"Fusion Finance Limited
Q4 & FY25 Earnings Conference Call"
May 26, 2025

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Moderator: Ladies and gentlemen, good day, and welcome to Fusion Finance Limited Q4 & FY25 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Smit Shah. Thank you, and over to you, Mr. Shah.

Smit Shah: Thank you. Good morning everyone and thank you for joining us on the Q4 & FY25 Earnings Conference Call of Fusion Finance Limited. We have the Company's senior management team with us today.

Before we begin, I would like to remind you that certain statements made in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q4 & FY25 results presentation that has been uploaded on the stock exchanges and company website.

I now hand over the call to Mr. Devesh Sachdev, Managing Director, Fusion Finance Limited, to begin the proceedings of this call. Thank you, and over to you, Sir.

Devesh Sachdev: Good morning, everyone. Thank you for joining Fusion Finance Ltd's Q4 & FY25 Earnings Conference Call. Joining me today, are my colleagues, Sanjay Garyali, who has joined on 17th of March, as the CEO of the Company; Sunil Mundra, Chief Operating Officer of the Microfinance business; Gaurav Maheshwari, Chief Financial Officer; and Deepak Madaan, Company Secretary and Chief Compliance Officer.

To begin with, I would like to introduce Sanjay Garyali, who has joined Fusion as the CEO. Sanjay has over 28 years of experience with an expertise in retail finance. I am confident that with his rich experience and capabilities, he will steer the company towards the next phase of growth. I will move to a non-executive Chairman role over a period of time.

As you all know, FY25 has been a testing year for the entire industry, which witnessed a deep credit cycle, coupled with operational challenges. At Fusion, as a responsible organization, we have always been upfront in flagging the perceptible stress on ground and never hesitated in taking decisive measures quickly to address them. In FY25, too, we recognized the stress early on and put in place immediate measures well ahead of the industry.

I would like to mention a few key progresses on the initiatives that we had taken earlier. Fusion successfully completed its rights issue of partly paid up equity shares of about Rs. 800 Cr. The rights issue witnessed oversubscription and was subscribed 1.5x. The robust participation from existing investors underlines their conviction in Fusion's business fundamentals. I would like to thank our investors for the faith in Fusion's growth story.

Fusion continues to have a strong capital adequacy of 22.4%, but 30% pro forma for rights issue, which is well above the mandatory requirement. Secondly, we have also received covenant waivers from lenders for about 86% of the borrowings, as of March 2025. We even raised additional funds through fresh borrowings and renewals.

Please note that there was not even a single recall of funds from the lenders under the covenant breaches. This reflects the strong trust that our lenders have on Fusion and the solid credibility that Fusion has built over the years. I would like to extend my gratitude and thanks to all our lenders for their continued support.

In Q3 FY25, we started witnessing early green shoots because of the concrete measures that we implemented since August 2024. I am sure it would be comforting for you to know that we now have a clearer picture emerging, giving us a strong sense of our recovery trajectory. However, we continue to evaluate the progress and take calibrated measures to ensure that we stay on the path to recovery.

Coming to the results of the measures that I had spoken about earlier, I would like to mention that our credit cost has been lowering QoQ as guided earlier. In Q4 FY25, it reduced to Rs. 253 Cr from Rs. 571 Cr in Q3 FY25, and the peak of Rs. 693 Cr in Q2 FY25. This was despite the tighter provisioning that we undertook during the year. Further, our early vintage portfolio is also performing well. The current collection efficiency on this portfolio since September 2024 stands at 99.61%, as of April 2025.

I believe that in last 15 years, Fusion has emerged as a respectable organization that is not only one of the largest NBFC-MFIs but also created an extensive network to serve customers at the bottom of the pyramid. While microfinance remains our core business this has not stopped us from exploring new avenues and acknowledge the need to diversify to strengthen Fusion's sustainability and legacy. In 2019, we set up our MSME vertical and over the last few years, we ensured that we developed the required infrastructure and underwriting capabilities to lay the foundation for a sustainable growth.

Now, I would like to hand over the call to Sanjay, who will be sharing more details with you on business and how we are gearing up for the future. Thank you and over to Sanjay.

Sanjay Garyali: Yes. Thank you Devesh, for the clear and thoughtful overview of where we stand today and the direction we are heading. Let me begin by expressing my deep gratitude to all our stakeholders for the support and trust you have extended during my first 60 days in this role. With Devesh's support, we laid out a structured transition plan, sequencing responsibilities over 30-day interval, and we are both very pleased with how seamlessly that process has unfolded.

During this period, I've intentionally focused my time on 3 areas: engaging with employees and customers at our meeting centers and branches to understand the pulse on the ground, working closely with our teams at central office to immerse myself in the core business processes and meeting with our lenders, investors and analysts to align on expectations and build continuity and relationships.

We are stepping into a new phase at Fusion. The year gone by was not without its challenges. However, the most difficult part is behind us. In the past few months, we have taken hard, but necessary steps, tightening credit guardrails, recalibrating our geographical focus and simplifying our operating model. These actions have laid a strong foundation for the times ahead.

Today, the business is stabilizing. Our teams are energized, and we are starting to see early signs of operational and financial improvement. The focus has now shifted from recovery to consolidation with a renewed sense of purpose, sharper priorities and a bias for execution. I look forward to taking you through that progress in more detail today.

