



“Fusion Micro Finance Limited  
Q2 FY2024 Conference Call”

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**ANALYST: MR. RENISH BHUVA – ICICI SECURITIES**

**MANAGEMENT: MR. DEVESH SACHDEV – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – FUSION MICRO FINANCE LIMITED**

**MR. GAURAV MAHESHWARI – CHIEF FINANCIAL OFFICER– FUSION MICRO FINANCE LIMITED**

**MR. TARUN MEHNDIRATTA – CHIEF OPERATING OFFICER, MFI BUSINESS – FUSION MICRO FINANCE LIMITED**

**MR. DEEPAK MADAN – COMPANY SECRETARY & CHIEF COMPLIANCE OFFICER - FUSION MICRO FINANCE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY2024 Earnings Conference Call of Fusion Microfinance Limited hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you Sir!

**Renish Bhuva:** Thank you Mitchell. Good morning everyone and welcome to Fusion Microfinance Q2 FY2024 Earnings Call. On behalf of ICICI Securities I would like to thank Fusion management team for giving us the opportunity to host this call. Today we have with us the entire top management team of Fusion represented by Mr. Devesh – Managing Director and CEO, Mr. Gaurav - Chief Financial Officer; Mr. Tarun – COO, MFI Business and Mr. Deepak - Company Secretary and Chief Compliance Officer. I will now hand over the call to Mr. Devesh for opening remarks and then we will open the floor for Q&A. Over to you Sir!

**Devesh Sachdev** Thank you Renish and ICICI Securities for hosting us. I want to take this opportunity to wish all of you season’s greetings and a very Happy Diwali and many thanks for joining our Q2 FY2024 results conference call. I am here along with my colleague Tarun, COO; Gaurav Maheshwari, CFO; and Deepak Madaan, Chief Compliance Officer. I would request you to please keep the presentation which we have uploaded handy.

I would like to start with slide number 5 and 6 Executive Summary. A very significant highlight for this quarter has been that we have crossed the milestone of Rs 10000 Crores of AUM. Our year-on-year growth of AUM has been 24.6% and correspondingly our disbursements this quarter at Rs.2344 Crores has registered a year-on-year growth of 14.22%. Another key highlight of this quarter was rating upgrade from CRISIL to A+ / Stable. This is our second rating upgrade in less than 11 months, last upgrade happened on 14<sup>th</sup> November 2022. Focus on our core building blocks continues. We have added 1.3 lakh new customers in Q2, our total customer base now as of Q2 2024 is close to 3.7 million with a gross new customer addition of 2.4 lakh in H1 having grown 17.69% year-on-year. It will be pertinent to say that this is in line with our stated 10 to 12% increase in new customer acquisition year-on-year. We have added two new states Andhra and Telangana this quarter and have also opened up 61 new branches taking our total network to 22 States and 1164 branches. Another very significant highlight has been the reduction in our marginal cost of borrowing to 10.55% amidst a very high interest rate environment. This is a very strong validation of our robust liability management. Significantly while we have

continued to focus on building capacity we have also continued our focus on improving our cost to income which for the first half of financial year 2024 stands at 36.34% an improvement of 364 bps year-on-year. NIM has expanded further to 11.12% registering a 23 bps increase over last quarter. This trajectory as you will remember is as per our earlier guidance on NIM. We have maintained healthy NIM while offering one of the lowest rates to our customer in the sector. Last but not the least, we have delivered a PAT of 125.69 Crores for this quarter sequentially up by 4.34% over Q1 and with a combined H1 2024 PAT of 246.15 Crores registering a year-on-year increase of 44.66%. If you refer to our last investor call at the end of Q1 FY2024 you will remember that I had said that given the impact of unseasonal rains which may also unleash their fury in Q2 especially in the geographies where we have sizable presence, there would be temporary impact on both disbursement and collection. Starting with disbursements, total disbursements in Q2 as I mentioned earlier is Rs.2344 Crores, but if I slice it further we have seen a better traction in September and similar trend has continued in October and our average disbursement in these two months has been 850 Crores. This gives us confidence to grow in mid 20s as what we have been stating always.

We have also been seeing encouraging improvement in collection efficiency. Please refer to slide number 8. Our collection efficiency as of Q2 stands at 97.6 versus 97.3 in Q1. Out of our top five states, four of them UP, Bihar, Odisha, and Tamil Nadu have shown good improvement given that three of these states had reeled under the impact of rains. Even MP is showing a good traction now and we are working with our customers and we are very hopeful that you will see an improvement even in MP.

