

Date: 15.07.2025

Response to Proxy Advisory Recommendations

To,

Stakeholders Empowerment Services - SES,

Ref.: Email dated 13/07/2025 received at 21:07 hrs IST

Subject: Response to Voting Recommendations of Stakeholders Empowerment Services on the proposals in the Annual General Meeting Notice dated June 10, 2025.

Dear Sir / Madam,

Fusion Finance Limited (“**Company**” or “**we**”) are in receipt of your email dated July 13, 2025, and the proxy advisory report attached therein dated July 13, 2025 (“**Report**”) setting out your voting recommendations in relation to the resolutions proposed to be passed vide Annual General Meeting Notice dated June 10, 2025, via remote e-voting scheduled from July 19, 2025 at 9:00 a.m. (IST) to July 21, 2025 at 5:00 p.m. (IST), and at the Annual General Meeting to be held on July 22, 2025 at 11.00 A.M. (IST).

In this regard, please find our item-wise response to the recommendations, as given below:

Item No. 1: To consider and adopt the audited financial statements for the financial year ended March 31, 2025, and the report of the Board of Directors and Auditors thereon. (Ordinary Resolution)**Response by FUSION:**

- a. We note that you have recommended voting “**AGAINST**” this resolution by raising a governance concern inter alia in respect of (i) inadequate disclosures on whether the present ECL model and remedial actions taken are effective and adequate to address the credit risks identified; (ii) inadequate disclosures made on the covenants breached, the reasons behind the same and why existing assets, net of impairment, couldn't be used towards borrowing repayment; (iii) past ECL allowances and loan write-offs also raises questions over the credit underwriting undertaken by the Company; and (iv) concerns on going concern position of the Company. With respect to your analysis and recommendations, we note that no specific non-compliance with applicable laws has been highlighted. Further, we note that your governance concerns on this particular resolution are limited to the points mentioned above.
- b. The Company would like to reiterate that all the observations/qualifications raised/reported by the statutory auditor of the Company, as also referred to in the SES Report, have been addressed by the Board and response thereof has been duly included in the Board's Report for the period ended FY 2024-25, which forms part of the Annual Report for the period ended FY 2024-25. The responses provided by the Board are set out at Pages 80 and 81 of the Annual Report for the period ended FY 2024-25, which is also available at the following weblink - <https://fusionfin.com/wp-content/uploads/2025/06/Annual-Report-2024-25.pdf> The same has already been referred in the report of SES as well.



Further, for ready reference, the relevant extracts of the responses provided by the Board is reproduced hereunder:

Directors' response to Qualified Opinion on Financial Statements and Internal Financial Controls:

"With respect to Auditor's Qualified Opinion on Financial Statements and Internal Financial Controls and in reference to the explanation given in Note 60 to the Financial Statements, the Board has taken note of the statutory auditor's remarks and wishes to clarify that the microfinance sector experienced significant dislocation during FY25, which resulted in sharp deterioration in borrower credit quality. The Company has evaluated whether any of the expected credit loss (ECL) allowances recognized during FY25 should have been attributed to prior periods. However, consistent with the principles set out in Ind AS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), and given the limitations in objectively determining information relating to assumptions and circumstances as it existed in those prior periods, the Company concluded that it was impracticable to evaluate and determine any amounts for retrospective recognition and measurement in those prior periods. This is because significant judgments had been applied in determining the staging of the loan assets and related impairment allowance for events and conditions existing as at the earlier reporting dates. The Company believes it would not be appropriate to apply those judgments retrospectively without the benefit of hindsight.

With respect to the statutory auditor's observation regarding controls over historical ECL provisioning, it is important to highlight that targeted remedial actions have since been undertaken, following the commissioning of multiple independent external reviews. These include: (a) investments in technology upgrades, (b) revision of underwriting policies, and (c) enhancements to the ECL methodology based on recommendations from external review, among others."

