



“Fusion Finance Limited Q1 FY26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Fusion Finance Limited Q1 FY26 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 ‘*’, then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Smit Shah from Adfactors PR. Thank you and over to you, sir.

Smit Shah: Thank you. Good morning, everyone and thank you for joining us on the Q1 FY26 Earnings Conference Call of Fusion Finance Limited. We have the Company's Senior Management Team with us on this call 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 Q1 FY26 Investor Presentation that has been uploaded on the stock exchanges and the 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 and thank you very much for joining us for Fusion's Q1 FY26 Earnings Call.

The Results and Investor Presentation are available on the exchanges for your reference. I will begin with a very brief overview before handing over to my colleague and CEO – Sanjay Garyali for detailed remarks.

As you know, FY25 was a challenging year for industry marked by a prolonged credit cycle and operational headwinds. At Fusion, we remained proactive and transparent, flagging early signs of stress and acting decisively. We implemented corrective measures and were well ahead of the curve, staying true to our commitment as a responsible and responsive organization.

This financial year has begun on a strong note for us. Q1 FY26 performance reflects the early impact of the strategic actions we took last year. Credit costs have moderated, collections remain robust, and our operating model is delivering with greater consistency. With renewed confidence and sharper execution, we are well-positioned to build momentum through the year and drive long-term value creation.

Since August 2024, we have taken firm measures to strengthen our foundation, and we are now seeing tangible signs of recovery. The direction is clearer, our confidence is stronger and we remain focused on monitoring progress and taking calibrated action.

Credit costs have steadily declined QoQ from Rs. 571 Cr in Q3 FY25 to Rs. 253 Cr in Q4 FY25 and further to Rs. 178 Cr in Q1 of FY26. GNPA improved from 7.92% in Q4 FY25 to 5.43% in this quarter. The quality of the new portfolio originated post August 2024, has been strong, reflecting the effectiveness of our revised underwriting and collection processes. At the sector level, we are seeing renewed focus on credit quality, discipline and responsible growth. Regulatory moves such as lowering qualifying asset thresholds from 75% to 60% are supportive steps.

As India advances towards its \$30 trillion economy vision by 2047, Microfinance will continue to play a pivotal role in fostering inclusive growth. Amidst this evolving landscape, I remain confident in Fusion's ability to capitalize on emerging opportunities powered by a strong foundation, agile culture and a clear vision. As many of you know, I am currently transitioning from my role and the process is progressing smoothly. This is the next step in our leadership journey. I want to assure you that the institution we have built together is resilient, well-positioned and fully committed to delivering long-term sustainable growth. Thank you and now I will hand over to my colleague, Sanjay.

Sanjay Garyali:

Thanks, Devesh for setting the direction.

Let me begin by expressing gratitude to all our stakeholders, internal and external, who have helped me settle in my role. This is my first full quarter at Fusion, and I am pleased to share that the improvement as a team we saw last quarter has continued. These results reflect the strength of a refreshed operating model which incorporates environmental realities directly into our credit operations and growth strategies.

Credit quality and profitability have continued to strengthen for the third consecutive quarter. Credit costs declined to Rs. 178 Cr from Rs. 253 Cr in the previous quarter and Rs. 571 Cr, two quarters back, while we maintained stage 3 provision at 97%. GNPA has further reduced for 5.43% from 7.92% last quarter and NNPA stands at about 0.19%. Losses have narrowed to Rs. 92.25 Cr compared to about Rs. 165 Cr in Q4 FY25, driven by lower credit costs and improving NIMs, although operating expenses remain high due to our continued investments in field and tech infrastructure.

On the most important metric, the current bucket collection efficiency, we have improved to 98.55% from 98.44% in the previous quarter. The flow forward rate as well from current to par fell further to 0.54% compared with 0.57% in Q4 FY25 and 1.8% two quarters back. The current bucket POS retention now stands at 99.46%, showing consistent improvement quarter after quarter. The new book with extended guardrails disbursed since September 2024 is now at 44% of our portfolio and has maintained July current bucket demand efficiency above 99.5%.

We have also seen encouraging growth momentum. Q1 FY26 disbursement stood at Rs. 950 Cr. This was despite a drop initially due to the final guardrails in April and our own additional steps we had taken to strengthen customer identification. The composition of this disbursement, 79% of which came from Fusion and Fusion+1 clients and the remainder evenly split between New to Credit and New to Fusion. 76% of our disbursements went to existing customers, showing continuous step-up MoM.

Our state-level strategy remains disciplined with UP, AP, Telangana, Maharashtra and Assam in the grow category. MP, Tamil Nadu, Bihar, Rajasthan, Jharkhand and West Bengal in maintain and Orissa and Gujarat in reduce. In July, we disbursed over Rs. 400 Cr with approval rates improving to around 20% from the earlier 12%-15%, driven by maturing credit intelligence.