Moving to slide number 9 our GNPA as of Q2 FY2024 stands at 2.68% and NNPA at 0.65% registering a reduction of 52 bps and 13 bps respectively versus Q1 FY2024. We had also mentioned during the last quarter's call that credit cost may marginally inch up temporarily due to the impact of unseasonal rains. I had also stated that it may take two three quarters to normalize this impact. Given the traction we have seen, we are confident of having a credit cost of less than 3% in this financial year. I would also want to add here that during the last quarter we have recovered 5.16 Crores against our written off portfolio in Assam as part of the Assam Micro Finance Relief Scheme launched by the state government to provide relief to all stakeholders of micro finance sector in Assam. I had mentioned, we were the first company in the sector which came out with a strategy to create extra provisions under the management overlay and also mentioned that whenever in good quarters there is a room available we will add to this provision. We have added another 3.6 Crores to management overlay taking the overall amount to 61.48 Crores. Focusing on our core area, we have stayed the course on building a network and optimizing our performance as we grow organically.

Moving to slide number 18 as diversification is one of our key strategies since inception from operating in 12 states in 2017 to 22 states across 1164 branches as of Q2. We continue to remain focused on our business composition across states, maintaining positive traction in all our large states. We are confident that we will be able to maintain the prudent composition of all our large states in our portfolio mix as we go along. Our top five states Bihar, UP, Odisha, MP, and Tamil Nadu have a concentration of close to 70% as of Q2 up very marginally from Q1 against 74% in FY2017. As we have mentioned in the past, we are growing further in some of our existing states along with newer states like Karnataka, Andhra, and Telangana. We are confident that over a period of time the concentration in top five states will get further rationalized. Composition of rural portfolio stands at 93%. Slide number 18 also shows our network built across the last few years in all the states that we have been operational. We are targeting to open approximately 160 to 170 branches in FY2024.

While on the point of branch network I wish to take you to slide number 22. With our continued focus on establishing branches across last few years as you will see we now have a very good mix of vintage and new branches, a very strong operating lever for future growth. As of Q2 FY2024, we have 599 branches out of 1088 branches in microfinance that are more than three years vintage and they contribute 68% to our portfolio, remaining 489 branches are less than three years currently and contribute 32% to our portfolio.

Slide number 21 in the presentation highlights a longstanding approach growth with prudence. As we have mentioned earlier one of key focus areas has been new customer acquisition. Our active customer base stands close to 3.7 million registering a 15 69% year-on-year growth versus Q2 of FY2023. We have maintained a healthy mix of new and existing customers as reflected in our ATS and our outstanding per borrower is 26200 in Q2 versus 25800 as of Q1 FY2024. A strong validation of our focus on borrower addition is customers unique to Fusion, if you remember I had mentioned that every six months we will we take this data from the credit bureau and we have taken a recent data where it shows that 31% are unique customers to Fusion as of September 2023.

Slide number 20 captures our key productivity metrics. Our GLP per branch has been following a consistent growth trajectory and now stands at 8.8 Crores per branch as of Q2 FY2024 versus 9.1 Crores as of Q1 2024, it is because of the new branches we opened. As you will see that, we have been constantly improving on branch productivity metrics Q-on-Q and even year-on-year. Average branch productivity at sector level for comparable large NBFC is around 8 Crores as of June 2023. GLP per loan officer has also been tracking consistently strong across the past years and the same in Q2 FY2024 is 1.4 Crores per field officer a 17% growth year-on-year. Borrowers per branch for MFI business stands at 3381

Crores as of Q2 FY2024 versus 3513 as of Q1 2024 it is because as I mentioned earlier we have opened new branches.

I also would like to take you to slide number 36 on MSME. We started this vertical in December 2019 with a clear vision of building credit underwriting capabilities, mapping adjacencies, tapping the potential of the missing middle, and serve MFI customers who are moving up the value chain. We are excited about how this is shaping up, it is 4% of our overall book. Out of the Rs 400 cr odd MSME book, 50% is secured. We have been guiding that we would like to maintain a portfolio mix of 65 to 70% secured and 25 to 30% unsecured balancing prudence and yield. We are confident of reaching this ratio mix in next three quarters. I would like to mention again that we will share our broad growth strategy on both the verticals in the next two quarters. Having shared the highlights of our Q2 FY2024 performance with you I would like to reiterate that our goal always is to maintain a longterm view on building our business, setting a strong and consistent growth platform, and sustainability. Thank you very much.

