

Fusion Finance | REDUCE

Muted quarter; asset quality indicators mixed

Fusion reported a loss of INR 221mn (vs. est. profit of INR 148mn) due to lower-than-expected NII (-38%/-10% YoY/QoQ, -6% JMF), higher-than-expected opex (+9%/flat YoY/QoQ, +8% JMF), and higher provisions (+15% JMF). However, provisions fell -84%/-38% YoY/QoQ, as company utilized INR 150mn of management overlay, which will continue in the upcoming quarters. GS3 declined by -82bps QoQ led by write-offs, while NS-3 rose by 19bps to ~0.4%. PCR on stage-3 declined ~530bps QoQ but remains healthy at 90.9% (vs. 96.2% QoQ). Collection efficiency largely remained steady at ~98.5% vs. 98.6% QoQ. Forward flow rates across all buckets inched up, but improved slightly in Sep'25, with PAR0+ net flows stabilizing to 0.5%-0.6%. Fusion+3 customers moderated to ~13.9% (vs. 17.6% in 1Q). AUM shrank -39%/-8% YoY/QoQ, driven by weak disbursements (-22%/+37% YoY/QoQ) and mgmt. expects AUM to stop de-growing post 3Q as disbursements pick up. We believe further improvement in asset quality indicators would be key monitorable going forward while growth visibility remains poor over the near term despite seasonal Q3. Given the overall muted performance, we further revised our earnings estimates by -35% for FY26E. We downgrade the stock to REDUCE with a revised TP of INR 165, valuing at an unchanged target multiple of 1.0x FY27E P/BV.

- **AUM de-growth continues:** AUM declined -39%/-8% YoY/QoQ to INR 70.4bn, as disbursements remained subdued at INR 13bn (-22%/+37% YoY/QoQ). The no. of active borrowers fell by 27k to 2.58mn, down 1.25mn from 2Q25. MSME AUM grew +14%/+4% YoY/QoQ to INR 7.1bn, now constituting 10.1% of total AUM (vs. 8.9% in 1Q). Mgmt. expects AUM to stop de-growing by the end of 3Q, driven by a recovery in disbursements. We revised our AUM growth downward from -2% to -13% for FY26E.
- **Asset quality indicators mixed:** GNPA improved -82bps QoQ to 4.61%, driven by write-offs of INR 2.46bn (~3.2% of AUM). NNPA rose by +19bps QoQ to 0.38%. PCR on stage-3 declined ~530bps QoQ to 90.9% (vs. 96.2% in 1Q), which includes mgmt. overlay of INR 445mn (~0.6% of AUM). Mgmt. expects the overlay utilization to continue in upcoming quarters. CE in Sep'25 moderated QoQ to 98.5% from 98.6%, with a slight increase in UP. New book CE remains strong at 99.5%. Forward flow rates from PAR0-30, PAR30-60, and PAR60-90 increased, with improvements seen in Sep'25. Net forward flow into PAR0+ stabilized at 0.5%-0.6%. Fusion+3 customers moderated to ~13.9% (vs. 17.6% in 1Q). Recoveries increased to INR 130mn (vs. INR 60mn in 1Q). We estimate credit costs to improve in the near term and expect avg. credit costs of ~3.9% over FY26E/FY27E.
- **Weak operating performance:** Fusion reported NII of INR 2.5bn (-38%/-10% YoY/QoQ, -6% JMF), despite a ~INR 200mn interest income reversal. NIMs improved +61bps QoQ, driven by a +60bps increase in yields, while CoFs remained stable. Opex of INR 2.1bn (+8%/flat YoY/QoQ, +8% JMF) resulted in a weak PPOP of INR 890mn (-69%/+3% YoY/QoQ, -20% JMF). Annualized credit cost stood at ~6% (vs. 8.6% QoQ), impacted by elevated write-offs of INR ~2.5bn, leading to a loss of INR 221mn. We revised our EPS estimates by -35%/-3% for FY26E/FY27E mainly led by revision in our AUM growth estimates.
- **Valuation and view:** We believe further improvement in asset quality indicators would be key monitorable going forward while growth visibility remains poor over the near term despite seasonal Q3. Given the overall muted performance, we further revised our earnings estimates by -35% for FY26E. We downgrade the stock to REDUCE with a revised TP of INR 165, valuing at an unchanged target multiple of 1.0x FY27E P/BV.