Starting with the most important performance metric, the current bucket collection efficiency at a book level, has now improved to 98.44% in March 2025, which is an increase of over 180 bps from start of the year. While this reflects current collections against the demand, the net flow from current bucket at cost level has come down to 0.57% from a previous high of 2.98%. This is a result of a combination of factors; stronger than industry guardrails for new disbursements, early recognition of stress among overleveraged customers and much stronger branch level discipline. Within the overall book, the new book acquired with stricter guardrails, which is from August 2024 onwards, which stands at about Rs. 2,500 Cr as of March, is currently 34% of the overall book. This book recorded a current bucket collection efficiency of 99.67% in March and April figures at about 99.61%.

At the portfolio level, we have reduced the number of customers per RO to about 350. We are still evaluating what the right number should be, especially since we are investing significantly in improving the customer journey, moving towards a more paperless process. However, the value of the book per RO will increase given our focus on repeat cycle and vintage clients, who also tend to be lower on overall leverage.

On another important metric, overleveraging, the percentage of clients with more than 3 lenders has now dropped to 18%. This includes the write-off book as a part of the portfolio, down from about 31% a year ago. For the current book, the same figure is even lower at about 14%. By design, we will continue to focus on number of lenders, as a key metric in our multivariate credit model.

On disbursements, we continue to adopt a cautious and calibrated approach to lending. Disbursements in Q4 FY25 stood at about Rs. 1,164 Cr, bringing the full year disbursement to Rs. 6,971 Cr. Our contribution from stronger relationship clients that is Fusion +0 and Fusion +1 from September onwards stood at 75%, giving us greater confidence in the quality of the new book. New to credit accounted for about 15% of the total disbursements in the last quarter and remain at that level in April and May. With over 17 lakh customers, that is about 65% of our current book in strong relationship with us, which is Fusion +0 and Fusion +1, we are confident that there is enough headroom for growth in disbursements from our existing base. The contribution of existing clients to new disbursements is growing MoM and stood at 69% in March. The same figure for May is about 72%.

We have also made state-level disbursements rebalancing, a key part of our risk control strategy. We have classified states into hold, grow and reduce. Amongst our largest states, UP and Bihar continue to show improvement across all metrics. In Orissa, Gujarat and Rajasthan, we are adopting a go-slow approach. In AP, Telangana, West Bengal and Assam, we are seeing good opportunities in existing branches and villages.

Overall, our network stands about 1.6 lakh villages. We have also shared our approval rates with you all, which have been inching MoM. In Q4 FY25, the approval rate stood at about 14%. In May, while we are talking, we are close to about 16%. We are working on areas that will significantly increase the approval rates, and we will continue to share the progress on this front QoQ.

Now coming to collections on Stage 2 and above book, which we discussed in the last quarter. We have assigned this portfolio largely to a newly set up collections team. The team is now settling in with more than 75% of the staff having 6 months of vintage. Performance-wise, the flow forward rates across buckets have declined from earlier levels, which now stand at 35% at bucket 1, 64% at bucket 2 and 74% in bucket 3. In the first 45 days of the New Year, we have allocated 80% of the cost to field teams, both internal and external, using analytics to identify customers more likely to pay.

We expect to see further progress on this front throughout the rest of the year. At a portfolio level, this was our third consecutive quarter of lower credit costs, despite increased provisioning. Credit costs reduced to Rs. 253 Cr in Q4 FY25 from Rs. 571 Cr in Q3 FY25, even at Stage 3 coverage increased to 96.53%.

Turning to our MSME business, it continues to scale in a controlled manner. As of March, the AUM stood at Rs. 673 Cr with disbursements of Rs. 348 Cr for the year. Our MSME book is around 90% secured with a client IRR of about 22%. We follow a branch-centric model and operate through 105 branches supported by a direct acquisition team and an approval rate of 50%. Encouraged by early trends, we will continue to build this out as a differentiated technology-enabled vertical. A separate leadership team runs this business, and we will continue to share updates on its progress quarterly.

I would like to conclude with a few comments on 2 critical enabling functions, technology and HR. Both these verticals are led by highly experienced industry professionals, and we will continue to invest in these functions meaningfully. The IT team has shown strong capability in building critical LOS components internally, where needed, while partnering with industry leaders, where speed and adaptability are key, especially in fast-evolving areas. The core focus for IT is two-fold: reduce the borrower level risk and take heavy lifting out of the customer on-boarding, making things easier for the front-end teams. HR, on the other hand, is focused on our vintage employees and building key competence among them, while also aligning employee behaviour with our core goals through reward and recognition.

While our branch manager and above level staff have an average tenure of about 3 years, we do need a stronger capability building at the front end, where industry-wide churn is very high. As a part of our maker checker process, we have at least 1 non-sales employee per branch, which we believe will be further strengthened through the technology advancements we are currently deploying.

In summary, Fusion is no longer in fire-fighting mode. We are stabilizing, simplifying and strengthening. As we step into FY26, our priorities are very clear; protect the asset quality, rebuild profitability and deliver on our tech transformation road map with discipline. We are cautiously optimistic and believe the worst is behind us, but we will remain vigilant and prudent in our execution.

Thank you for your continued support. With that, I will hand over to Gaurav to walk you through the financials in greater detail.

Gaurav Maheshwari: Thank you, Devesh and Sanjay. Good morning, everyone. I would like to speak about some of the key highlights of Q4 & FY25.