Our new products Ujala and Sugam, launched in March, designed to reward disciplined Fusion+0 and Fusion+1 borrowers, now contributed 40% of July disbursements. These pre-approved offers reduced front-end effort and improve conversion. Operational efficiency and risk discipline have also strengthened. The customer load per relationship officer which now remains at 350, but upcoming technology enhancements will help increase this in the quarters ahead. Over-leveraging, defined as having more than 3 lenders in our customer base, fell from 20.6% in December to 17.6% in June and is still lower at about 14% in the non-delinquent book in June. The dedicated collections vertical we introduced last quarter, over 75% of full staff have now 6 months of tenure, is delivering results.

Our specialized NPA recovery team continues to target customers with identifiable external transactions for sharper recovery. Flow rates have improved across all delinquency buckets supported by targeted interventions, alternate channels and expansion of digital collections, which have now grown from 21% in October to 35% in June. On collections in the 90+ portfolio, which includes the return of portfolio, we were averaging 0.25% monthly cash recovery, and this is showing MoM scale-up through committed and definitive work.

The MSME vertical is going to be emerging is our second growth engine. We have an AUM of Rs. 684 Cr, which is 91% secured, and an average LTV of 42%, and IRR of 23%. Operating across 8 states through 105 branches, the business maintains a 50% approval rate and combines cash flow assessment with lending against self-occupied residential and commercial properties.

Our distribution reach, significantly broader than that of typical NBFCs, remains a key competitive advantage. Our people and processes remain a central focus. We have over 15,000 employees predominantly in customer-facing roles. Attrition among branch managers and above is well controlled, with 75% having more than 3 years' tenure. Front-end iteration has improved significantly over the last two quarters, and we are continuing to invest in further improvements. Every branch now has at least one non-sales resource to ensure strong maker-checker controls and governance oversight. Enabling functions, technology, and HR remain strategic priorities. Our IT team continues to build core LOS components in-house while leveraging partnership

with industry leaders for speed and adaptability. The focus is on reducing borrower level risk and simplifying onboarding. Key transformative projects in onboarding and portfolio management remain on track for delivery by March 2026. Over the last quarter, L&D has been realigned under HR for sharper execution. We have added a senior leader to manage customer service and grievance redressal, both essential for retaining customers and protecting franchise value.

In summary, Fusion has moved beyond firefighting. We are stabilizing, simplifying, and strengthening. As we enter FY26, our focus is on transitioning to a growth phase, cautiously but with confidence, supported by industry+1 guardrails, multiple credit-led products, and the advantage of a strong vintage in key MSME markets.

With that, I will hand over to Amandeep to take you through the financials.

Amandeep Singh:

Thanks, Sanjay. Good morning, everyone.

I will take you through the key financial highlights for the quarter, which are continued progress in strengthening our balance sheet and reinforcing lender confidence.

Firstly, talking about liquidity and cost of funds, we raised Rs. 1,220 Cr through fresh funds between January 25 and July 25, including Rs. 32 Cr through DA MSME and Rs. 81 Cr via PTC. As of June 30, 2025, we hold Rs. 724 Cr in liquidity along with Rs. 1,496 Cr in sanctioned loans and Rs. 400 Cr of balance call money from the right issue. Our capital adequacy remains strong at 29.52% post the successful completion of partly paid-up right issue. Lender confidence continues to be evident for Q4 FY25, from the initial waivers received, which was 86% as of then, the same now stands at 93% of the covenant breaches. For Q1 FY26, we are on the track for similar waivers as previous quarters, which is either received or in process.

This support has come alongside fresh credit lines, demonstrating the depth of our system. The average cost of funds declined 25 bps QoQ to 10.27%, while marginal cost rose 160 bps to 13.3% due to the timing of new borrowings. NIM improved by 172 bps QoQ to 10.29%, driven by higher lending yields and reduced Stage 3 assets, which lowered non-recognition of interest income.

Coming on ECL & Asset Quality, we revised our write-off policy from 240+ DPD to 180+ DPD in Q1 FY26, resulting in Rs. 486 Cr in write-offs. This step ensures early portfolio hygiene and enhances forward-looking credit quality. Post-write-offs, gross NPA improved to 5.4% and NNPA stood at just 0.2%. Credit cost was Rs. 178 Cr i.e., 2.3% of average on-book loans. ECL provisions totaled Rs. 579 Cr, down from Rs. 887 Cr in the previous period. Stage 3 coverage remains robust at 96.6% and Stage 2 & 3 coverage at 88.7%, ensuring minimal future P&L volatility. These metrics reflect a conservative approach to recoverability and a resilient balance sheet.

Now, coming on operating performance, our cost to income ratio was 70.81%, marginally higher than Q4 FY25, 69.61% due to portfolio contraction and non-recognition of income on incremental Stage 3 assets. Operating cost stood at 10.1% for the quarter. Operating cost for the MFI business was 9.86% and MSME business 0.22%. The slight cost increase aligns with planned investment in collections, field operations optimization and efficiency enhancements. The implementation of regulatory guardrails ahead of schedule in August 2024 and then subsequently in the successive quarters made onboarding more stringent, leading to 14% QoQ reduction in gross advances and asset size, which also impacted our cost ratios. Despite this, the PPOP was Rs.86.61 Crores, demonstrating underlying core strength and positioning us for further improvement on asset quality, gains flow and leads us towards profitability.