**Gaurav Maheshwari:**

Thanks Devesh. Good Morning everyone. I would like to give some key highlights on the financials. Interest income has increased by 3.72% on quarter-on-quarter basis and 24.27% on year-on-year basis. Total income has increased to 3.34% on a quarter-on-quarter basis and 26.29% on a year-on-year basis. Our marginal cost of fund has reduced by 20 bps on a quarter-on-quarter basis. We are focused on optimizing our cost of funds as we all know that in last two years, India's Central Bank has increased the repo rate by 250 bps, we as a company are able to manage with 61 bps increase in our marginal cost of fund. This is because of our strategy of borrowing on fixed and floating rates with a one-year MCLR, our strong relationships, negotiations, strong operational and financial performance, capitalization and rating upgrade. We are keeping a close watch on the micro and macro developments happening globally and fine tune our strategy from time-to-time to optimize the cost of funds. Liability mix would largely remain the same. Our upgraded rating of A+ by CRISIL would help us in exploring capital market and ECB exposure. In this quarter we have received some large sanctions from State Bank of India, HDFC Bank, Kotak Mahindra Bank, HSBC, SIDBI, ICICI, Axis Bank, etc., with the better commercials. NIM has increased by 23 bps to 11.12% from Q1 FY2024 and increased by 91 bps on a year on-year basis. It is mainly from churning of lower yield portfolio to higher yield portfolio and controlled cost of funds. Cost-to-income ratio has marginally increased by 15 bps from 36.26% from Q1 FY2024 to 36.41% in Q2 FY2024. We are confident for closing this financial year with less than or equal to 36%. The operating cost is stable on a quarter-on-quarter basis, the operating cost for MFI business is 5.20% and MSME business is 0.40%. In this quarter we have opened 61 branches pan India, would request everyone to refer slide number 22 wherein our 599 branches are contributing 68% of the AUM. Going forward our

branch productivity will increase, would like to mention again that we will keep on adding in our network, people, continue to invest in our digital infrastructure, operating cost would largely be stable. The pre-provision operating profit is 241.79 Crores as on September 30, 2023 which has an increase of 29% year-on-year. It has increased by 2% from Q1 FY2024. PPOP is having an impact of derecognition of interest due to write-off. The ECL of September is Rs.300.24 Crores which includes 61.48 Crores in the management overlay. The overall coverage has been increased to 125% from 118% on quarter-on-quarter basis. Credit cost is 0.84% on a closing portfolio and without management overlay it is 0.79%. The company has provided impairment of Rs.75.28 Crores in Q2 FY2024. We have done write-off 103.42 Crores in Q2, which is 1.03% of the closing AUM. Due to this write-off, we have derecognized the interest amount into 24.95 Crores. As on September 30, 2023 the restructured portfolio is 2.95 Crores which is 0.03% on the closing AUM. This is already part of stage three. Please refer to slide number 9, PAR 90 is 2.12% of the portfolio out of which 0.32% is pertaining to pre-March 2021 which is part of Stage III. The remaining PAR 90 of 1.80% belongs to post March 2021. We are still considering the old and the new portfolio from April 2021 since the time of listing. Thank you everyone.

**Moderator:**

Thank you. We will now begin the question and answer session. We will take the first question from the line of Rajiv Pathak from GeeCee Holdings. Please go ahead.

**Rajiv Pathak:**

Hello good morning Devesh Sir and hello everyone. Congratulations Sir on a very good performance this quarter. A few questions from my side first and foremost Sir if you can just touch upon how do you see the competition intensity in our core states UP, Bihar where we have seen a lot of players now focusing incrementally but we have actually controlled our ticket sizes, so can you just touch upon that and on that basis how do you see the growth in the micro finance panning out March 2024 exit and March 2025 exit and my second question would be on the asset quality and the margins I will come to that once we get some insights on this one?

**Devesh Sachdev**

Thank you Rajiv. Rajiv look in our core states, I will give you one data as per what we have taken from Credit Bureau. If I talk about UP, our customers which are unique to Fusion are still 37-38% and mind you overall pan India our unique has come down to around 31%, similarly in Bihar and all our top states we are seeing that we are able to grow consistently and acquire new customers and also having customers which are unique to us, so we are well entrenched in these geographies and additionally what we are doing is that like in the last two and two-and-a-half years we have split around 100 branches. The idea is that and our policy is when the branch touches more than 15 Crores of portfolio we split that branch, so 75% of those branches the split has happened in top five states especially Bihar and UP. The idea is that one because it shows there is a potential to grow, also from

monitoring aspect and risk aspect we split the branch, so from both aspects it is beneficial so coming to this point yes competition has entered in some of these states but I think we are well entrenched and we are still being very calibrated. We are looking at our numbers very closely our UP, Bihar portfolio is very good, and portfolio quality is panning out very good, so we do not see any kind of challenge in some of these states.