We have raised debt of Rs. 585 Cr in Q4 FY25, Rs. 5,040 Cr, including direct assignment of more than Rs. 1,000 Cr in FY25. As of 31st March, our liquidity stands at Rs. 798 Cr, and we have sanction in hand of Rs. 1,438 Cr. As of today, the liquidity is more than Rs. 1,000 Cr. We are maintaining a healthy capital adequacy ratio of 22.42%, as of 31st March, 2025. Following the successful completion of the rights issue of Rs. 800 Cr, the pro forma capital adequacy would be 30 plus.

In Q3 FY25, as we all know, we were in breach of financial covenant. As of today, we have received 99% waiver of the same. Also, in Q4 FY25, we are in breaches of financial covenant. As of today, we have received, as mentioned by Devesh and Sanjay, 86% of the waiver for the same. The company is actively engaging with the remaining lenders to obtain the combination of the above said breaches. We have received continued support from the lenders by way of extending the condemnation of the breach of financial covenant and extending the new credit lines.

Marginal cost of fund for FY25 is 10.37%, reflecting a 10 bps YoY reduction. The average cost of funds stands at 10.29% for FY25 has a decrease of 13 bps over a YoY basis. The net interest margin for FY25 stood at 10.21%, reflecting a YoY decline of 101 bps points. This reduction is largely due to non-recognition of interest income on Stage 3 assets, as mentioned in Q3 FY25 investor call.

In Q4 FY25, we have executed total write-off of Rs. 917 Cr, including accelerated write-off of Rs. 405 Cr, post which our gross NPA is 7.9% and net NPA is 0.3%. The company credit cost on the loan portfolio is Rs. 253 Cr for Q4 FY25, which includes an impact of write-off of around Rs. 100 Cr additional impact because of the additional accelerated write-off approximately Rs. 45 Cr due to the accelerated write-off.

ECL provision of Rs. 887 Cr as on March is including of management overlay of Rs. 59.50 Cr, and the same is part of Stage 3 portfolio. Please refer to Slide #20. Coverage of Stage 1 asset has reduced from 2.7% to 1.4% and for Stage 2 asset from 73% to 63%. The primary reason for the same, as mentioned earlier by Sanjay, the new book originated post 17th August, 2024, after introducing the guardrail, is showing a good sign of asset quality. Continuing from Q3 FY25, we have increased the coverage of Stage 3 from 88% to 96.5%. By doing this, we want to ensure the minimum impact on profit and loss in the coming quarter due to write-off. The total ECL provision, as on 31st March on Stage 3 asset is 137%. The coverage of Stage 2 and Stage 3 portfolio against the total provision is 87%. We have continued to act decisively to ensure our balance sheet reflects a conservative view of the asset recoverability.

The cost-to-income ratio stood at 51.71% for FY25. On a QoQ basis, it declined by 629 bps from 75.91% in Q3 FY25 to 69.61% in Q4 FY25. It is due to non-recognition of income on incremental Stage 3 assets and due to reduction in the portfolio.

As mentioned earlier in our Q2 FY25 and Q3 FY25 investor call, the operating cost is increased due to the change in the incentive structure, strengthening of collection team and rationalization of client per field officer. Also, we have implemented the regulatory guardrails well ahead of the due date in August 2024, as mentioned earlier, which led to more stringent client on-boarding process. As a result, there was a 22% reduction in the asset size and gross advances in FY25 compared to FY24, which contributed to an increase in the operating cost ratio also. It is also contributed by some split of MFI branches, which is largely towards risk monitoring and opening of 3 MSME branches. Operating cost of MFI business is 7.38%, and MSME business contributes 0.33% for FY25. As on 31st March 2025, the pre-provision operating profit is Rs. 736.48 Cr.

Thanks, everyone. Now we can open the floor for questions and answers.

Moderator: The first question comes from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have three questions. Thank you for sharing, how you have classified states in hold, grow, reduce and how you're planning to scale up now. Can you help us understand for FY26, what kind of growth would come from MFI, from MSME and which states would drive this growth? You mentioned about MFI but, which states are the focus states for the MSME segment?

Second is on the customer overlap, the Fusion +3 is about 18% right now. Can you tell us how much of this 18% customer sits in Stage 1, 2 or 3? Where are they actually placed? Just trying to gauge, as you've taken higher coverage on Stage 3 to cushion against future write-off, but trying to gauge how much more can come into Stage 3. My last question is just a data keeping question; how much interest income reversal have we taken in fourth quarter?

Sanjay Garyali: Okay. Thank you for the question. I'll take the first 2 questions and the last one, Gaurav will answer. We have clearly said that between MSME and MFI, we are in no hurry to get back to the same previous growth figures in MFI. We have already explained that we are cautiously optimistic. We have shared April disbursement figures with you. We're close to about Rs. 313 Cr in April, and we will grow MoM. For MSME, like we said, we have a completely separate leadership team. So, these are completely mutually exclusive businesses. We think that the headroom on MSME is much larger. So, that's on the growth between these 2 businesses.

On state-wise, we have already explained, which are the states we see green shoots, and this is not QoQ. We classify states basis the last 1-year performance on multiple variables. This is not just the current bucket efficiency, but we also look at the MFIN Micrometer and how the industry is performing or any heating up of any particular state. I have already explained to you, which are the states, we will be aggressive or where we will go a little more, and it is more to do with our existing branches or existing villages that we cover. Maybe the village coverage will increase. But this is within the states, where we are already present.

Your third question was on the overlap. We have already called out that while 18% is at an overall book level, we do not have the figures post write-off, but I have already shared the figures with you that on the current book, which is more meaningful for you, this is about 13%. So, 13% of our customers are greater than 3 lenders, and all these customers are in the current bucket, and we are very carefully watching them MoM, and we do not see any change in their behaviour pattern.