- c. **Further, regarding the Auditors' Remark on Material uncertainty related to Going Concern, the auditor has stated that "Our opinion is not modified in respect of this matter."** Further, for ready reference, the relevant extract of the directors' response is once again reproduced hereunder:

Directors' response to Auditors' Remark on Material uncertainty related to Going Concern:

"With respect to remark on material uncertainty on going concern and in reference to the explanation given in Note 61 to the Financial Statements, the Board confirms that the financial statements have been appropriately prepared on a going concern basis. As at March 31, 2025, the Company had breached various financial covenants (in respect of borrowings amounting to INR 4,762.62 crore as at March 31, 2025), resulting in these borrowings technically becoming repayable on demand. However, the Company has obtained extension, of less than 12 months and equal to or more than 12 months from testing date for said breaches from lenders whose borrowings as of March 31, 2025 aggregate INR 3,748.90 crore and INR 331.02 crore respectively. This aggregates to a total waived amount of INR 4,079.92 crore (~86% of the breached amount). The Company is in discussion with the remaining lenders to obtain similar extensions. It is further clarified that no demand for accelerated repayment of borrowed funds has been received from any lender as on date, and the lenders have continued to extend their support to the Company. Additionally, the Company holds Cash and Cash equivalents and liquid assets aggregating to INR 798.36 crore as at March 31, 2025, and INR 877.73 crore as at May 31, 2025. To further strengthen liquidity and balance sheet resilience, the Company successfully

completed a rights issue of partly paid-up equity shares of INR 799.86 crores which was subscribed 1.5x, with the Share Application Money of INR 399.93 Crores completed in May 2025, and the remaining INR 399.93 Crores callable at the Company's discretion.

The Company has demonstrated continued support from its lending partners through all quarters in FY25, and the Board believes that with the corrective actions taken and strengthening of the balance sheet, Fusion is well positioned to continue to operate as a going concern"

Item No. 5: To consider and appoint M/s. Navneet K Arora & Co LLP, Practicing Company Secretaries, as Secretarial Auditor of the Company and to fix their remuneration (Ordinary Resolution)

Response by FUSION:

We note that you have recommended voting "**AGAINST**" this resolution by raising a transparency concern in respect of the audit fee of the outgoing auditors not being disclosed, and hence, shareholders cannot ascertain if there exists material change in the audit fee proposed when compared to fee paid to outgoing auditors. Further, we note that you have also raised a governance concern in respect of M/s. Navneet K Arora & Co LLP acting as the scrutinizer at the Annual General Meeting of the Company to be held on July 22, 2025.

With respect to your analysis and recommendations, we note that no specific non-compliance with applicable laws has been highlighted. Further, we note that your transparency concerns on this particular resolution are limited to the points mentioned above.

In regard to material change in the fees payable to the proposed Secretarial Auditor from that paid to the outgoing Secretarial Auditor, it is hereby informed that there is "**No Material Change**" in terms of remuneration payable to the proposed Secretarial Auditor, when compared to the remuneration paid to the erstwhile secretarial auditor.

Further, the concern related to appointment of M/s Navneet K Arora & Co LLP, as scrutinizer in the same general meeting where his appointment as Secretarial Auditor is proposed, **is already addressed by SES in its report itself, expressing that the same is not prohibited by law** and accordingly, he can conduct the e-voting process in a "**fair and transparent manner**". Furthermore, the Company has ensured appropriate internal safeguards and confirms that the appointment process, including the role of the Scrutinizer, is being conducted independently and in compliance with applicable legal and regulatory frameworks.