**Rajiv Pathak:**

Any targets for the MSME AUM?

**Devesh Sachdev**

So Rajiv, as I mentioned to you, I have been saying this that we are fully invested in this vertical. We have more than now 800 people starting from COO MSME till the frontline staff. We have close to around 76 branches, we are opening another 30 branches this year, and it will be 100 branches, it is already 4% of our overall portfolio, it shows the kind of focus we are giving to this vertical. As I mentioned in my commentary. I think please wait for one or two quarters maybe in Q1 of next financial year, we will come out and give a broad growth strategy around both the verticals.

**Rajiv Pathak:**

Sure Sir. Sir on the spreads I think we have not seen any companies this quarter report a quarter-on-quarter improvement in spreads. I think with flattish cost of funds which is a quite a remarkable thing so if you can just guide us as to how is the incremental yield and the incremental cost of fund panning out and how do you see the spreads going forward for the next three, four quarters?

**Devesh Sachdev**

So Rajiv if you remember even when we came for listing and we have been guiding the street that our first target is to reach a NIM of 11.2 to 11.5%. The whole trajectory has been like that only and we have also been telling the people that look we are very focused on our cost of fund and with the help of these two upgrades and this is very significant to get a two upgrades in 11 months has really helped us to manage the cost of fund. I think you will see the NIM reaching the guided level in the next two quarters then we will take a call that how do we want to go forward from there. As far as the cost of fund is concerned I think Gaurav in his commentary has mentioned that some of the large sanctions we have got even in the last one or two months the rates are better but still we have to keep in mind the overall macro environment, if suppose the regulator changes the rate that will be out of our control but we are doing everything possible to make sure that cost of funds is going down every quarter.

**Rajiv Pathak:**

Sure Sir and as a data point if you can just share the incremental yield and the cost?

**Gaurav Maheshwari:**

So as far as the incremental disbursement yield is concerned so it is near about 22.5, as far as the new sanctions or new cost of fund is concerned so as I have mentioned earlier that we

are getting better commercials in comparison to the last quarter which we have received.

**Rajiv Pathak:** Okay so it will be lesser than 10.6?

**Gaurav Maheshwari:** So yes obviously.

**Rajiv Pathak:** Third question is on the asset quality so I think you had already guided us that there will be some impact of the floods and everything on the collections and I think your gross slippages have gone up a bit quarter-on-quarter but it does not seem very alarming, so you can just help us with the numbers on the gross slippages and on the second part is the write-offs that we have taken of 103 Crores now how do you see this write-off, so you think that till now whatever needed to be adjusted on the book whether it be because of the events or the interest rate impact is taken on the book and now maybe going forward for the next couple of quarters it will be like a more normalized run rate on the slippages and the credit cost?

**Gaurav Maheshwari:** So Rajiv as we have mentioned in Q1 because of whatever the impacts we have seen of the unseasonal rains and floods, so we have given a guidance that it will get stabilized post Q3 and that is what we are still saying on the same that 100 Crores write-off largely is pre-April 2021 book where we have written-off 34 Crores from the pre-April book, 3.63 Crores is from the restructured portfolio and 68-69 Crores is from post April book so if you see that overall the collection on the starting buckets are getting better and whatever we are trying to do we are trying to create more coverage on the Stage III portfolio and going forward I think you will have a similar sort of write-off in Q3 and after that in Q4 and onwards you will see a normalized credit cost going forward.

**Devesh Sachdev** Rajiv we are very confident that we will keep the credit cost less than 3% and that is the traction we are now looking at. As we have been mentioning that we are very consistent calibrated, so we always follow very prudent policy and that is what we are trying to do and going forward we would definitely like the credit cost will give some kind of understanding of credit cost in the following years but in this financial year it should come down to less than 3%.

**Rajiv Pathak:** Thanks a lot and wish you all the best Sir.

**Moderator:** Thank you. We will take the next question from the line of Rajiv Mehta from Yes Securities. Please go ahead.

**Rajiv Mehta:** Yes Sir hi good morning, congrats on good numbers and thank you for giving me the opportunity. Firstly Sir a couple of data points what was the interest derecognition because



of the write-off in the quarter and can you also quote the collection efficiency for the month of September and October?

**Gaurav Maheshwari:** So the derecognition of interest from this write-off is 24.95 Crores.

**Devesh Sachdev** Rajiv on your point on collection efficiency, I can only tell you that if we break between July, August, September I think September was better. We have already mentioned the collection efficiency for the three months which is 97.6, even October the traction is better so you will see that in this quarter it will be inching up.

