



Fusion Micro Finance Limited

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Offer Details

IPO Size	Rs. 1103 Cr.
Shares Face Value	Rs.10 per share
Shares price band	Rs.350 to Rs.368 per share
Lot	40 shares
Opening Date	November 2, 2022
ClosingDate	November 4, 2022

Company Overview

- The company was originally incorporated as Ambience Fincap Private Limited on September 5, 1994 in New Delhi.
- It was subsequently renamed to Fusion Microfinance Limited on July 20, 2021.
- As the name suggests, the company is a NBFC-MFI engaged in providing financial services to women in rural areas across India.
- It believes that women can positively influence loan repayment in their household because they are generally more risk-averse, cooperate better in groups, are more accessible than their working husbands and demonstrate better discipline in meeting loan repayment schedules.
- It is one of the youngest companies (in terms of getting NBFC-MFI license) amongst top 10 NBFC-MFI'S in India in terms of AUM as on June 30, 2022 according to CRISIL.
- In addition, had the fourth fastest gross loan portfolio CAGR of 53.89% between the financial years 2017 and 2021 among the 10 largest NBFC-MFIs in India, according to CRISIL. As of June 30, 2022 and March 31, 2022, 2021 and 2020, our total AUM was Rs73, 890.23 million, Rs 67,859.71 million, Rs 46,378.39 million and Rs 36,065.24 million, respectively.
- The company has 2.90 Million active customers which are served through the network of 966 branches and 9262 permanent employees spread across 377 districts in 19 states and union territories in India, as of June 30 2022.

The map below illustrates the spread of our branches across India, as of June 30, 2022:



(Source : DRHP)

- The key product offerings by the company are :
 - 1) Income Generating Loans
 - Emergency Loans
 - Top up Loans
 - 2) MSME Loans
- The company benefits from large and diversified mix of 56 lenders comprising of range of Private sector banks, Public sector Banks, Foreign banks and other financial institutions as of June 30, 2022.
- The company is led by Managing Director and Chief Executive Officer, Mr Devesh Sachdev, who has 26 years of experience in the banking and financial services sector Industry.

Business Model:

- The micro finance lending business of the company is based on group lending model, catering exclusively to women.
- A joint liability group (typically comprising of 5-7 members) provides joint and several guarantees for loan obtained by each member of group.
- The company lend to women in household, even if loan proceeds are used in the household business that is run by the family, including the husband.
- The **income generating loans** are granted for:
 - Agriculture and allied activities
 - Manufacturing and Production
 - Trade and Retail
 - Services
 - Others (Miscellaneous)
 - The income generating loans are granted for above activities for amounts ranging from Rs 10,000/- to Rs 40,000/- for the first loan cycle and Rs 10,000/- to Rs 80,000/- for subsequent cycles.
- Other income generating Loans:
 - Top-up Loans: To be eligible for top up loans, a customer must have paid minimum of six monthly instalments, a minimum attendance rate of 60% at the scheduled centre meetings and a satisfactory track record of the previous loans.
 - Cross Sell Loans: In order to enhance the existing customer base, the company provides cross sell loans that are utilized for livelihood and

productivity enhancing purposes. As of June 30, 2022, the company has entered into agreements with

- 1) Smart Phone Brands.
- 2) Bicycle Manufacturers for the range of Bicycle.
- 3) Kitchen Appliances.
- 4) Agriculture Solutions Providers

- The Prices of above products financed by the company ranges from Rs 1000/- to Rs 11,500/-.
- MSME Loans:
 - The company provides loans to enterprise must be a manufacturer, trader or service provider and have investment limit of less than Rs 15,00,000/-.
- Emergency Loans: To be eligible for emergency loans, a customer must have completed at least one cycle on Income generation loans and minimum attendance of 60% at the scheduled meetings.

What is working for the company?