Item No. 2: To re-appoint Mr. Devesh Sachdev, Managing Director (DIN: 02547111), who retires by rotation and being eligible, offers himself for re-appointment. (Ordinary Resolution)

Item No. 6: Approval of waiver of the recovery of managerial remuneration, which is in excess of the limits prescribed under Section 197 of the Companies Act, 2013 read with Schedule V to the



Companies Act, 2013, paid/payable to Mr. Devesh Sachdev (DIN: 02547111), Managing Director of the Company for the financial year 2024-25. (Special Resolution)

Item No. 7: Approval of payment of remuneration to Mr. Devesh Sachdev (DIN: 02547111), Managing Director of the Company for FY 2025-26. (Special Resolution)

Response by FUSION for Item Nos. 2, 6 & 7:

- a. We note that you have recommended against voting on the aforesaid resolutions inter alia on the grounds of (i) Mr. Devesh Sachdev holding CMD position; (ii) he should be accountable for impacted performance of the Company; (iii) excessive remuneration has been proposed; and (iv) there is a variable pay component in the minimum remuneration. With respect to your analysis and recommendations, we note that no specific non-compliance with applicable laws has been highlighted. Further, we note that your governance concerns on this particular resolution are limited to the points mentioned above.
- b. First & foremost, the proposed resolutions are duly **“compliant with law”** as mentioned in SES Report.
- c. Additionally, it is hereby confirmed that Mr. Devesh Sachdev is not CMD of the Company as mentioned in the SES Report. His designation is “Managing Director” of the Company. The statement i.e. **“the company does not have a regular chairperson”** included in the SES Report, expresses that SES acknowledges this fact as well. Furthermore, the company has always reported the above said fact in the quarterly Corporate Governance Reports submitted with the stock exchanges. Accordingly, there is no combined position of ‘Chairman & Managing Director’, which may lead to concentration of the powers of Managing Director and Chairperson of the Board, in hands of single individual.
- d. The microfinance sector experienced unprecedented stress arising from (a) overleveraging in customer segments, (b) deterioration in borrower repayment discipline post-COVID, and (c) external disruptions including localised political interference. These headwinds manifested rapidly across geographies, affecting not only Company but also a broad set of peers. This led to elevated delinquencies and consequential losses in FY25. The company is taking proactive steps to strengthen its balance sheet through enhanced risk controls, recovery measures, and capital support (including successful completion of INR 800 Cr partly paid rights issue which was 1.5x subscribed), with a focus on long-term stability and sustainable growth. The company expects improved profits through better operational efficiency, stronger risk management, and enhanced recovery efforts, leading to more sustainable and effective performance. However, the same may not be adequate for the limited purpose of calculation of profits as per Section 198 of the Companies Act, 2013. Due to loss in FY 25, consequent to the reasons stated above, the waiver of excess remuneration paid/payable to Mr. Devesh Sachdev for FY2024-25 (item no. 6) is proposed for the approval of members by way of special resolution. Further, considering the Company may not have adequate profits for limited purpose of calculation of profits as per the section 198 of the Companies Act, 2013, remuneration proposed to be paid for FY2025-26 (item no. 7), is also proposed for approval of

members. You may please note that the waiver of excess remuneration paid/payable to Mr. Devesh Sachdev for FY2024-25 (item no. 6) and remuneration proposed to be paid for FY2025-26 (item no. 7), are within the limits prescribed in the resolution (including annual revisions), which was duly approved by the shareholders vide postal ballot notice dated 08 July, 2023. The same is also mentioned in the Notice of Annual General Meeting and in the explanatory statement thereto.

- e. The liberty/discretion proposed to be provided to Board/ NRC to change terms of remuneration of Mr. Devesh Sachdev, are within the limits fixed under explanatory statement, and the aforesaid limits have already been approved by the shareholders of the Company vide postal ballot notice dated 08 July, 2023. Hence **'no major concern'** is identified, **as mentioned in the SES Report itself.**
- f. Regarding the proposed transition of Mr. Devesh Sachdev from 'Managing Director' to 'Non-Executive Chairman', the execution of the same will be reported to the stock exchanges as per the timelines prescribed under applicable law, as and when such transition is undertaken.
- g. Regarding, decrease in shareholding of Mr. Devesh Sachdev, it is hereby informed that his shareholding decreased from 4.89% to 3.05% due to increased paid up capital of the company post allotment of Rights Issue Shares, in which Mr. Sachdev did not participate. Further, his shareholding decreased from 3.05% to 2.92%, due to sale of 2,07,830 equity shares, which was duly disclosed to the stock exchanges within prescribed timelines.