**Rajiv Mehta:** Got it and Gaurav this question on Stage I coverage so when I look at Stage I ECL that is reduced in the quarter so what is the thought process of reducing coverage on Stage I?

**Gaurav Maheshwari:** As I mentioned because the write-off pool is getting released from the pool, so that effort on the collection efficiency is getting better and if you see from that I have already mentioned in the earlier statement that my opening buckets are doing better so that is why there is a release of that provision.

**Rajiv Mehta:** Because I was coming from the view that maybe the management overlay that we are carrying of 62 Crores a good part of management overlay must also be sitting as Stage I provisions and the management overlay has actually increased would it be right that management overlay will be largely sitting in Stage I?

**Gaurav Maheshwari:** Like if you see that my historical LGD is 65% for Stage III the coverage is more than 76% some part of your management overlay is sitting in Stage III, some part is Stage II and some in Stage I.

**Rajiv Mehta:** Got it your view on the NPA, so we have seen a good reduction of NPA and the write-off policy has been accelerated so the write-off will remain maybe slightly elevated because of upfronting of policy and with the flows and with the collection efficiency getting better as you are alluding should our NPA levels by March come down further significantly can we expect that?

**Gaurav Maheshwari:** Yes it will come down.

**Rajiv Mehta:** Sure perfect. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

**Umang Shah:** Hi good morning thanks for taking my question. Sir just one question on collection efficiency I was just trying to understand the numbers a bit better, collection efficiency has been improving on a quarter-on-quarter basis but if you could just help us what is the collection efficiency ex of arrears?

**Devesh Sachdev** So collection efficiency ex of arrears is around 95.5. Our collection efficiency Umang is very clear whatever we are able to collect in the current collection which is around 95.5 and with including arrears it is 97.6.

**Umang Shah:** Right, so Devesh Sir what I am trying to understand is so in the presentation we can see that in pre-March AUM if I am reading the numbers correctly the collection efficiency is 0.3 obviously that is a very residual negligible portfolio and post March we are showing as 99.7 but the blended collection efficiency comes in at about 97.6, so I was just trying to understand is there some denominator effect in the blended collection efficiency number that we are looking at.

**Devesh Sachdev** Which slide are you referring to?

**Umang Shah:** Slide number 8.

**Devesh Sachdev** That is basically a composition of the portfolio. The portfolio pre-March is 0.3 and the rest is 99.7 which is post April 2021 that is the composition.

**Umang Shah:** Understood alright fair point. Sir ex of arrears our collection efficiency at 95% still looks a little lower now I understand that there was a bit of a seasonality factor this quarter but ideally on a steady state basis how should we look at the collection efficiency should it improve and maybe move more closer to about 97, 98% or it remains pretty much in this band?

**Devesh Sachdev** Look Umang you are right but one fundamental thing which has happened after the COVID is that there are clients with some little disruption in the center meeting still remains. You have to go to the customer's house to collect. Even if we look at our 90 plus which is 2.12, 40% is coming from three, four states we are working on some of these states and those three, four states contribute have overall 12 to 15% of our overall book so we are calibrating our strategy in some of these states. I can tell you the top five states the collection efficiency is hovering in the same range which you are talking about 96-97%, so I think once we recalibrate some of our strategy in these states which are giving us some pain and some new states will start coming up you are right you will see in the next financial year we will start reaching those kind of numbers.

- Umang Shah:** Understood alright perfect that was my question. Thank you so much and wish you good luck.
- Moderator:** Thank you. The next question is from the line of Viral Shah from IIFL Securities. Please go ahead.
- Viral Shah:** Good morning thank you Sir for taking the question. I had actually two questions so first is did I hear right that the write-offs will be elevated over the next couple of quarters and if you can guide us to what extent it could be.
- Gaurav Maheshwari:** So Viral as we have already mentioned it is not that write-offs will come continuously in lot of quarters but as we have changed our write-off policy in the last Board meeting post our Q1, so there would another leg of write-off which will come in the next quarter. Beyond that you will see a regular course of normalized credit cost, but it will not be as significant as we did in this and in the next quarter.
- Viral Shah:** But still despite that you will be able to deliver a sub 3% credit cost for the full year?
- Devesh Sachdev:** Yes that is what we are saying.
- Viral Shah:** This will be without any reduction materially in terms of your PCR?
- Gaurav Maheshwari:** Yes we are going to continue and if option is being given we are going to increase that coverage.
- Viral Shah:** Fair enough Sir and Sir the second question was on the states that you are mentioning that are contributing disproportionately to the NPA can you give us the names of those states?
- Devesh Sachdev:** Yes, these are Punjab, Haryana, Gujarat, and Rajasthan. Out of this I think we are confident that the current numbers especially in October shows that Rajasthan and some parts of Gujarat are stabilizing, Haryana, Punjab still continued to give us some pain. We are recalibrating our strategy, I think what we have done in Punjab is split some of the branches so it may look like that we have increased our branches in Punjab but that is not the case. We have split the branches, we have put more people, we have reduced the overall targets and we are focusing more on renewal of the current customers. We have a full strategy in place when we handle some of these states, so those are the states which are giving us some pain but we are very confident we will be able to recalibrate our strategy in these states and with all other states doing very well I think you will see an improvement.
- Viral Shah:** Thank you Sir for preempting next question about the addition of branches in Punjab. The