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Recommendation and Price Target

Current Reco.	REDUCE
Previous Reco.	HOLD
Current Price Target (12M)	165
Upside/(Downside)	-3.7%
Previous Price Target	170
Change	-2.9%

Key Data – FUSION IN

Current Market Price	INR171
Market cap (bn)	INR23.5/US\$0.3
Free Float	52%
Shares in issue (mn)	100.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR74.6/US\$0.8
52-week range	215/124
Sensex/Nifty	83,311/25,510
INR/US\$	88.6

Price Performance

%	1M	6M	12M
Absolute	-9.7	9.4	-16.6
Relative*	-11.4	5.9	-19.5

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	5,052	-12,245	720	2,336	3,330
Net Profit (YoY) (%)	4.4%	-342.4%	-105.9%	224.7%	42.5%
Assets (YoY) (%)	25.7%	-29.6%	-0.8%	6.5%	17.2%
ROA (%)	4.8%	-12.2%	0.9%	2.7%	3.5%
ROE (%)	19.5%	-54.5%	3.5%	8.9%	11.4%
EPS	50.2	-121.7	4.4	14.4	20.6
EPS (YoY) (%)	4.1%	-342.3%	-103.7%	224.7%	42.5%
P/E (x)	3.4	-1.4	38.4	11.8	8.3
BV	283	163	156	170	191
BV (YoY) (%)	22.3%	-42.3%	-4.7%	9.3%	12.1%
P/BV (x)	0.60	1.05	1.10	1.01	0.90

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Fusion Finance – 2QFY26 Results Summary

Exhibit 1. Fusion Finance – 2QFY26 Result Snapshot

Earnings Table (INR mn)	2Q'25	1Q'26	2Q'26	YoY (%)	QoQ (%)	2Q'26e	%var
Interest Income	6,261	4,219	3,808	-39.2%	-9.7%	4,028	-5.5%
Interest Expenses	2,274	1,489	1,343	-40.9%	-9.8%	1,402	-4.2%
Net interest income	3,987	2,730	2,465	-38.2%	-9.7%	2,625	-6.1%
Non-Interest Income	776	237	519	-33.2%	119.1%	427	21.6%
Total Income	4,764	2,967	2,984	-37.4%	0.6%	3,052	-2.2%
Employees Cost	1,405	1,542	1,541	9.7%	0.0%	NA	NA
Other Expenditure	520	559	553	6.2%	-1.1%	NA	NA
Total Operating Expenses	1,925	2,101	2,094	8.8%	-0.3%	1,936	8.1%
Operating Profit (PPP)	2,838	866	890	-68.6%	2.8%	1,116	-20.2%
Provisions & Write Offs	6,941	1,789	1,112	-84.0%	-37.9%	968	14.8%
PBT	-4,102	-923	-221	-94.6%	-76.0%	148	NA
Tax	-1,052	0	0	-100.0%	NA	0	NA
Reported Profit	-3,050	-923	-221	-92.7%	-76.0%	148	NA
Business Growth (INR bn)							
Assets Under Management	115.7	76.9	70.4	-39.2%	-8.4%	78.0	-9.8%
Disbursements	16.6	9.5	13.0	-21.9%	36.6%	10.5	24.2%
Credit Quality							
Gross NPA (%)	9.41%	5.43%	4.61%	-480bps	-82bps		
Net NPA (%)	2.41%	0.19%	0.38%	-203bps	19bps		
Coverage Ratio (%)	71.17%	96.2%	90.9%	1973bps	-528bps		
AUM Mix							
MFI	109,508	70,036	63,301	-42.2%	-9.6%		
MSME	6,202	6,840	7,080	14.2%	3.5%		
Total	115,710	76,876	70,381	-39.2%	-8.4%		
Key Ratios							
Yield on Advances	21.50%	20.60%	21.20%	-30bps	60bps		
Cost of Funds	10.10%	10.30%	10.30%	20bps	0bps		
NIM (NII/AUM)	11.48%	10.29%	10.90%	-58bps	61bps		
Credit Cost on AUM	23.37%	8.58%	6.04%	-1733bps	-255bps		

Source: Company, JM Financial

Fusion Finance – Key takeaways from concall

AUM/Growth

- INR 4bn from the ongoing INR 8bn rights issue has been called, with an aim to fund MFI and MSME expansion and disbursements.
- Fusion, Fusion+1 account for 78% of new customers.
- Continuous improvement in disbursements visible as per management. Significant upside in 3Q also seen as of now. By the end of 3Q, between Dec and Jan is when disbursement growth will support AUM growth. Book will stop growing in this period as per mgmt.
- MSME vertical continues to grow (93% of the book is secured), with an IRR of 23%. 56% approval rate and fully PSL compliant.