- The company has well diversified PAN India presence. Between March 31, 2022 and June 30, 2022, the number of active borrowers grew at the CAGR of 33.63% and the number of branches grew at the CAGR of 31.92%.
- The company has less concentration/ dependence one one district/ Area. According to CRISIL, the company has fourth lowest gross loan portfolio per district and second lowest gross loan portfolio per customer amongst top 10 NBFC-MFI in India as on June 30, 2022.
- The company has good lender base consisting of 56 lenders. The cost of borrowing of the company has been reducing at a steady rate and was 10.10%, 10.43%, 11.23%, and 12.33% for three months ended June 30, 2022 and financial years 2022, 2021 and 2020 respectively. The lending is also dominated by private sector banks.

Particulars	As of June 30,		As of March 31,		
	2022	2021	2022	2021	2020
Banks:					
Development financial institutions ⁽¹⁾	11.29%	11.52%	13.42%	13.66%	13.20%
Public banks	13.07%	10.61%	13.36%	10.88%	5.02%
Private banks	38.77%	38.40%	40.24%	37.46%	38.91%
Foreign banks	16.05%	17.76%	15.07%	16.83%	21.21%
Subtotal for banks	79.18%	78.30%	82.10%	78.83%	78.34%
Foreign portfolio investors ⁽²⁾	9.97%	13.95%	8.77%	13.92%	12.16%
NBFCs	10.85%	7.75%	9.13%	7.25%	9.50%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

- The lenders include reputable banks such as HDFC bank, State bank of India, Bank of Baroda, ICICI Bank, Citibank and financial institutions such as CDC group, Bajaj Finance and Sundaram Finance.
- The company has robust risk management and underwriting processes. As of June 30, 2022 and March 31, 2022, 2021 and 2020, the gross NPA ratio was 3.67%, 5.71%, 5.51% and 1.12%, respectively, and the net NPA ratio was 1.35%, 1.64%, 2.20% and 0.38%, respectively. According to CRISIL, the company had the sixth lowest gross NPA ratio among the top 10 NBFC-MFIs in India during the financial year 2022, and the average asset quality of 2.4% between the financial year 2015 and financial year 2022 was the lowest among all NBFC-MFIs operating in North India.
- The company has utilized a loan origination system since the disbursement of the very first loan in 2010, through technology. The current platforms support mobile customer on boarding, paperless loan processing, real-time application

tracking using barcodes, real-time credit checks, cloud computing, integrated credit bureau data collection, comprehensive online grievance redressal, geographic tagging for centre meetings and real time notifications to customers. The company has adopted cloud computing software as early as 2013. They are one of the first few MFIs to launch a mobile-based customer platform, and are in the process of implementing advanced artificial intelligence (“**AI**”) and machine learning (“**ML**”) mechanisms across our operations. Shakti, its centralized online real-time environment (“**CORE**”) lending system, is a multi-product digital platform providing end-to-end solutions on both web and mobile platforms. Shakti enables, among other things, real time integration through open API architecture with credit bureaus, bank partners and other third-party systems that facilitate seamless customer information validation and cashless collections.

- The company is backed by stable and experienced management team and supported by marquee investors. The Company was founded by Mr. Devesh Sachdev, a first-generation entrepreneur who has 26 years of experience in the banking and financial services and logistics industry. It is also benefitted from the support of Marquee investors like Warbag Pincus LLC, a leading private equity firm and creation investments fusion LLC a leading alternative investment management company.

What is not working for the company?

- A large portion of collection and disbursements of the loan is in cash resulting in operational risks. For the three months ended June 30, 2022 and the financial years 2022, 2021 and 2020, Rs 723.85 million, Rs 3,392.84 million, Rs 3,729.39 million, Rs 15,946.42 million, respectively, or 3.72%, 5.60%, 10.14% and 44.63% respectively, of loans were disbursed through cash. For the same periods, Rs 15,269.03 million, Rs 46,482.43 million, Rs 32,540.53 million and Rs 31,874.18 million, respectively, of the collections were in cash.