last question if I may would be at the sector level in terms of the yields we have seen this news flows around basically some concerns that the yield for at least the existing customers should gradually come down and the benefit of lower cost of funds by MFIs need to be passed on, so what would be your view on this and where are we seeing in terms of say if at all there is any regulatory action?

**Devesh Sachdev:**

Yes so I will first try to answer Viral on the regulatory action. Look in my understanding and I have been associated with MFIN as a part of advocacy group, RBI took 11-12 years to move from a rule-based regulation to principal-based regulation. The overall lifting of the curb on the rates is not only applicable for NBFC, MFI it is for all the banks and SFBs and NBFCs. Today they are talking about registered entities so, one I do not think that RBI will suddenly change the stance and come back and put some kind of caps. This is my personal view; however, they are engaging with individual companies wherever they feel that there are yields or the rates to the customer, all the optimization of the cost or cost of operation is not being passed on to the customers you have seen I have been saying this, even first time also when we went to the street for our IPO that after the lifting of the curb we have not gone for aggressive increase, we have kept three stakeholders in mind our shareholders, our customers, and the regulator and we are one of the lowest in terms of our cost to our borrower. I will again reiterate which I mentioned in the last quarter is that once the pivot starts happening on interest rate and we see that the rates are coming down, we are very focused on reduction of our cost of operations and the benefits which will accrue, we will optimize our shareholder value and our customer and keeping the sensitivity of the regulator in mind and that is the principle we have followed and that is what we are going to do in future also.

**Viral Shah:**

Got it Sir. I think this is very clear. Thank you so much and all the best.

**Moderator:**

Thank you. We will take the next question from the line of Sumit Rathi from Centrum PMS. Please go ahead.

**Sumit Rathi:**

Sir just wanted to ask one question that if we see the competition even companies bigger than us in terms of AUM size are growing better than us and even companies which are smaller they are also catching up with respect to growth and they are also catching up with this number of 10000 Crores with the AUM which we have achieved this quarter so just wanted to understand what is our strategy on growth and what is our right to win over that, are we facing competitive challenge or are we being extra cautious to have good qualities of customers like that so some colour on that would be very helpful?

**Devesh Sachdev:**

So look I think you have to judge companies with how over a period of time they have

done. We have a 13-year history. Look at our growth rate even during the COVID. Good times everything looks fine. However we are not trying to race with someone, we have our own pace, we have our own understanding of the business, and we look at risk, our processes, so I am not saying that we are cautious or anything. I think we are calibrated wherever we are seeing an opportunity we grow. As I mentioned to you even in the September October our run rates are very, very healthy and our growth will be mid 20s and yes you are right even though now there are no caps or number of borrowers, ticket size or for that matter exposure norms, the exposure norms is only FOIR calculation but we have still kept some of the caps internally as a prudent company so we will focus on building a portfolio which is a good portfolio and maintaining NIMs and the yield. I think that is our more focus rather than just only growth. We want to have a very balanced approach.

**Sumit Rathi:** That is helpful. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Bhuvnesh Garg from Investec Capital. Please go ahead.

**Bhuvnesh Garg:** Hello everyone congratulations for good set of numbers. Couple of questions from my side. Firstly, on Sir customers profile so if you can share some data on average size of the customers and how it has changed this six month versus in March 2023 and also that how many percentage of customers have more than three lenders as on September?