Margins

- Avg. CoB remained stable. Marginal CoF stood at 12.9% (vs. 13.3% in 1Q).
- Marginal CoFs should trend down ~20-30bps in 3Q as per mgmt.
- Interest reversals during the quarter was around INR 190-200mn excluding write offs.

Asset Quality

- POS contribution of Fusion+>=3 customers is 10.8% in Q2 FY26 of which 7% customers in current bucket.
- CE of UP has slightly gone down but still better than the overall country benchmark. Certain parts of UP were little impacted, but not of significant concern, and in Oct'25, the CE is better than the country CE by ~30bps.
- INR 2.46bn written off from Stage 3 during the quarter. INR 150mn of management overlay used during 2Q. Mgmt. overlay balance stands at INR 445mn currently.
- Roll forward rates were much better at 1.12% (vs. 1.35% in 1Q). Net flow forward into PAR0+ stabilized at 0.5%-0.6%.
- Digital collections and conciliation efforts accelerated rollbacks, lowering PAR 60 -> 90 from 86.20% in Q2 FY25 to 74.57% in Q2FY26.
- Incremental provision towards fresh accretion including write offs and mgmt. overlay stood at INR 1260mn.
- INR 130mn (write off recovery in 2Q) (vs. INR 60mn in the previous quarter).
- ~98.85% CE in POS (vs. 98.65 in 1Q).
- CE holding steady at 98.5%, with new book CE at 99.5%.

Guidance

- Credit cost will continue to trend downwards. 3.5% credit cost guidance for the steady state.
- Mgmt. guided that constructively mgmt. overlay will be released over the next few quarters.
- INR 7-7.5bn disbursement monthly run rate targeted by the next year.
- From next year company targets that ~60-65% will be fusion customers, and balance 30-35% would be new to fusion customers.

Other Highlights

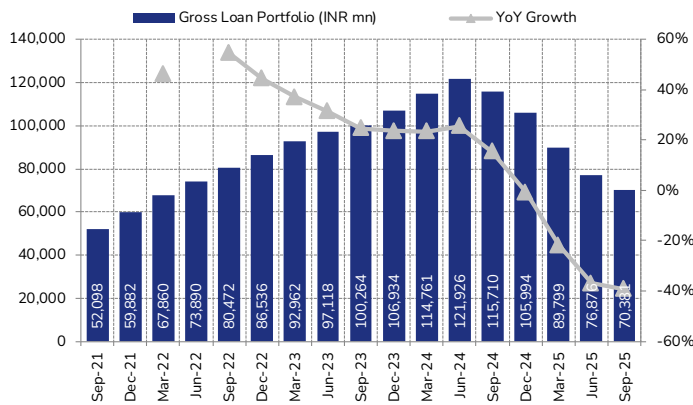
- RBI has approved corporate agency license.
- 27% approval rates in 2Q (vs. 24% in 1Q) owing to enhanced credit filters and improved on-ground efficiency etc.
- Origination and servicing systems are being built in-house.
- Have started pilot programs with multiple partners for collections features/applications.
- No significant improvement in opex seen during the quarter despite cutting over ~2000 employees. This improvement will be seen in 3Q as per mgmt. For disbursement a lot of

redundancies were removed, and converted fully to a digital receipting model. Productivities will continue to improve without adding employees. Employee opex will moderate. However, other opex could be steady or inch up with investments in IT etc.

- Recovery from write-off shown in the other operating revenue (vs. in other income previously).
- Internal discussion being done with asset pricing committee wrt strategy on rates/yields to new customers (rates could be increased by ~300-400bps rates).
- Rajeev Sardana, BFSI veteran, joins as independent director.
- INR 13.95bn fresh funds raised during 2Q. INR 8.92bn of liquidity currently.