Concisely, Q1 FY26 reflects disciplined execution on both sides of the balance sheet, reducing funding costs, protecting margins, and sustaining high provision coverage. With strong liquidity, lender support and improving portfolio quality, we are confident in our ability to continue narrowing losses and funding growth under robust guardrails. Thank you.

Moderator:

Thank you very much. We will now begin the Q&A session. We take the first question from the line of Abhijit Tibrewal from Motilal Oswal. Please proceed.

Abhijit Tibrewal:

Just trying to understand you closed the opening remarks by saying Fusion is now outside the firefighting mode and the focus in FY26 will be on cost ratios and calibrated growth. If you could just expand on this a little bit, when we say we are outside the firefighting mode, are we now in a zone where we can say that the leadership hiring, particularly for people who will be reporting into you, is that complete now? Secondly, when we say cautious and calibrated growth, what will be the trajectory of growth like now in terms of disbursements for the next few quarters? Lastly, given that this quarter credit costs significantly declined, which is a positive, what will be the credit core trajectory looking like in the next couple of quarters and when can we get to profitability? Can that be in the Q2 or in the Q3?

Sanjay Garyali:

From the three questions you have asked. I will first take on the most critical one, which is back to growth and cautious optimism. What we mean as a team here is that we see multiple opportunities in the market. There are a lot of changes that are happening the way the entire JLG structure works. The number of people required, how do we manage ODs or overdue amounts which go beyond a certain day; is there any cover that the front end guy gets or is the field collection the only way to go about? So, there are multiple questions that we are looking at, then on top of that, the challenge is that versus our existing customers, when do we start accelerating on New to Credit and New to Fusion customers.

If you look at the final guardrails that have actually come in April, it is prudent for any financial services company, not just microfinance, with a new set of guardrails, give some vintage before you start getting into, let us say, either New to Fusion or New to Credit or any customer which is little unknown to you. That is why the entire focus is initially on our existing customers and the guardrails that we have kept are not simple guardrails, they are very complex. But what it

essentially does is that there is enough headroom within our existing customers to be showing growth for the next 2-3 quarters. Right now, I explained to you that 76% of our business comes from existing customers. Will it be like that beyond 3 quarters? I don't think so. Eventually, we will have to come back to the right number is somewhere between 60%-65% and 35% customers have to be from outside Fusion. But I think we have 3 quarters for that. The next 3 quarters, there is sufficient growth that can come from existing customers scale up and the value that we are seeing on the existing customers in terms of the current bucket collection efficiency, that is extremely encouraging. From our current strategy, there is enough headroom that is available for growing, just to give you a number, the average number in the previous quarter that went by was close to about Rs. 310 Cr. In July, we have already crossed Rs. 400 crores. While we are sitting on August, we are seeing a 10% upside over July as well. So, that is giving us confidence and collection efficiencies are either improving or staying stable.

The second question was on the leadership. I think that is a process that we will continue to work on. There will be people who we will be requiring the kind of skill set that microfinance requires will be very different from the erstwhile microfinance and hence, we will borrow from other NBFCs, other financial services, maybe non-financial services as well. But just to reflect on this, I think the way decision making happens in Fusion is not what Devesh or I decide. There is a core committee, which does most of the heavy lifting. There is an Executive Council that we have which takes 95% of the decisions, people with very diverse skills, some of them have very large vintage in the organization and I think that is what both Devesh and I are relying on. If you ask me my role is essentially as a catalyst or like a disruptor where I push them that what extra can we do, but I think most of the decisions, 95% of the decisions are taken by this team. We will be in the process of hiring people, hiring skill set, which maybe microfinance did not have at a certain point of time.

On the third thing, credit cost, we are seeing extremely positive, we have shared with you the ACL provisioning. If you just put the numbers together, the credit cost will come significantly down and if you were to look at the numbers, which is Rs. 92 Cr of loss, I think the over the next one or two quarters, the significant impact to this will come from the further reduction of credit cost. Now, I cannot give you an exact forward looking statement that whether Q2 will be profitable or Q3 will be profitable. That is the reason why we have shared data with you transparently, Abhijit. I think if you just put this in a model, and we have shared the flow rates with you, you will yourself get the confidence from a direction that we are able to set up that profits could happen quicker than a lot of us expected. Most of the data we have shared very transparently and you understand how this modeling operates. You can put together when exactly will the profits come. But directionally, I think as a team, we are very happy to share with you that we are moving towards profits very soon. Abhijit, hope I have answered your three questions.

Abhijit Tibrewal:

Yes, Sanjay sir, thank you so much. One last question, during our opening remarks, you also said that AP and Telangana will be among our growth states. Of late especially in this quarter,

when companies reported, they have started talking about some weakness that they have started seeing in AP and Telangana, some of it is also to do with the fact that MFIs as a whole were not really present in a big way in AP Telangana, and it started only in the last one year. What is it that we are seeing in AP and Telangana, if you could just elaborate on that? Lastly, on the fee income side, are we taking some steps to improve the fee income stream in the coming years?