Large cash collections and disbursements expose us to the risk of theft, fraud, misappropriation or unauthorized transactions by employees responsible for dealing with such cash collections. We have experienced certain instances of misappropriation or unauthorized transactions by certain employees over the last three financial years and the three months ended June 30, 2022, including cash embezzlements which (i) aggregated to an amount of ₹3.03 million, out of which ₹1.52 million had been recovered, during the three months ended June 30, 2022, (ii) aggregated to an amount of ₹12.67 million, out of which ₹5.96 million had been recovered, during the financial year 2022, (iii) aggregated to an amount of ₹9.77 million, out of which ₹5.18 million had been recovered, during the financial year 2021 and (iv) aggregated to an amount of ₹5.01 million, out of which ₹2.12 million had been recovered, during the financial year 2020. We may also be party to criminal proceedings and civil litigation related to our cash collections, and we may be subject to regulatory or other proceedings in connection with any unauthorized transactions, fraud or misappropriation by our representatives and employees, which could adversely affect our goodwill. These risks are exacerbated by the high levels of responsibility we delegate to our employees and the geographically dispersed nature of our network. Our customers are primarily from rural markets, which carry additional risks due to limitations on infrastructure and technology. During the last three financial years and the three months ended June 30, 2022, we registered 141 cases of theft and robbery, which were for an aggregate amount of ₹11.67 million.

(Source: Company DRHP)

- The micro finance industry as a whole faces a lot of risks due to the kind of customer base it serves. The company is engaged in providing financial services to the women in the rural area with an annual household income of Rs 3,00,000/-. This kind of customers have limited source of income, credit history and savings. There is a limited financial information available and there is no credit history available supported by tax returns.
- The business of the company is vulnerable to interest rate risks, inflation risks, monetary policy of RBI, which are highly sensitive and beyond their control.
- The company also faces severe competition from other organized MFI's. The key competitors include other for-profit MFIs operating in India such as CreditAccess Grameen, Spandana Sphoorty Financial, Satin Creditcare Network, Asirvad Microfinance, Arohan Financial Services, Muthoot Microfin and Annapurna Microfinance.

Company Financials

Profit and loss A/C :

Profit & Loss

Figures in Rs. Crores

	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Sales +	266	494	720	856	1,151
Expenses +	182	172	290	437	676
Operating Profit	84	322	430	419	476
OPM %	32%	65%	60%	49%	41%
Other Income +	1	3	10	17	50
Interest	137	254	338	375	496
Depreciation	2	2	3	4	5
Profit before tax	-54	68	100	57	24
Tax %	26%	26%	30%	23%	11%
Net Profit	-39	51	70	44	22
EPS in Rs	-9.15	7.71	8.25	5.21	2.58

Balance sheet:

Balance Sheet

Figures in Rs. Crores

CORPORATE ACTIONS

	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Share Capital +	44	62	79	79	83
Reserves	214	564	1,120	1,167	1,255
Borrowings +	1,605	2,929	2,974	4,432	5,776
Other Liabilities +	109	56	67	159	177
Total Liabilities	1,968	3,611	4,240	5,838	7,290
Fixed Assets +	5	6	6	18	19
CWIP	0	0	0	0	0
Investments	0	0	0	0	0
Other Assets +	1,963	3,604	4,233	5,820	7,271
Total Assets	1,968	3,611	4,240	5,838	7,290

(Source: Screener)

Cash Flow Statement:**Cash Flows**

Figures in Rs. Crores

	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Cash from Operating Activity +	-597	-1,418	-749	-793	-1,641
Cash from Investing Activity +	184	15	20	10	18
Cash from Financing Activity +	741	1,631	545	1,459	1,418
Net Cash Flow	329	229	-184	676	-204

(Source: Screener)

Our recommendation:

- The company has strong financial base and is backed by strong management and private equity investors.
- However, the industry in which the company operates has some inherent risks.
- Majority of the loans given are in the agricultural sector which itself is cyclical.
- Owing to all of the above factors, our recommendation is **“Subscribe for short term”**.

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