Shreya Shivani: Yes. You said, the 13% is after the write-off, right? Sorry, I got a little confused there.

Sanjay Garyali: 13% is of the current book, so write-off is obviously there. Our current book, which is non-delinquent, which is more meaningful for you, because the rest of the book is already into delinquency and heavily provisioned, 13% of the book is greater than 3 lenders and that is at a book level.

If I give you the same sense at a disbursement level, just between 0 and 1, we are close to 70%, 75% on new disbursement. So, you will see the change of this happening in the new book very closely, very quickly, about 6% in the entire book, the penetration of new book is coming MoM. Right now, we stand at about 34% of our entire book, we have acquired as per the new guardrails. And these guardrails, like Gaurav already explained, are tighter than what has been set at an industry standard for at least 2 to 3 metrics. I will now hand over to Gaurav for the third question.

Gaurav Maheshwari: Shreya, as far as your question related to interest income reversal, whatever the incremental slippages has happened to 90+ is approximately between Rs. 20 Cr to Rs. 21 Cr for the quarter.

Moderator: Next question comes from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Can you give the net flow rate into the first bucket for March, April and May?

Sanjay Garyali: Rajiv, the net flow rate, the way we define is, let's say, what goes forward from the current bucket into the first bucket, and then what we are able to roll back. That for the last, minus what we are able to roll back at a cost level. It is important to define like this because in the industry, everybody has a separate definition. So I thought I'll call out how we are defining. This for the last quarter was about 0.5% to 0.6%, while I'm talking, the same figure is there. For the month of March, it had dipped. This net flow had come down a lot. But at a stable level, we are seeing about 0.5% to 0.6% for the quarter.

Rajiv Mehta: Okay. Are you saying that even for first quarter of FY26, it should be growing number of 50 to 60 basis points?

Sanjay Garyali: Yes, you should assume about 0.5% to 0.6% roughly. It was 0.55% to 0.58%. That's why, I'm calling out a range between 0.5% and 0.6%, and we are seeing the same figures holding for this quarter as well.

Rajiv Mehta: Okay. Keeping in mind how funding situation could ease for us going ahead, post this closure of the rights issue and even the operating environment, what is the broad plan for disbursement ramp-up because when you look at the PPOP, the PPOP number right now looks very small. So, just wanted to understand, when we will reach a level of book, wherein the PPOP will be equal to our normalized credit cost of, 3.5% to 4% in the future? What is the plan to reach there basis your current assessment of how things will evolve at the borrower level and how things will evolve at your funding level?

Sanjay Garyali: Okay. Rajiv, I'll just break down the question because it's very complex and it has got too many moving variables and some of these, we don't have clear visibility right now. But, I think the most pertinent what you asked is, when do you see disbursements going back because rest, everything will remain the same. Credit costs are drastically mute and the Opex is slightly elevated. So, when do you see disbursements coming back?

We have already shared April figures with you, which are close to about Rs. 315 Cr. May will be very similar, plus/minus Rs.10 Cr. We are in no hurry to get back to disbursements. But let me just explain, to you how we are working, and that will give a sense on where our confidence comes from. We are close to about 16.5 lakhs to 17 lakh customers, who are on the current bucket and which are only Fusion +0 and Fusion +1. About 2% to 3% of them are either getting matured for a new loan, or are coming back to us for an extension of the relationship.

We would want to stay in course in this segment, specifically in the states, which we have identified as growth and hold, and we think that majority of our disbursement will come from here. 72% of our disbursement already is coming from existing customers. So, that will put lesser pressure on acquisition cost going forward. However, we understand that there is a need to go into new customers also. Of that, 40% is new to credit. So let's say, 72% of our customers that we disburse are from existing and 28% is from new. Of that 28%, 50% is new to credit and 50% we are acquiring from outside.

So, I think we have a clear handle and an opportunity of scaling up disbursement. We have teams in place. We have a very strong credit model now. It is just a matter when we see directionally see clear, like when the industry starts also calling out clearer expectations ahead, we will start scaling up. But MoM, you will see disbursements growing now from here. That's the confidence that we can share with you and maybe in the next quarter, we can give you more sense on how the year-end plan will be.

Rajiv Mehta: Got it, sir. Just one last thing on MSME portfolio quality, if you can share some data on MSME, bucket, the NPAs?

Sanjay Garyali: Regarding MSME, we have shared how we operate. We have a very strongly linked credit assessment model. We do bureau only 700 and above. Now while the credit cost and everything are in control, it is too early a vintage book to give you any comfort. So, I think as and when we've done about close to between Rs. 350 Cr to Rs 375 Cr of disbursement last year, 100% of it is secured. Overall book is about 90% secured, secured by SORP and self-occupied commercial.

But, I think calling out or giving any comfort on the credit cost is too early, but I can tell you it is quite low because it's a very low vintage book. The way we plan is that between the entire senior management, we would want to come back to you maybe at the end of Q1 FY26 on a plan on MSME rather than giving you ad hoc figures. So, this is the first time we are talking about

MSME at length, and we are confident on how the market is and how the model has evolved so far. We will give you a detailed plan at the end of Q1 FY26.

Moderator: Next question comes from the line of Bhavik Dave from Nippon Mutual Fund.