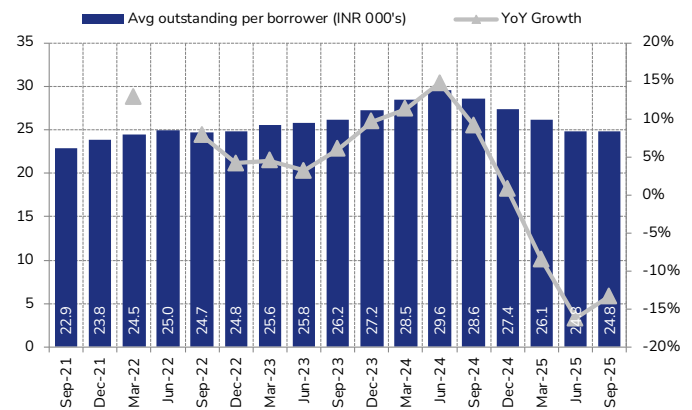
Quarterly Trends

Exhibit 2. Gross Loan Portfolio has been on a declining trend but is expected to start growing led by disbursement to pick up in 2H



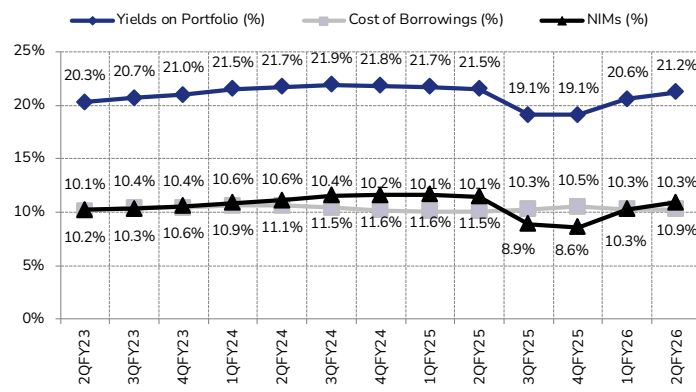
Source: Company, JM Financial

Exhibit 3. Avg. outstanding per borrower steady sequentially



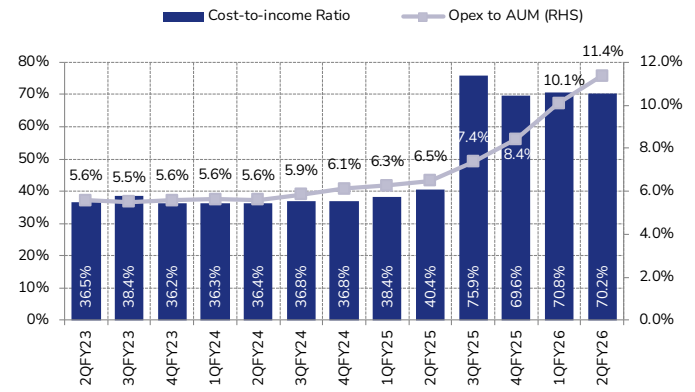
Source: Company, JM Financial

Exhibit 4. NIMs increase led by a 60bps increase in reported yields



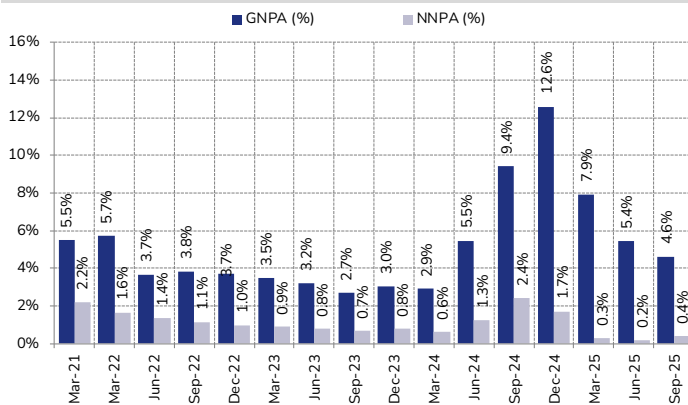
Source: Company, JM Financial

Exhibit 5. Opex ratio improvements to be more visible in 3Q

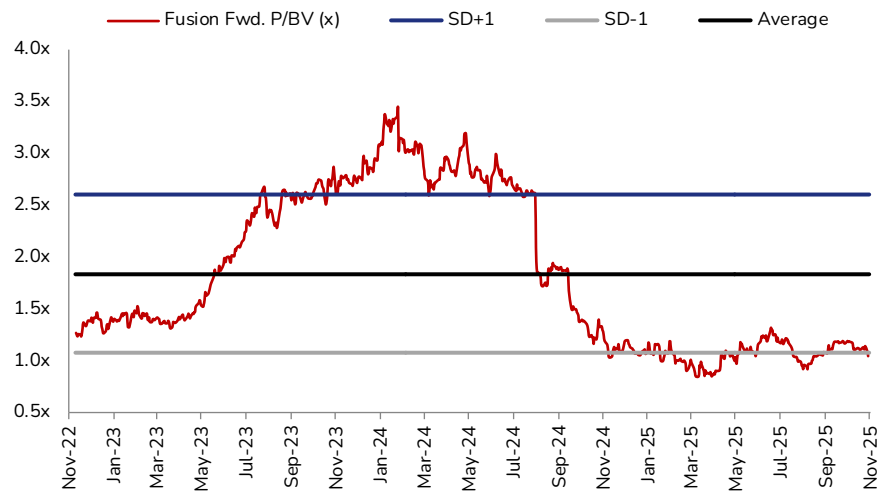


Source: Company, JM Financial

Exhibit 6. Net NPA increase led by lower provisions during the quarter



Source: Company, JM Financial

Exhibit 7. Fusion Finance: One year forward P/B valuation

Source: Company, JM Financial, Bloomberg

Note: Priced as of 6th Nov, 2025

Exhibit 8. Fusion Finance: Change in our estimates

Old vs. New Estimates	FY26E, Old	FY26E, New	Chg	FY27E, Old	FY27E, New	Chg	FY28E, Old	FY28E, New	Chg
Recommendation	HOLD REDUCE								
Target price (Rs)	170	165							
Income Statement (Rs mn)									
Net Interest Income	11,529	10,702	-7%	12,088	10,981	-9%	13,799	13,776	0%
Non-Interest Income	1,601	1,601	0%	2,081	2,081	0%	2,705	2,705	0%
Total Income	13,130	12,303	-6%	14,169	13,062	-8%	16,504	16,481	0%
Operating Expenses	7,731	7,413	-4%	8,211	7,538	-8%	9,313	9,004	-3%