Sanjay Garyali:

I will take the first question which is AP and Telangana. In AP and Telangana, the way we are operating, other than two states with which we have identified, which we think are broadly over leveraged as states, we do not see structural issue of in any of the states. We have identified two states as reduced states. Other than that, we do not see structural issues in the rest of the states. Now, I think there will be cycles in states, let us say, at a district level, there will be cycles at a zone level. What we are very clear and we have realized is a learning that has come to us, is that the cycle comes towards the fringe customers, and it doesn't come across the good paying customers. If you see our strategy, the guardrails are industry plus one, which means we will be a little tougher than the industry on ourselves in terms of credit. If you see, I have explained to you technically microfinance allows the guardrails are up to, let us say self plus two, so up to three lenders. But 80% of our business happens just in one or two lenders, because we think that it is prudence to ensure that we work on less leveraged customers. Whether it is AP and Telangana or lot of people are talking about Bihar from that perspective, I don't think the problem is at a state level; problem is at a customer level. If we continue to keep our watch on leverage of customers, we will be through other than these two states, which we have identified as reduce.

On the fee income we are looking at, give us some time, we will give you some good news on fee income in future that what are the opportunities we are looking at. We have already applied for a corporate agency license for insurance. We will come back to you and the progress is significant. We will come back to you in the next quarter on what the status is on that. But if you see that the way we are operating, there is some amount of leeway, which is also available on our existing book, where we are also focusing for some additional income and not just relying on outside income, which will start coming in, let us say a quarter or so.

Abhijit Tibrewal:

Got it. This is very useful. Thank you so much, sir. I wish you and your team the very best.

Moderator:

Thank you. We take the next question from the Viral Shah from IIFL Capital. Please proceed.

Viral Shah:

Hi. Thank you for the opportunity. Two questions. One is we wrote off nearly 4% of the book in this quarter, despite that the share of customers who have loans from say Fusion+3 or more lenders, that has not actually declined as much on a sequential basis. My second question is also relating to the same slide wherein we have given numbers of the unique to Fusion customers and those things. On a sequential basis, the unique to Fusion customers are reducing. Also, the Fusion customers within the smaller ticket size bucket that is also reducing sharply. So, are we again starting to see some signs of say leverage now again getting to rebuild for all of these customers? Also with regard to the approval rates, that saw a very sharp jump in July, if you can just speak on that, that will be helpful?

- Sanjay Garyali:** Great. Viral, first on the write-off, we essentially wrote off what we thought was prudent and if you see the entire write-off policy, we have kept at about now 180 days, because we have realized the recovery percentage in those buckets. However, your second question, which is let us say unique to Fusion, if you look at our overall base of about 1.7 million customers, that is about the base that is available between Fusion+0 and Fusion+1. We have given to you the overall portfolio. Now, when you look at on the overall portfolio, this greater than two lenders is significantly come down from close to about 31% to 17% now. This is on the overall book. This also includes the delinquent portfolio. So, March 24 was 31.5%, which is greater than Fusion+2 and now we are at about 17.6. Now, this is the overall portfolio. If you remove the write-off portfolio, and if you remove the delinquent portfolio, at the current book alone, this 17.6 is about 13%. We are looking at the flow rates of this 13%. Clearly, this 13% is behaving as good as the customers, which are Fusion+2 or Fusion+1. So, it is not that all of Fusion+ greater than 2 is bad. But the challenge is that we are also keeping a watch on Fusion+2 with retail leverage. If you go down and look at our customers having with us greater than Rs. 60,000 to Rs. 1 lakh exposure in that same table where you saw Fusion+1 and Fusion+2, you see that we have made serious progress in ticket size between Rs. 40,000 and Rs. 60,000. So, which was initially 19% are now 21% and 3.2% has moved to 12%. These are the two categories where we see much better credit separation and we will continue to focus on this.
- Viral Shah:** Before you go to the third question, just a few clarifications. So, the relationships that we have, this includes the write-off customers and portfolio?
- Sanjay Garyali:** This includes the delinquent portfolio, 90+.
- Viral Shah:** But it does not include the write-off portfolio?
- Sanjay Garyali:** But it does not include the write-off portfolio, but it includes the delinquent portfolio.
- Viral Shah:** So, then my question, Sanjay with regard to this, 4% write-off in this quarter and the reduction in the Fusion+3 is only 50 bps. So, 3.5% of the write-off has happened in the customers who have less than 3 customer lender relationships?
- Sanjay Garyali:** What we will do is, we will give you a complete sense on this. We have complete data. But if you look at against, let us say, similar period last year, on Fusion+3, because that is also a like-to-like comparison that includes the overall book, without the write-off was close to 30%. Now, if you see before write-off was about 18.1%. Now, what you have to realize is that the guardrails came into effect from August-September 24. The customers which had to go bad in greater than Fusion+2, already had a window of 6 months to go bad and their actual progress, their deterioration happened between August and March 25. The most stringent guardrails for existing customers which came in April 25, that further caused some disruption. But most of these customers were not available for further funding to the market. This happened from August-September 24. So, now the customers that you have in your book are not just defined by Fusion+1 and Fusion+2. The sense we have given is only Fusion and Fusion+1. This is why the

third question is very relevant. The approval rate come only from giving more to Fusion+1 and Fusion+0. No. Those approval rates have come from three clear guidelines. Customers who do not have external exposure at any point of time more than a certain amount, and that is much lower than what the MFIN guardrails have been set up, their overall retail exposure and what kind of assets they are lending with.