Bhavik Dave: Just a quick question on your operating expenses. This year, we saw the operating expenses grow by 30 odd % across the board in terms of employee and other. Just wanted to understand from here on, did this have an element of maybe a heightened collection team that we would have put in to get our asset quality in check? Just wanted to understand from here on, how should we think about operating expense as a parameter? Will it increase by the growth rate that we do on our AUM or will it be elevated even for FY26, considering we'll have to continue our collection efforts for the remaining of the portfolio? How do you think about it?

Sanjay Garyali: I'll give you first a sense on the Q4 FY25 operating expenses close to about Rs. 200 odd Cr. Majority of this is in employees which is about 70%. As you rightly called out, about 15% is on the external collection expenses, that we have spent. If you look at from a staff expenses, we have come down QoQ between Q3 FY25 and Q4 FY25, we are a little down because of the number of people.

I think the way we are looking at it is that, while overall these expenses will remain at this level, the mix of this expense, between what you are seeing in collections, where the most of the expense have gone through and you're seeing only partial results, we all know that a collection team takes about 6 months to adjust and then there are PTPs and future commitments by customers. I think you will start results coming in on the expenses that we have made on the collection side, which is where the real increment has happened in quarter 1. To call out that, roughly on a collection expense, we are estimating about 20% expense on the collection, which will give you a sense on how much to expect in terms of collections against what we are investing. So, we are mindful of these expenses, and it is not we are just paying needlessly. But on the outer side, we are looking at about 20% of whatever we collect, we pay as expenses. Gaurav, what do you think?

Gaurav Maheshwari: So Bhavik, as if you see the commentary which Devesh and Sanjay had given at the start, there is one factor which is very, very critical that there is a portfolio degrowth by 22%. That is one of the very critical factors where this cost is being looking at elevated level. But having said that, if you see from the trajectory of growth, which Sanjay has mentioned in the commentary, once we come back to the growth trajectory, this will get normalized. As Sanjay has mentioned, post Q1 FY26 number or when we are going to publish the Q1 FY26 numbers, we will have slightly more color on this, because as of today, everything is being slightly volatile that what kind of a number on an average borrower by field officer to be handled. It is still a very moving number. Collection incentive is being rationalized. Obviously, there is a pause resolution, which has been happening, which is on the increasing side. So, we will give you better color post our Q1 FY26.

Bhavik Dave: Gaurav, is it fair to assume that what portion of your Rs. 780 odd Cr, that we did this year would be in terms of collection, right? Like within the employee expense, it would sit under the employee expense line item, right? So, out of Rs. 570 odd Cr of employee expense, like is it fair to assume 20% to 30% would be for collection? Is it like a fair number?

Gaurav Maheshwari: Yes.

Bhavik Dave: Okay. Perfect. Secondly on the competitive intensity, when we talk to most of the players, they expect growth to slow down in MFI, a lot of SFBs, banks are trending away from MFI and wanting to do secured individual loans to these customers. When we look at our business, we're still at 90% plus MFI, how do you think competitive intensity is panning out with the new guardrails coming in? Are we able to acquire customers? I see that we are adding more business to our existing customers from one of the slides. Can you give us the understanding on how is the competitive intensity on the ground? Are things eased out materially after the guidelines and after what we've seen in FY25 and how would you think about your MFI growth? You mentioned that disbursement from here on will be higher QoQ around Rs. 1,100 odd Cr, that we are doing now will inch up. Just wanted to understand, how is the competitive intensity in the segment currently?

Sanjay Garyali: Firstly, on the industry landscape and how it is changing, it is very important because everybody is giving very distinct commentaries on this. From a model perspective, we continue to believe that the joint liability group holds. Since the behaviour of the customer is changing, the only thing we have to be aware is that, how do we take advantage; or how do these 8 or 10 customers coming in a group, how is it advantage to both lenders and the borrowers, I think that's the question that the industry needs to ask. We understand that individually taking liability of each other may reduce and we are already seeing that. But, I think there is a huge merit because right now, we are clear on how we are acquiring these customers. These are all customers in proximity to each other. They are in the same village. They know each other. So, there's a huge element of trust in the entire group. Maybe formally, the liability is not shared.

The second is from an acquisition perspective. These customers will be very expensive if we were to go out and acquire one by one. So, I think the model will hold. We are also evaluating and we are in the market continuously, seeing that how do we utilize tech to understand this customer behaviour better and roll it into scorecards.

Right now, the question that you asked on guardrails, I think it is too premature because the final guardrail has come in April. While we have been overaggressive in terms of overarching guardrails from September onwards as compared to the industry. But, I think it is too premature to say how the industry will pan out. It will not be as simple as just the number of lenders. We will have to put at least 10 to 12 more metrics into deciding whether the case goes through and not just whether it is 1 lender and 2 lender or 3 lender. So, we are absorbing that and enabling functions are working together on it. As a team, we do not have an exact answer. We are also understanding the change in the customer behaviour.

On the MSME versus MFI growth, I think we already explained that these are led by 2 senior people. There's a separate leadership right till the Chief Operating Officer level. They have separate teams. Everything is separate, including credit. In MSME, there's enough headroom.

We are very small and the market is very large. So, you will see growth obviously kicking in aggressively. MFI, we are watching out. And like Gaurav already called out, QoQ disbursements will be measured. I think a sense on exact percentage numbers, we will get more on at the end of Q1 FY26

Bhavik Dave: Got it, Sir. Gaurav, just a clarity in terms of interest reversal, have we taken the entire interest reversal that needs to be taken for the write-off that we have done for FY25, of Rs. 300 Cr that we've written off. We've like reversed all the interest commensurate to this write-off?