**Devesh Sachdev:** Yes, I have this data so I can tell you some broadly. If you remember in March call what we said was our unique customers to Fusion was hovering around 33-34% it is has come down to 31% so there is a 3% drop as competition intensity has gone up. Customers which are there, their relationship is other than Fusion they have one more relationship is still hovering around 29-30%, with two is around 20% with other than Fusion three is around 12% and if you see four and above is still hovering between 5 - 7% so there is not much change. Also in terms of our unique customer this time what we have done is that we have taken a unique customer state wise so what we are seeing is that there are states where as we have entered some new states which is now Karnataka, Tamil Nadu, the unique customers in these states are hovering anywhere between 13 to 15% to Fusion. Like I can give you Chhattisgarh it is still 42%, MP currently which are unique is still 38%, even for that matter Rajasthan is 33%, Himachal is around 41%, Haryana is around 27%, Uttar Pradesh I have mentioned 37-38%, Uttarakhand again 36%, Odisha is around 32-33%, so that gives us a huge comfort that in our top states where we are present because these are states where there is a still lot of scope to grow the unique percentage are still very, very healthy and now when Andhra and Telangana you will have a very high percentage of unique customers and retail overlap still remains around 24% on our book but that has

moved because we have entered some of the mature markets like Andhra, Telangana, Karnataka, Tamil Nadu where you know that these customers also take other products but overall composition has not changed much. I hope I have answered your question.

- Bhuvnesh Garg:** Got it Sir understood. Sir just a clarification on retail overlap so what does it mean exactly?
- Devesh Sachdev:** What I mean is that customers which are at a household level they have other loans other than micro finance loan, they may have two wheeler loan, gold loan, any other personal loan or a home loan so that is what I am talking about.
- Bhuvnesh Garg:** How much it was in March 2023?
- Devesh Sachdev:** It was around I think 20%.
- Bhuvnesh Garg:** Understood Sir and at bureau level so since we have data state wise any specific trends in terms of asset quality for the states of UP and Bihar particularly in Bihar where there has been some noise around customer leveraging coming high, so any trends at bureau level?
- Devesh Sachdev:** No, I do not think there is anything like this because let me tell you that I have also personally traveled to Bihar. I think one thing which people are missing in Bihar is that Bihar economy is also accentuated by a lot of domestic remittance if you today see the highest domestic remittance goes to Bihar, people who work out of Bihar they send the money to their household so I do not see any such thing in Bihar and there are no such trends.
- Bhuvnesh Garg:** Got it Sir and in terms of our credit cost so you mentioned that it would be less than 3% for March FY2024 and then what would be for steady state basis FY2025?
- Devesh Sachdev:** Steady state we will give some guidance but we would definitely like to reduce it. We will guide you in next two, three quarters.
- Bhuvnesh Garg:** Fine and Sir last data keeping question from my side so how many branches you said that you will be opening this year?
- Devesh Sachdev:** 160-170 additional branches we will open this year.
- Bhuvnesh Garg:** In H2 or in total FY?
- Devesh Sachdev:** Overall.

- Bhuvnesh Garg:** Overall. Got it Sir. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Good morning. Sir just one question while you have already explained this growth during the quarter was predominantly because of the unseasonal rainfall if you could just elaborate that a little bit more because the forward flows into Quarter II or Quarter III are higher than what we have seen for the other players would you attribute that predominantly to the geographical mix that we have versus some of the other listed players and other thing is that is it predominantly flooding that is kind of leading to this or is there some genuine stress that you are seeing in rural India is something that I was trying to understand? Thank you Sir.
- Devesh Sachdev:** First I can tell you there is no genuine stress in rural India. I have personally traveled to four, five states in the last two to three months just to understand some the trends on inflation, impact of inflation, customers income sources, how are they borrowing, what are their economic activities and now you see even two days back Mr. Modi has announced Garib Kalyan Yojana has been extended for another five years which directly benefits the customers which we serve and really take out the inflation part as far as the food is concerned so I do not see that. As I mentioned to you that after COVID we have seen three, four states which we mentioned Punjab, Haryana, Rajasthan, Gujarat have not come back the way other states have come back and then this whole nature's fury which is the unseasonal rain which impacted all these states along with some portions of MP, UP, Bihar and all that so that is what we are trying to say that yes already we were working with the clients in some of these states especially the four states and then they were hit by these rains so the recovery has got prolonged. Otherwise, there is no such issue and as I have mentioned earlier we are working with these clients. Our portfolio concentration in some of these states overall is around 12 to 15% not a major worry and you will see next two, three quarters even improvement and we will recalibrate in some of the states we may decide not to grow in one or two states so we will recalibrate our strategy and which we are internally discussing but we are on the top of the situation and we do not see anything systemic here.
- Abhijit Tibrewal:** Got it Sir. Sir just one follow up which then means that is fair to conclude that at least in your top states of Bihar, UP, and MP you are not see anything unusual or any stress there?
- Devesh Sachdev:** No nothing unusual. If you remember I have been guiding. I can just additionally mention that I have been guiding that even all the state elections, three states were significant for us which is Chhattisgarh, MP, and Rajasthan. Chhattisgarh I think polls are happening today

so moral code of conduct is already on all the other states. There has been no impact of elections.