Then is the third one which is Fusion. So, while we have shared with you Fusion alone that is not the only criteria or that is not the only credit separation point. The approval rate increase has come from two areas, one, this new product which came in, two, now we have pre-approved products to the front end. The entire guardrail testing we are doing at the back end, which includes some stringent guardrails on overall retail exposure and then going and giving to our existing front-end sales guys. So, they don't have to go through the entire process of customer identification. While I am talking this approval rate is inched further by about 1% or 2%, if you see the industry is at about 28%-30%. I think we were lagging on this respect because of two reasons, because of our IT that was in process, the capabilities that we were developing and this process of pre-approval which a lot of progressive players in the market were doing.. It is not that we have gone aggressive and the approval rates have not come from some aggressive segment that we have identified.

Viral Shah:

Got it, Sanjay. Just on to my second question which was there, what I was referring to is the Fusion customers. Over there, I see that in the March quarter, less than 40,000 ticket size bucket was 83%, which is now down to 67% and whereas the 40,000-60,000 has gone from 12.5%-21% and similarly in the 60,000-100,000 range. What has driven this? Is this on disbursement basis or on a portfolio basis?

Sanjay Garyali:

Correct. This has essentially happened because the second cycle has significantly gone up or if you see the existing customer which used to be about 50% right now contributes about 76% which means that the customers which have been with a vintage of at least 14 months or 16 months, they are the customers who are returning back to us. The ticket sizes go up because now you are giving not to entry level customers, you are giving to customers who are tested with you for 14 months.

Viral Shah:

What is the ticket size in the second and the third cycle now and what it was 6 months back?

Sanjay Garyali:

The ticket size in the second cycle for a regular customer continues to be the same. The percentage of second cycle customers has gone up. So, let us say, my second cycle customers had a 55,000 ticket size and my first cycle had 40,000 ticket size. Initially, it was equally divided 50-50 between first and second cycle. Now, close to 70%-74% customers are actually more than that, close to 77% customers are now in the second cycle. So, the weightage of that has gone up.

Viral Shah:

Got it., Lastly what is the X bucket collection efficiency in July?

- Sanjay Garyali:** The X bucket collection efficiency in July continues to be same that we exceeded June across states, which was a bit close to about 98.5, roughly in the same range, there is some state which is 10 bps up or 10 bps down, but roughly we are in the same range and the same is true for the net roll forward rate.
- Viral Shah:** Got it, Sanjay. Thank you very much.
- Sanjay Garyali:** This is at a portfolio level. The question that you had asked, this is the data that you are referring to is at a portfolio level.
- Viral Shah:** Got it, Sanjay. Thank you very much. All the best.
- Moderator:** Thank you. We take the next question from the line of Rajiv Mehta from Yes Securities. Please proceed.
- Rajiv Mehta:** Hi, good morning. Congrats on good collection performance. Just taking forward the collection efficiency point and the net addition in the first bucket, you are seeing that it has been stable in June and July. But when you look at the portfolio churn and the portfolio mix, the new portfolio which has been originated post the guardrails which is much better in quality where the X-bucket selection efficiency is 99.5 that will keep on climbing up as a proportion of the book, then shouldn't your X-bucket collection efficiency and the net roll forward rate in the first bucket should also improve commensurately with that mix change in say maybe July, August, and September?
- Sanjay Garyali:** Is that your only question? Is there another?
- Rajiv Mehta:** No, I do have. That is one on how the net flow forward will keep on climbing and in terms of subsequent bucket flow, is there any scope for further improvement because we have seen the bucket 1 onwards forward flows have improved in this quarter. Given the effort that we are putting on the collection, do we see the resolution rates getting better? Third is on the PCR, on the Stage 2 and Stage 3 ECL coverage, we have been maintaining very high coverage of 72% and 97%, maybe because we were seeing higher flows and we wanted to write-off and we were wanting to take concurrent provision. But any thought process as the collection environment settles and normalizes in the next 2-3 quarters, would you want to maintain such high coverage on Stage 2 and Stage 3 going forward also?
- Sanjay Garyali:** I will take the first two questions. On the current bucket collection efficiency, let us say if you see the flow forward rates and your question is that because your new book is growing. The new book is currently at about 44%, so what kind of differentiation you are seeing between the old book and the new book and the weighted numbers, they should show. Now, if you see the previous number, when we closed the March quarter was at about 98.44, the average was 98.10, the end point was 98.44. Now, the same collection efficiency, if you look at in Q1 FY26 is 98.55, which means that it has gone up by about 11 bps. The flow forward rates have improved and

both, if I give you the old and the new, the new collection efficiency continues to be at about 99.5, 99.5 plus minus and the old collection efficiency is at about 98.25. So, it is varied between the same range between 98.2 and 98.25. It has not gone below 98.2, but we are seeing how some of it we can increase to greater than 98.25 because 60% of the book is still there. There is improvement that you see. We are confident that this quarter, there will be further improvement on both bucket 0 and bucket 1.