Gaurav Maheshwari: Yes, yes, you are absolutely right.

Bhavik Dave: Next year onwards, whatever asset quality outcomes happen, commensurate to that, those only interest reversals will happen going forward?

Gaurav Maheshwari: Let me clarify that. Whatever incremental slippage to 90+ is going to happen, that is the only reversal which is going to happen. Rest everything is being taken care in Q3 FY25 and Q4 FY25.

Moderator: Next question comes from the line of Pranav Gupta with Aionios Alpha Investment Managers.

Pranav Gupta: Just a clarification again, from the previous question. Could you quantify the interest reversals that we took this quarter?

Gaurav Maheshwari: That is approximately Rs. 20 Cr to Rs. 21 Cr.

Pranav Gupta: Okay. To clarify, all the interest reversals that need to be taken for the written-off book this year and whatever sits in Stage 3 as well has been taken already?

Gaurav Maheshwari: Yes.

Pranav Gupta: Okay. Sir, second question is, in terms of the margins, and a two-fold question there. One is, obviously, marginal cost of funds for us have gone up, and obviously, this is an industry-wide phenomenon and owing to the asset quality issues. Where do we see this stabilizing and then eventually sort of inching down towards the usual average? That is the first bit. Secondly, is there any thought on taking any yield hike, to sort of counterbalance the increasing cost of funds? That's the first question.

Gaurav Maheshwari: Pranav, as you have seen in last 6 to 9 months, there are 2 rating downgrades, which has happened to the company across 3 rating agencies. Obviously, it gives a lot of cushion while coming Rs. 400 Cr as a partly paid equity. Apart from that, obviously, I would be very actively discussing with the rating agencies once we get a slightly closer look on the profitability going forward. So, once that happens, we will be trying for maybe to have an outlook change, so that the pricing which we are talking about from the lending institution, we can just have a comfort around it. But I think for Q4 FY25, you can take it slightly more on an aberration, the money which we are taking.

Having said that, as Sanjay has mentioned earlier, once we get closer into a normal slippages, getting into an asset quality, which is below 5% gross NPA. Obviously, there is a very good chance to come into the normalcy going forward. But, I think the color would be coming post Q1 FY26 numbers. As of today, to give a flavor that how the cost of fund is going to behave, I think it is slightly difficult to have ask for.

Devesh Sachdev: Also, on your second point on, whether we are thinking of increasing our yields, our average rate of interest is around 23.74% as of for the last quarter. I have been saying this since our IPO that there is a sensitivity involved from the regulator. So, we will be cognizant of all that, and we'll see. We have not taken any decision and are discussing internally. We will keep the balance between the sensitivity of the regulator and increasing credit cost or operating expense and then, what could be the steady ROA, ROE or NIMs we want to maintain. Give us some time to really come back ,because there are a lot of moving balls in the air right now. Thank you.

Pranav Gupta: Sure, Sir. Just a continuation on the borrowing question. Gaurav, you mentioned that we were able to raise about Rs. 585 Cr this quarter, and we have sanctions in hand of about Rs. 1,500 odd Cr. But, in terms of rollovers or renewals, what are the conversations that we are having with banks in terms of the comfort? Obviously, this money coming in through the rights issue sort of adds another layer of comfort. But, in terms of renewals, how do we see things panning out given that MoM, we will see disbursements sort of picking up and then eventually reach at a level where renewal of borrowings becomes a very important key metric.

Gaurav Maheshwari: So, the discussions are very actively engaged with all the lenders. But having said that, I think it is slightly a larger problem from a sector-specific per se, not from an institution perspective. Having said that, obviously, the bankers have become slightly cautious; whom to lend, whom not to lend. But having said that, the kind of money which we have and the response which we have got in the rights issue, it will give a larger comfort.

On the other hand, if you see the 2 metrics, which is on the capital adequacy and on the leverage, we are far better placed in comparison to the industry player if we talk about. So, I think that would be a slightly more comforting zone. The third advantage, which I would say we were among the first one to flag out that this is a problem. I think this gives the lender a lot of comfort that this is something which is on an institution credibility per se and the kind of a promoter backing which we are having. So, I think it will lead to some very positive discussions. But obviously, as we know, all the sector is into some sort of a pain, and there is no clarity around it. Obviously, the bankers will become slightly more cautious.

Devesh Sachdev: Also, just to add here that most of the banks will have now because they finished the financial year, overall at the Board level and credit committee level, they will have a broad understanding of which sector they will be lending and how much exposure they will be taking.

Mostly, we see that there are certain metrics, which they are closely following, and we have been sharing them actively, which is on the flow rate, the GNPA number, capital adequacy, how the new book is improving. So, I think all these metrics, once we are able to demonstrate that it is improving every MoM, we hope that going forward, and they will open the purse as they have been supporting us over the last 15 years. But, I think let's see how this pans out in the next one or two quarters.

Pranav Gupta: Understood. One last question. We categorize the states, in terms of growth hold and sort of course flow. But talking about two things. One is obviously states of Odisha and Tamil Nadu, where most lenders have flagged off asset quality issues are relatively more compared to the other states. That is one bit of the question.

Secondly, if you can give some sense on how collections have panned out in April - May because when we talk to other lenders, the sense is that collections have cooled off slightly. So, some sense on both these things will be of great help.