Pre-provisioning Profits	5,399	4,890	-9%	5,958	5,524	-7%	7,191	7,477	4%
Reported Profits	1,105	720	-35%	2,407	2,336	-3%	3,190	3,330	4%
Balance Sheet (Rs mn)									
Borrowings	57,618	54,417	-6%	60,499	57,138	-6%	66,549	68,566	3%
Net Advances	71,223	62,980	-12%	76,004	74,752	-2%	88,960	93,094	5%
Total Assets	85,877	82,291	-4%	91,438	87,620	-4%	100,977	102,677	2%
AUM	88,082	77,888	-12%	93,995	92,446	-2%	110,018	115,129	5%
Key Ratios (%)									
NIM (%)	12.96%	12.76%	0%	13.28%	12.89%	0%	13.53%	13.27%	0%
ROA (%)	1.31%	0.87%	0%	2.72%	2.75%	0%	3.32%	3.50%	0%
ROE (%)	5.27%	3.46%	-2%	9.00%	8.88%	0%	10.80%	11.42%	1%
EPS (Rs.)	6.8	4.4	-35%	14.9	14.4	-3%	19.7	20.6	4%
BV (Rs.)	157.9	155.5	-2%	172.8	170.0	-2%	192.5	190.6	-1%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	14,313	13,795	10,702	10,981	13,776
Non Interest Income	1,902	1,455	1,601	2,081	2,705
Total Income	16,215	15,250	12,303	13,062	16,481
Operating Expenses	5,935	7,886	7,413	7,538	9,004
Pre-provisioning Profits	10,280	7,365	4,890	5,524	7,477
Loan-Loss Provisions	3,649	18,695	5,862	2,232	2,762
Others Provisions	0	0	-1,692	177	275
Total Provisions	3,649	18,695	4,170	2,409	3,037
PBT	6,632	-11,330	720	3,115	4,440
Tax	1,580	915	0	779	1,110
PAT (Pre-Extra ordinaries)	5,052	-12,245	720	2,336	3,330
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	5,052	-12,245	720	2,336	3,330
Dividend	0	0	0	0	0
Retained Profits	5,052	-12,245	720	2,336	3,330