There are some changes that we have done, how we look at the initial bucket allocations. We want to experiment it and then come to you, maybe during Q2 results, we will share with you, but we are confident that the kick-in of this change of book will start seeing. The flow forward rates will keep on reducing.

Devesh Sachdev:

Rajiv, on your last point, which is on the ECL and high provisions which we are keeping on Stage-2 and Stage-3, so you are right, but you will also notice that we still continue to hold this close to Rs. 60 crores of management overlay. I think it all depends on the next few quarters, how our asset quality evolves and overall matrix, delinquencies and portfolio matrix improve. We will be releasing some of this in a calibrated manner, but I think that is for future once we, because we have some internal targets in terms of how we look at the overall collection efficiency and the operating metrics. This will all depend on that how we will be slightly become more flexible in terms of the provisioning which we are doing in both Stage 2 and Stage 3.

Sanjay Garyali:

Rajiv, one on your point, which I thought is important to highlight, you asked about the higher buckets and the collection flows there while you see an improvement. We are very confident that what you see right now is just the buckets between 30 and 90. I have also in my commentary explained to you that in 90+, including write-off, the cash collections were close to about 0.25% monthly. We continue to see MoM significant traction of this and there will be significant cash collections which will come from 90 till write-off because of the investments that we have done on our collections team and people.

Rajiv Mehta:

Yes, just quickly on the cost structure. Now that we have fully invested for collections improvement and maybe we are kind of not absorbing the full cost through growth. As the growth comes about, as you are picking up on disbursement and the approval rates are improving, can one expect that a lot of operating leverage of growth to flow into PPOP going ahead? Has there been any changes in the lending unit which will also help us in delivering better PPOP in the coming quarter?

Sanjay Garyali:

Absolutely, the cost will not go up linearly. That is the confidence that we can give you. With disbursement kicking in, it will not be that we will require more people linearly to do the same amount of disbursement and there are multiple IT developments we have done to ensure that the heavy lifting that the front-end guy does is much lesser. So, it will not be that and we will show operating leverage in the subsequent quarters.

Rajiv Mehta:

Thank you and best of luck.

Moderator: Thank you. We take the next question from the line of Pranav Gupta from Aionios Alpha Investment Managers. Please proceed.

Pranav Gupta: Good morning and thanks for the opportunity. Congratulations on a good collection performance. Couple of questions, some have already been answered, but a couple of questions, one is continuing from the previous question on costs. You mentioned a couple of things in your opening commentary where you believe that the load of the Field Officer can be reduced through the tech initiatives that you have taken and you believe that this can go up, the accounts handled by each Field Officer can go up materially from here. How should one think about this, maybe not just for the next couple of quarters, but probably going forward from here as well? Where do you see this metric settling eventually based on the tech initiatives that you have taken? Second bit is on the OPEX where you mentioned it will not go up linearly, but what can one expect through this year in FY26 on an absolute basis, you can give some guidance on that? That is the first question.

Devesh Sachdev: Pranav, I will partly answer this and then Sanjay will explain it further. Now the changing environment and the whole model is changing rather than looking at the number of customers handled by a Field Officer; I think more important data point would be the amount of the overall outstanding which is handled by the Field Officer because the overall focus is moving towards, in terms of your existing customers, it is moving towards Fusion 1 and Fusion 2 and where you can really do a slightly higher amount. So, I think that is the right matrix to look at and that is what we are focused on that overall outstanding per Field Officer should be the metrics we should look at rather than the number of customers handled by a Field Officer.

Sanjay Garyali: Yes, absolutely, that is one key thing. The other thing to look at, just to give you a certainty, how we are looking at it is that right now, about 94% of our entire demand for the day or demand for that particular day comes on the same day. Most of it comes to the center meeting. One reinforcement that we want to give irrespective of and we are not concerned with the views that others have.

I think Fusion as a company, understand this business very well. The center meeting concept, we are figuring on how to strengthen. 94% of the demand that we get is collected in the same day. Another 4% is collected in the same week and about 0.5% to 1% goes to the next week onwards. Now, there are two things that we are looking at. So, one, like Devesh already explained the value part. The ticket size will keep on increasing. The second, we are seeing that see the majority of the customers that our Field Officer Manages are in bucket 0 and bucket 1.

There is some experiment that we are doing that certain buckets we restrict with him and the other buckets we give air cover through, there are right now multiple opportunities without really having people or without having warm bodies. How do we do the other part? So, from about 3-6 month perspective. I think if there is anything that we are losing sleep on right now is that how do we better utilize the expenses that we are invested in especially the people. We are like 24x7 working on that and ensuring that how do we better utilize those people and how do we restrict

them to a certain work area which they are very good at and rest we just move out of them and it happens automated way. More of it we will talk about in the subsequent quarter.

Pranav Gupta: Any absolute number guidance that you can give or maybe it is too premature to think about that?