Sanjay Garyali: Yes. So I'll answer that. I think, when we say hold growth or reduce, we're not saying that we are shutting them down. What we are saying is, for example, in the decline or where we want to reduce, the guardrails will become tougher. For example, there's a product that we have recently launched for our existing customers. That product, we have not launched, which takes care of of the repeat cycle customers. We haven't launched that product in the reduced states. Our guardrails are, let's say, on a multiplier scale 2x tougher in each of those states. So, we have our teams there. We are not stopping disbursements. But yes, we are very cautious on new to credit or new customers that we are acquiring.

Two, if you see the collection efficiency across all the states, whether it is hold or reduced, so for example, if you look at even the states where we have put on reduced mode, the collection efficiency for the new book is upwards of 99%, in fact, 99.3%, irrespective of whether that state is in which category. From a near term, because the vintage of this book is too early, most of it is acquired since September. But from a new book versus old book perspective, all the states on the new book are upwards of 99.4%. Wherever states which we have called out. For example, Orissa, we said is our reduced state, its new book collection efficiency for March is 99.52%. While this had dropped at an overall book level to below 98%, some 97.95%, but it has progressed about 50 bps to 100 bps MoM.

The other state, Tamil Nadu, where the overall collection efficiency on the 0 bucket is about 98%., their new book collection efficiency is 99.49%. So, the reduce is essentially not just on our book, it is also the overheating of particular state or we see industry not performing so well. Those are the states we have put on reduce and it's not stopping. We have put additional guardrails. Finally, irrespective of the state strategy, overall by September, the sense that we have already given you, 80% of our entire book will be new, which will be with extended and highly protected guardrails.

Moderator: Next question comes from the line of Viral Shah with IIFL Capital.

Viral Shah: Welcome Sanjay. Can you actually give us some sense with numbers specifically, for the collection efficiencies in April and May and especially in the states of Orissa and Tamil Nadu?

Sanjay Garyali: Okay. First, let me give you an overall collection efficiency. The overall collection efficiency in March was about 98.44%. In April, it was very similar. While April is considered to be a very lazy month for the industry and a very subdued month, we were roughly about the same level, between 98.38% to 98.40%. So roughly, you can assume same level as March. Now if we look at the efficiency for April and May for Tamil Nadu and Orissa, as a caution, we have already put these 2 states as not our growth states or they are reduced states. Last 4 to 6 months, we have already started taking action in these states, which includes additional guardrails, which includes some of the branches or villages where we are seeing concern. But, if I were to give you an exact number, for Tamil Nadu, our collection efficiency for March was 98.1% for April is 98.1%. This is 0 bucket. It continues to stay where it is. The other state, Orissa, in the entire quarter JFM was

97.50% and in April, it is 97.52%. This is the entire book. However, in both these states, if you look at the new book current bucket efficiency is 99.49% and upwards.

Viral Shah: Right. Sanjay, can you give some sense of for the first 20 days of May, especially in Tamil Nadu, given that the bill that was passed, was only towards the end of April and what we gather is there is some impact in the first few weeks of May?

Sanjay Garyali: I will give you both Orissa and Tamil Nadu or you want only Tamil Nadu.

Viral Shah: The more the better, sir.

Sanjay Garyali: Okay. The way we measure, Orissa is almost the same as what it was in April. Overall, till about 5 days back, it was exactly same for the month of May in Tamil Nadu. Last 5 days, some parts of Tamil Nadu, the entire industry is seeing a little concern. But, I think the way the entire industry is working is that, we are collaborating very closely with everybody. We are over communicating on the ground and ensuring that there is over adherence, especially in that state so that, the administration can clearly define the way the regulated entities work and the nonregulated entities work. Last 4 days, some changes we are seeing in Tamil Nadu, but right now, it is not concerning. However, till, 14th or 15th, it was pretty much the same.

Viral Shah: Okay, sir. For Bihar, if you can also give, given we have elections coming up, is there anything happening there?

Sanjay Garyali: No. Bihar, we are seeing constant and have not seen any disruption. For Bihar both April and May continues to be same as the previous month, and there is a progress for the last 2 months, including May so far. In fact for May, we are actually closer to March than April.

Viral Shah: Okay. Got it. And Sanjay, if we can give some sense of what is the overlap between the customers of MFI and the MSME book?

Sanjay Garyali: The segment that we source in MSME is a very different segment and an income profile than we do in MFI. So, in MSME, income is greater than Rs. 3 lakhs. In MFI, income is less than Rs.3 lakhs.

Viral Shah: So, there is zero overlap?

Sanjay Garyali: Yes, there is zero overlap.

Viral Shah: Okay. Lastly, just more to understand the numbers, we saw a sharp Rs. 300 Cr decline in the off loan book of the DA portfolio in this quarter on a QoQ basis, what would have driven that?

Gaurav Maheshwari: If you see from a gross NPA standpoint, we were at like closer to 12.9%. Obviously, the pain which has seen in the sector was slightly become more a cautious stand from a bank perspective. So, we are now with an active discussion with all the lenders. Hopefully, in the coming quarters, we are going to continue with that spirit.

Viral Shah: No, actually, my question was more about not why did we not do a DA transaction, but what drove the sharp decline on a QoQ basis?

Gaurav Maheshwari: Obviously, there is a repayment which happens unless and otherwise you do incremental DA to maintain that. So, there is an obligation to a direct assignment lender, where whatever you are collecting, you have to pay them. So, that is why the rundown is happening on that portfolio.

Viral Shah: If Rs. 1,100 Cr was of the DA portfolio as of December, and that has roughly come down to around Rs. 830 Cr. Now, Rs. 300 Cr for a portfolio on a QoQ basis won't be just repayments, right? Or does it mean that the tenure of the book is actually closer to less than 1 year?