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	27.1%	-25.7%	-15.0%	5.0%	20.0%
Advances	23.7%	-27.0%	-13.3%	18.7%	24.5%
Total Assets	25.7%	-29.6%	-0.8%	6.5%	17.2%
NII	35.8%	-3.6%	-22.4%	2.6%	25.5%
Non-interest Income	-4.9%	-23.5%	10.0%	30.0%	30.0%
Operating Expenses	33.4%	32.9%	-6.0%	1.7%	19.4%
Operating Profits	27.0%	-28.4%	-33.6%	13.0%	35.4%
Core Operating profit	23.8%	-32.8%	-40.4%	8.1%	37.2%
Provisions	82.1%	412.4%	-77.7%	-42.2%	26.1%
Reported PAT	4.4%	-342.4%	-105.9%	224.7%	42.5%
Yields / Margins (%)					
Interest Spread	11.07%	10.45%	9.84%	9.54%	9.54%
NIM	13.89%	14.06%	13.39%	13.55%	15.21%
Profitability (%)					
ROA	4.78%	-12.20%	0.87%	2.75%	3.50%
ROE	19.5%	-54.5%	3.5%	8.9%	11.4%
Cost to Income	36.6%	51.7%	60.3%	57.7%	54.6%
Asset quality (%)					
Gross NPA	2.92%	8.19%	9.04%	3.66%	3.73%
LLP	4.06%	21.73%	6.15%	3.50%	3.62%
Capital Adequacy (%)					
Tier I	26.60%	20.89%	32.92%	33.91%	32.57%
CAR	27.53%	22.42%	34.46%	35.35%	33.80%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	1,006	1,007	1,617	1,617	1,617
Reserves & Surplus	27,475	15,427	23,536	25,872	29,202
Borrowed Funds	86,159	64,020	54,417	57,138	68,566
Current Liabilities & Provisions	3,103	2,473	2,721	2,993	3,292
Total Liabilities	1,17,743	82,927	82,291	87,620	1,02,677
Net Advances	99,479	72,612	62,980	74,752	93,094
Investments	21	21	0	0	0
Cash & Bank Balances	15,532	8,531	15,745	8,596	4,655
Other Current Assets	1,459	964	2,788	3,461	3,999
Fixed Assets	336	801	778	811	930
Deferred Tax Assets	917	0	0	0	0
Total Assets	1,17,743	82,927	82,291	87,620	1,02,677

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	13.54%	13.75%	12.95%	12.93%	14.48%
Other Income / Assets	1.80%	1.45%	1.94%	2.45%	2.84%
Total Income / Assets	15.34%	15.20%	14.89%	15.37%	17.32%
Cost / Assets	5.62%	7.86%	8.97%	8.87%	9.46%
PPP / Assets	9.73%	7.34%	5.92%	6.50%	7.86%
Provisions / Assets	3.45%	18.63%	5.05%	2.84%	3.19%
PBT / Assets	6.27%	-11.29%	0.87%	3.67%	4.67%
Tax rate	23.8%	-8.1%	0.0%	25.0%	25.0%
ROA	4.78%	-12.20%	0.87%	2.75%	3.50%
Leverage	4.1	5.0	3.3	3.2	3.3
ROE	19.5%	-54.5%	3.5%	8.9%	11.4%

Source: Company, JM Financial

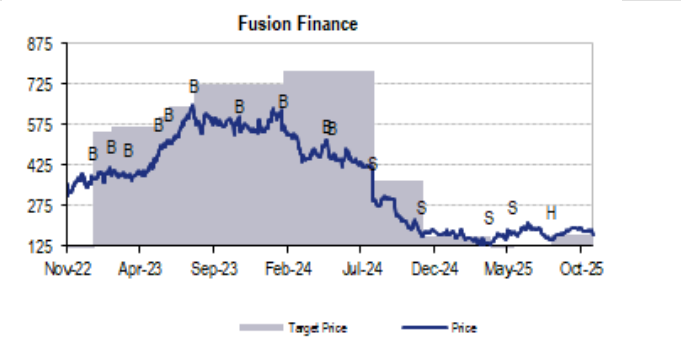
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	100.6	100.7	161.7	161.7	161.7
EPS (INR)	50.2	-121.7	4.4	14.4	20.6
EPS (YoY) (%)	4.1%	-342.3%	-103.7%	224.7%	42.5%
P/E (x)	3.4	-1.4	38.4	11.8	8.3
BV (INR)	283	163	156	170	191
BV (YoY) (%)	22.3%	-42.3%	-4.7%	9.3%	12.1%
P/BV (x)	0.60	1.05	1.10	1.01	0.90
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
6-Jan-23	Buy	550	
13-Feb-23	Buy	570	3.6
21-Mar-23	Buy	570	0.0
23-May-23	Buy	605	6.1
13-Jun-23	Buy	640	5.8
3-Aug-23	Buy	720	12.5
7-Nov-23	Buy	720	0.0
6-Feb-24	Buy	770	6.9
7-May-24	Buy	770	0.0
18-May-24	Buy	770	0.0
7-Aug-24	Sell	370	-51.9
17-Nov-24	Sell	160	-56.8
8-Apr-25	Sell	120	-25.0
26-May-25	Sell	130	8.3
12-Aug-25	Hold	170	30.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return \geq 15% over the next twelve months.
ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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