Sanjay Garyali: See, we cannot give exact guidance, but I am saying that is why we are sharing so much of information with you so that you can model it but like I said we are constantly pushing ourselves, we are cognizant of the fact that OPEX needs to come down. Wherever we are seeing processes which are obsolete and non-productive, we are cutting it without even thinking twice about it. I think that is one area we will question ourselves day and night and you should see the impact of that in the subsequent quarters.

Pranav Gupta: Sure. Sir. Second question is on the Fusion+0 customers and the data that you have given around Fusion+1 and 2 and like one of the previous participants also asked, you have seen the exposure increase in the 40k to 60k and 60k to 100k bucket on a QoQ basis and this is obviously driven by the fact that your disbursements to existing customers share has increased significantly whereas if we look at Fusion customers having MFI exposure, those buckets have remained largely stable not just on a QoQ, but on a YoY basis. In terms of incremental disbursements where the share for Fusion-0 customers or rather existing to Fusion customers has remained in the 70%-75% range, is it fair to assume that the focus is more on unique to Fusion customers versus Fusion+1 or 2 or is it a more balanced approach on both those customer buckets and how should one think of that mix incrementally?

Devesh Sachdev: Pranav, I think again Sanjay will add something but I will talk more on a strategic point of view. If you look at the microfinance sector and especially our strategy in the sector prior to this credit cycle was because there were no guardrails, Fusion was the only company which had guardrails and there was number of lenders in terms of number of lenders, in terms of over-indebtedness.

The previous crisis, whether it was events after demon or a COVID have shown that and our focus was that because there is no guardrail being followed by the number of lenders and the amount, we were keeping the ticket size lower. Now, the overall landscape is changing. The landscape is changing in a manner what everyone is saying that look, now we are more confident that as the sector, every player including the banks, the SMBs who are in the retail, microfinance, all have agreed, all, let me tell you everyone because I am also on the board of MFIN, where we see that everyone is becoming more responsible, everyone is wanting to follow these guardrails.

Now it makes sense for Fusion when we will be focusing more on Fusion, retaining our existing customers that we actually move up the ladder in terms of the ticket size because now that risk of the customer getting more loans or more than certain amount has gone down more at a sector level. I think that is what Sanjay was trying to tell you that there was a certain strategy prior to this credit cycle and now there is a certain strategy after the guardrails have come in and when we are coming out of this credit cycle.

Sanjay Garyali: Finally, this is a short or a medium-term strategy. 76%, like I said, is not going to be the status quo. It should be closer to about 65%. But you understand that coming out of a tough credit cycle and I am not saying just the microfinance industry, the entire financial services. It was prudent to focus on existing customers that lowers your cost of acquisition, you know with certainty which are the customers you can go after. But on a status quo, somewhere by end of the year what we intend to do is about 65% is Fusion, 35% will be New to Fusion and which will be equally divided between New to Credit and New to Fusion. But whether we are doing New to Fusion or Fusion, the focus is on number of lenders and we are pushing the external retail exposure and number of lenders.

While the industry allows it to go to 3, we will continue to keep at 2 itself. But this is a short term till let us say another 1 quarter or 2 quarter, you will see us going by end of the year once we are more confident on the guardrails to New to Fusion or New to Credit because I think that is eventually the way to grow. Just Fusion customers will dry out after some time.

Pranav Gupta: Right. Sir, just one last question on the MSME book. You have given a lot more detail this time around. But just the way to think about this book and its overall proportion in the year going forward, where do you see this going to and is it the sort of new driver for growth incrementally or does it remain like a supplement to the MFI business?

Sanjay Garyali: The book is very small, close to about Rs. 700 Cr. We all know the opportunity in the market and we already have a Chief Credit Officer. One of the reasons we wanted credit was because and is because we wanted to grow this book other than the extended guardrails in an MFI. So, this will grow obviously much more than what it was and the right to win that we have here is both the distribution. We are clearly in markets which are non-competing with the regular NBFCs and the banks and that is our strength along with the credit assessment products that we have which have delivered over the last 3 years.

We may not go to too many branches. We are close to have about 100 branches and we feel that about 100, 150, another 50 branches in the next 2 years should take us to a decent portfolio size. RBI has recently, you know that the qualifying mark is now 60%. So, that gives us more headroom. But I don't want to give you an unprepared figure right now. We are in the process of working on this. But yes, you will see much significant growth and this is the first time we have spoken about MSME. You will hear more about MSME in the subsequent quarters.

Pranav Gupta: Sure, sir. Thank you so much and good luck for future quarters.

Moderator: Thank you. We take the next question from the line of Bhavesh Kanani from Svan Investments. Please proceed.

Bhavesh Kanani: Thank you for the opportunity. On the marginal cost of fund which is high at 13.3%, if you can share the duration of new borrowings that we have added and to give a wide difference between average cost of borrowings and marginal, like for FY27 directionally, that clearly implies that

we should expect a significant margin pressure. Secondly, on OPEX, there are a lot of moving parts. We are going to ramp up New to Credit or New to Fusion customers as we manage the stress on the book. There is some investment on the SME book. While I understand this moving parts make giving guidance difficult, but using Q1 as a reference point, should we expect the cost to income or OPEX leverage AUM perspective improvement from here on, or there is a risk to this level as well?