Gaurav Maheshwari: No. If you go to the guidelines, average maturity comes between 13 to 15 months. So, it is less than 1-year maturity on that aspect, because there is a guideline from an RBI standpoint of what you can do as a direct assignment and what you can't do as a direct assignment.

Viral Shah: Okay. So, there is nothing else apart from normal repayment?

Gaurav Maheshwari: Yes.

Moderator: The last question comes from the line of Abhishek Murarka with HSBC.

Abhishek Murarka: I'll just sort of merge 2 questions into one. They are both about growth. The first part is these new to Fusion customers or new to credit customers that you are now acquiring, do you have to go into some deeper geographies or new unpenetrated geographies or villages? How are you identifying and what kind of growth can come from there in customer acquisition more specifically? The second part is on a medium-term basis, I understand a lot of flux is there in the near term, you're finalizing your strategy, and what kind of growth do you expect in MFI?

Sanjay Garyali: Yes. I think, on new to credit, we have given you a number that, overall of the disbursement that we did, about 15% is new to credit. Now, within this new to credit, there are both kind of customers. If you look at the overall book at a microfinance level moved out from Rs. 4.25 lakh Cr to about Rs. 3.75 lakh Cr. So, there's a significant move out. Similarly, there's a move in. So, I think we are seeing both kind of customers. We are not going to new geographies, but new villages within the existing geography. So, about 50% of them are coming from new villages within our existing set of branches. The balance 50% are coming from the existing villages where we work, which are getting added to our existing meeting centers. So, most of these are coming from references through our existing customers or existing meeting centers.

Abhishek Murarka: Can I just have a follow-up there? This is a strategy which is being followed by a lot of other MFI as well. Wherever there are white spaces, everybody is trying to get referrals and trying to capture that customer who's not penetrated yet. But, is this a large customer pool? If everyone is trying to penetrate in the same area or catchment as the branches are, then this pool will get exhausted very quickly. So, how will you ensure that customer acquisition is happening on a steady state with Fusion +0, Fusion +1 or new to credit over a longer period of time?

Sanjay Garyali: Absolutely. What you're saying is absolutely that's how everybody goes after this customer. So, right now, this figure is about 15%. I think there are a number of opportunities which are folding in the market right now, how the industry is opening up. We are also watching the kind of opportunity, if you see the kind of players who are there or the kind of players who are aggressive in markets, or who confidently have a clear plan. So, we would want to watch how this number is. But yes, this number is not very large right now, it is about 15%. Obviously, we cannot suddenly take it to 30% to 40%. So, let's assume that this number MoM increases by about 3% to 4% from 15%, we go to about 20%, to 25%.

However, what we see right now is that the majority of the book will come from our existing customers, and we have already explained about 16 lakh customers are existing. Out of that, there are a significant number, about 9 lakhs, which have always remained with Fusion, never defaulted. If these customers are part of states where we are confident, or states which are growth, that's where the next 6 to 9 months strategy will be on where the disbursements will come from. But, I think you're absolutely right, the new to credit is not as simple, and it is tough because you have to create a behaviour also. They are not used to the same discipline as customers who have a previous exposure. I think it is best to gradually increase rather than suddenly increase this segment. But right now, it is within the existing set of branches that we are operating and not in new branches.

Abhishek Murarka: Okay. In terms of medium-term growth, if you can break that into your customer acquisition growth that you're looking for?

Sanjay Garyali: From a growth perspective, anything pertaining to growth, we would want to call out at the end of Q1 FY26 because like we said, this quarter, we would want to spend more on stabilizing. We are sharing with you already figures in April, May are similar. June will be a little higher. So, what we have done in the last quarter, similar disbursements, we will be doing in this quarter. I think now the confidence on guardrail on the current book is about 4 months, roughly assume that the new book is starting September. On the average, it's about 3 to 4 months. What we feel right now that 4 month vintage is not a very high vintage to start taking aggressive calls on growth. By the end of this quarter, by mid-June, we will have a clear plan on Q2 FY26, going forward. We have shared April and May numbers, so you can get a sense of what Q1 FY26 disbursements will be.

Abhishek Murarka: I'm not asking about near-term growth. I'm not asking about FY26 either. But, as a management team or when you came on board, you would have discussed with the promoters a vision for a, let's say, 3-year, 5-year view, right, about what kind of growth an organization of your size should be able to deliver. I'm asking about that. So, Q2 FY26 can be different, Q3 FY26 can be different, that's fine. But, from a 3-year perspective, what kind of growth are you targeting? That's what I want to understand.

Sanjay Garyali: I understand your question. I completely agree. You will have to give me some more time. I think right now, the industry requires stabilization rather than 3-year plan. I think if as a leader in the MFI space, we get some of the things right that we are working on for the last 6 to 7 months, I think then we'll be in more confidence to put a 3-year plan.

However, we will continue to grow in the MFI space and MFI will continue to be a significant part, and we are not saying that this will be less important than anything. However, the growth in the 3 years, the actual growth will come from MSME in the next 2 to 3 years. As I said, these are two different leadership teams. So, the MSME will be on growth and future plans and MFI will be how to calibrate and stabilize.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Devesh Sachdev: Thank you, everyone.

Moderator: Thank you. On behalf of Fusion Finance Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

This Transcript has been slightly edited at few places for clarity and accuracy and may contain transcription errors. The Company or the sender takes no responsibility for such errors, although an effort has been made to ensure a high level of accuracy.