**Abhijit Tibrewal:** Got it Sir and Sir one last question from my side. You have long advocated a lot of consistency in your delivery. There is a steady improvement in asset quality and the way in which you kind of want to grow your franchise given that at least Q2 disbursements I believe were a little bit impacted because of unseasonal rains can we now expect that second half of this fiscal year you look to accelerate your disbursements a little bit to get to those mid 20s?

**Devesh Sachdev:** Absolutely I have already mentioned our run rate for September-October is average 850 Crores, even this month initially we just started a good traction so yes we are very, very confident that what we have been guiding with mid 20s growth will happen this year.

**Abhijit Tibrewal:** Got it Sir. That is all from my side. Thank you all the very best to you and the Fusion team.

**Moderator:** Thank you. The next question is from the line of Himanshu Taluja from Aditya Birla Mutual Fund. Please go ahead.

**Himanshu Taluja:** Hi Sir good morning. Sir just two data keeping questions one is the write-offs since you have changed the write-off policy from 360 to 270 odd days what was the impact of the quarter because of this change in the accounting and I think you have changed the last quarter so if you can just give what was the exact impact of this?

**Gaurav Maheshwari:** So Himanshu, as we did it in post Q1 so Q1 you have seen a write-off of 59 Crores and now you have seen slightly more elevation because of the policy change that it has tuned to near about 42 Crores extra write-off which we have did in this quarter.

**Himanshu Taluja:** Fair and Sir the second question is since you mentioned the collection efficiency of 95.5 and including the arrears is 97.5 and 6 so can you just give what was the exact denominator in the computation of 95.5, the idea is to understand obviously does it include the GNPA, also you have some bit of write-offs as a part of the denominator in the computation of 95.5 what was the exact denominator?

**Devesh Sachdev:** So, look Himanshu as far as the current collection is concerned the denominator is very simple what was the current demand for that month that is it. It does not include write-offs that is one. When we talk about arrears is basically any overdue for previous months which we collect includes overdue. Any recovery from the write-off will also be part of the overdue only.



- Himanshu Taluja:** Fair. Got it Sir clear. Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors. Please go ahead.
- Pranav Gupta:** Good morning Sir and congratulations on a good set of numbers. I am referring to Slide on branch vintage and thank you for the disclosure it really helps us understand the context of growth but just looking at a more longer term perspective you mentioned that the near-term growth was slightly impacted because of floods but if I look at say two or three years hence should one assume that the increasing vintage of these branches that are less than three years that benefit starts to flow in and the growth can be above industry for the next couple of years, is that a fair assumption to make?
- Devesh Sachdev:** If you see we will always add more branches, Pranav. We will add more branches, so we have split 100 branches in two-and-a-half years, so it is not that. If you look at the same slide March 2022 < 1 year 190 branches which is now 100, in future we will always keep on adding branches. Also you see right now our branch if you compare us with the leader our overall RO, the field officers, the AUM which he handles is 1.4 cr, there is a scope to grow there, so all these things will play. I do not think that is a fair assumption.
- Pranav Gupta:** Sir actually I was coming from the context that when we see the vintage as on March 2022 we have seen the POS contribution from one to two and two to three year branches grow significantly, all I was trying to understand was that going forward would this also continue to contribute in terms of growth and be in terms of operating leverage, obviously I appreciate the fact that you will continue to open new branches and that will be an additional trend?
- Devesh Sachdev:** It will, also because if you see the bulging between one to two years it was 190, so from 190 it moved to 233, so you see the bulging between the years between one to two and two to three years is going up because of that only Pranav.
- Pranav Gupta:** Absolutely Sir thank you. The second question is in terms of the credit cost and write-off so you mentioned that you are confident of keeping the overall credit costs for FY2024 below 3% is it fair to assume that the impact of this change in write-off policy that happened last quarter should sort of settle down by March 2024 and then from March 2024 given that the new write-off policy has settled and the impact of these floods that has happened this year will also have settled is it fair to assume that 2025 could still be a significantly low credit cost?



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- Devesh Sachdev:** Yes Pranav that is a very fair assumption. Our endeavor would be in this direction only.
- Pranav Gupta:** Thank you so much Sir and good luck for the future quarters.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Gaurav Maheshwari for closing comments. Over to you Sir!
- Devesh Sachdev:** Devesh here, thank you very much and a very, very happy Diwali to all of you.
- Moderator:** Thank you very much Sir. Thank you members of the management. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. We thank you for joining us. You may now disconnect your lines.