Item No. 9: Approval of the payment of remuneration to Ms. Namrata Kaul (DIN: 00994532), Independent Director of the Company (Ordinary Resolution)

Response by FUSION:

- a. We note that you have recommended against voting on the aforesaid resolutions inter alia on the grounds of auditors raising concern on material uncertainty related to going concern of the Company owing to financial disruption i.e. significant amount of loan impairments, and Ms. Kaul being Audit Committee Chairperson is equally responsible for the shareholders' value loss cause by these material issues. With respect to your analysis and recommendations, we note that no specific non-compliance with applicable laws has been highlighted. Further, we note that your governance concerns on this particular resolution are limited to the points mentioned above.
- b. The proposed resolution is duly **"compliant with law"** as mentioned in SES Report.
- c. It is submitted that the proposed commission payout is in line with the market practices and statutory regulations, and a specific tenure for payment of commission has been defined by the Company, along with a cap on the absolute amount payable to a director.



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- d. The recommendations given by SES is based on the observations / remarks / qualifications reported by statutory auditors in the financial statements for FY2024-25, including the concerns on material uncertainty related to going concern. As set out above in response to the recommendations relating to Item No. 1, all of the aforesaid observations / remarks / qualifications are already responded by the Audit Committee & Board of Directors and the directors' response for the same is already included in the Board Report part of the Annual Report FY2024-25. While relevant extract of the same is also included in the response to the Item No. 1 above, we would like to draw specific attention to Board response in respect of the Auditor's Qualified Opinion on Financial Statements and Internal Financial Controls where the Board has clarified that the microfinance sector experienced significant dislocation during FY25, which resulted in sharp deterioration in borrower credit quality. Further, with respect to remark on material uncertainty on going concern, the Board has confirmed that the financial statements have been appropriately prepared on a going concern basis. Therefore, the Board and the Audit Committee have been cognisant of and in compliance with their duties in accordance with the SEBI regulations.

Accordingly, the NRC and the Board believe that the remuneration proposed to be paid to Ms. Kaul is fair and justified.

Item No. 10: Approval of the payment of remuneration to Ms. Ratna Dharashree Vishwanathan (DIN: 07278291), Independent Director of the Company (Ordinary Resolution).

Response by FUSION:

- a. We note that you have recommended against voting on the aforesaid resolutions inter alia on the grounds of Ms. Vishwanathan not attending last year's AGM despite being the NRC chairperson. With respect to your analysis and recommendations, we note that no specific non-compliance with applicable laws has been highlighted. Further, we note that your governance concerns on this particular resolution are limited to the points mentioned above.
- b. The proposed resolution is duly **"compliant with law"** as mentioned in SES Report. Further, it is submitted that the proposed commission payout is in line with the market practices and statutory regulations, and a specific tenure for payment of commission has been defined by the Company, along with a cap on the absolute amount payable to a director.
- c. Further, we would like to reiterate that Ms. Vishwanathan has been an active and engaged member of the Board and has attended all nine Board meetings held during FY 2024-25. Her contributions, particularly as Chairperson of the Nomination and Remuneration Committee (NRC), have been constructive and aligned with the Company's governance objectives. Regarding her absence at the Annual General Meeting held on September 27, 2024, Ms. Ratna Dharashree Vishwanathan was unable to attend due to unavoidable circumstances, the same has been disclosed in the corresponding Corporate Governance Report filed to stock exchanges. However, **Ms. Namrata Kaul, non-executive and independent director and member of Nomination & Remuneration Committee was duly present at the meeting exhibiting independence on behalf on Nomination & Remuneration Committee.**



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Hope the aforesaid responses would suffice the requirement and would enable the shareholders to vote in favour of the proposed resolutions.

A copy of the aforesaid responses is also available on the website of the company i.e. www.fusionfin.com.

Thanking you.

Yours faithfully,

For FUSION FINANCE LIMITED

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Deepak Madaan

Company Secretary and Chief Compliance Officer