 and FY26E**



**Exhibit 36: Fusion has the highest stage 3 PCR, followed by Spandana and CREDAG**



**Exhibit 37: LTF has the lowest company+3 lender exposure followed by CREDAG, while Spandana has the highest**



Note: Data as of Jun'25, Source: Company, MOFSL

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## CREDAG

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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Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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