Sanjay Garyali:

Great, Bhavesh. On the marginal interest on borrowing, instead of that, let us look at the NIMs, because that is what is critical. I think so there will be three things, two of them positive on NIM and the third one is cost of borrowing on the NIMs. While Aman will elaborate, some of this higher cost of borrowing comes because of lower tenure funds that we have got. However, on the NIM part, now there are three things driving, which is the reversals that we do, the second is the interest on the book that we are charging, on disbursements that we are charging and third is the cost of borrowing. Now, cost of borrowing, we think that has stabilized and eventually we do not see too much of pressure on cost of borrowing and Aman will elaborate.

On the interest on fresh disbursements, we improved a little by around May. So, you have not seen the full impact of that. That is like 40% impact you are seeing. This quarter, you will see the full-blown impact of that. Third is the interest reversals, which are drastically coming down. I think NIMs that we spoke about will essentially be in the same range and there will be no pressure on NIMs. NIMs roughly close to about 10.25 to 10.5 plus minus 25 bps will remain in that range. That is the more important part to look because there are three constituents of that. On the increased cost of borrowing, like I said, it will be more or less stable. But Aman will talk about the constituents of the cost of borrowing.

Amandeep Singh:

The cost of borrowing has been increased in this quarter due to new loans, which we have raised as per the market practice, whatever rates are going on. We have taken the loans on that only and the tenure of the average marginal cost of borrowing is around 18 months. Somehow some loans we have taken over a shorter period and that is why expenses part, it is looking higher. But later on during the part of the year, if you see, then our cost of borrowing, it is on the same range as that of last year. So, it is between 10.2 and 10.3. Coming period, marginal cost of borrowing, maybe we will get it streamlined in the coming quarters. The average cost of borrowing will be between in the range of that only that Sanjay has told. It will not impact much as in the increase of finance cost. During the year, it will remain the same as old higher rate of loans, which we have already taken that is coming down. The new cost of borrowings will be streamlined in the coming part of the years.

Sanjay Garyali:

Coming to the second question on OPEX., it is not that we are ramping up New to Credit. We are not ramping, I am not saying that we are ramping up New to Credit. We are right now holding back New to Credit. So, we are getting significant demand, but we are holding it back. Because we do not think that we have sufficient guardrails and the current guardrails that the market has, we are working on it. In about, a quarter between our CRO and the Chief Credit Officer are working hard on this. I think I am putting tremendous pressure on both of them that we have to

get an answer to this New to Credit and New to Fusion. I am absolutely confident that by end of this quarter, somewhere in September, we will have a lot of answers. So, it is not essentially a ramp up. It is customers which are in our existing villages and branches. We just need to filter them properly. Right now, we do not have the filters. On the cost to income, I will give back to.

Bhavesh Kanani:

Actually, it will show improvement.

Sanjay Garyali:

Yes. On cost to income, we do not see any heightened cost coming because of disbursements going up or because of MSME. Let me tell you, between last 3 months, MSME costs have significantly come down on absolute terms. So, there are multiple things we are doing on MSME to ensure that the productivity goes up and absolute terms cost you will see coming down. I have already explained that the 105 odd branches that we have or 91 branches now that we have are operational branches, vintage greater than 2 years. So, to get them into action, there is no real cost that will be required. Rather, there is some optimization that we are doing, which will further absolute terms get MSME costs down. I won't say ramp up, but increase of disbursement, the costs will not go up. In absolute terms, OPEX will continue to keep trending downwards.

Amandeep Singh:

In this quarter also, you have seen that OPEX is around Rs. 210 Cr. In the last quarter, it was in the absolute terms, it is Rs. 206 Cr. It has increased by Rs. 3.6 Cr in a quarter. That is not much and we are in the position of streamlining OPEX. So, more or less, it will reduce or it will not go on very high.

Bhavesh Kanani:

Wonderful. Would you like to quantify the reversal in interest income for the quarter?

Amandeep Singh:

Interest income reversal on active portfolio is around Rs. 25 Cr to Rs. 26 Cr, excluding the write-offs.

Bhavesh Kanani:

Wonderful. Thanks for the answers.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints, that was the last question for the day and would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sanjay Garyali:

Thank you so much. Two things I think are critical here. Devesh already spoke about it. I think the transition between both Devesh and me is happening very smoothly and I am very confident the way the entire senior management at Fusion is rising to the occasion and how they are taking extended responsibility is making both Devesh and my job actually much easier and we can focus on some critical areas.

As we are getting as inputs from each one of you, you will see us sharing more and more information with you and more transparently. Our future plans will be clearer to you in terms of how do we model or how do we expect. But we are absolutely confident and understand that one

of the key measures is to get back to profitability quickly. Everything is being invested towards ensuring that we reach there very fast.

With all your wishes and your blessings, I am absolutely confident that we will be there very soon. Thank you so much for your patience and presence.

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