



“Fusion Finance Limited
Q2 & H1 FY26 Earnings Conference Call”

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MODERATOR: MR. SMIT SHAH – ADFACTORS

Moderator: Ladies and gentlemen, good day, and welcome to Fusion Finance Limited Q2 and H1 FY '26 Post-Results 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, sir.

Smit Shah: Thank you. Good morning, everyone, and thank you for joining us on the Q2 and H1 FY '26 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 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 Q2 and H1 FY '26 investor presentation that has been uploaded on the stock exchanges and the company website.

I now hand over the call to Mr. Sanjay Garyali, Managing Director and Chief Executive Officer, Fusion Finance Limited, to begin the proceedings of this call. Thank you, and over to you, sir.

Sanjay Garyali: Good morning, everybody, and thank you for joining us today for Fusion's Q2 and H1 FY '26 Earnings Call. I hope you and your families had a wonderful festive month. The sense of optimism and cheer that this season has brought across the country continues to reflect on the ground, bringing some much-needed freshness to an otherwise challenging global environment.

Before I begin, I would like to take a moment to acknowledge the leadership transition that took place last quarter. Devesh and I have worked very closely over the past several months and I want to sincerely thank him for ensuring a smooth seamless handover and for laying such a strong foundation for Fusion's next chapter. His vision, commitment and deep belief in responsible growth continue to guide us.

As I take on this responsibility, my focus is to build upon his legacy, continue to steer Fusion into a phase of calibrated growth with sharper execution, stronger credit discipline and deeper customer focus. The broader macroeconomic environment continue to show steady improvement. Favourable monsoon patterns, healthy agricultural output have supported rural income stability, while inflation has moderated across most consumption categories.

The recent rationalization in the GST rates across several essential and consumption like categories has improved affordability and sentiments in the rural and semi-urban India. Lower taxes on 2-wheelers, fertilizers, farm inputs and household goods are strengthening purchasing power, boosting small business turnover and improving cash flows for self-employed borrowers.

We believe that this recovery in consumption is not a one-off bounce off. It appears broad-based and sustainable. Tractor sales, 2-wheeler registrations and rural wage growth continue to trend positively, signalling durable demand through the second half of the year.

At the same time, the microfinance sector has strengthened. PAR levels across most leading players have declined to multiyear lows. Collection efficiencies have improved and the sector's credit curve has now flattened, reflecting improved borrower behaviour and discipline.

For Fusion, these tailwinds are significant. A more buoyant rural economy combined with stronger cash flow visibility for small entrepreneurs directly enhances the quality of the portfolio and repayment discipline of our borrowers.

The second quarter of FY '26 builds upon the encouraging momentum of Q1. Across all key metrics, credit cost, asset quality, disbursements and collections, we have seen meaningful improvement. This progress validates the effectiveness of our refined operating model, which integrates regional sensitivities, borrower behaviour insights and risk analytics directly into our growth strategy.

Our primary focus continues to remain on the quality of growth, ensuring that whatever customers that we acquire are acquired with a strong credit hygiene, and we continue to have robust collection discipline and meaningful customer engagement. I'm also happy to share that IRDAI has approved our corporate agency license in October, enabling us to build more diverse and customized products for our customers.

Coming to disbursements. Disbursement stood at INR1,298 crores in Q2, up about 37% sequentially, INR950 crores in Q1, taking the total disbursements to INR2,248 crores in H1 FY '26. We acquired about 75,000 customers in Q2 versus 55,000 in Q1, with September alone contributing over 80,000 customers. About 75% of Q2 disbursements were to existing customers, reflecting deep franchise trust.

Our portfolio of clients have relationships with more than 3 lenders has significantly come down to now 10.8% at a value level. The same figure on the current book now stands at 6.9%, clearly showing deleveraging due to disciplined new sourcing. In new disbursements, we continue to focus on Fusion and Fusion plus 1 customers, which now account to over 78% of new acquisitions and have consistently demonstrated superior repayment discipline.

Our state level and now district and branch level strategy remains data-led and disciplined. We have gone deeper into the field to categorize risk at the ground mapping branches and districts by risk profile, leverage indicators and environmental stress parameters. The sharper segmentation allows us to calibrate approval rates, optimize exposure and channel efforts to areas demonstrating resilient credit behaviour.

Approval rates have now improved to 27% in quarter 2 which are sequentially moving up from 24% in the last quarter. This validates our enhanced credit filters, stronger on-ground intelligence and better field productivity. The average ticket size has now improved to 56,000,

largely driven by second cycle customers who now form 36% of the client base versus 27% a few quarters ago.

Credit quality continues to strengthen. Credit costs declined to INR111 crores in Q2 from INR178 crores in Q1, making the fourth consecutive quarterly decline. GNPA improved to 4.6% from 5.5% in Q1 and NNPA remained low at 0.38%. Collection efficiency was at 98.5% with the new book at 99.5% collection efficiency. Book now stands at 65% of the overall book in terms of value.

The forward flow from the current book continue to remain controlled between 0.5% to 0.6%. I would also like to reinforce here that collection efficiency, while I have mentioned on a number of customers in the current bucket was 98.5 the same on POS because that is what the industry talks about is at 98.85 in quarter 2, which is an improvement of 98.65 over previous quarter.

On the operational front, our paperless customer onboarding system has significantly reduced processing time and manual errors, ensuring faster turnaround. Real-time internal audit and fraud control systems have sharply reduced irregularities month-on-month, allowing our front-end teams to focus on growth rather than manual checks. Disbursement growth has come despite a reduction in the overall manpower from 15,400 to 13,600 demonstrating productivity gains and process efficiency.

Our dedicated collections vertical remained stable with over 75% of the staff having more than 6 months tenure. The analytics-driven segmentation is helping faster rollbacks, while 90-plus DPD recoveries and ride backs have gained stronger momentum. Write off recoveries have nearly doubled to INR13 crores in Q2.

Our 30-plus DPD flow forward rates continue to outperform the industry by 10% to 12%. Digital collections have grown from 21% to now 35% supported by greater customer adoption and real-time tracking. We are rolling out digital receipting to further improve transparency and reduce grievances.

Our MSME vertical continues to scale as Fusion's second growth engine. As of September, the portfolio stood at INR708 crores, up from INR684 crores in Q1, with 91% of the book secured, and an average LTV of 42% and an IRR of 23%. Operating across 8 states and 91 branches, the business remains at about 56% approval rate and 78% booking.

The focus remains on lending to small entrepreneurs, traders and service providers within a 50 to 60 kilometres radius of each branch, fully PSL compliant, 100% of UDYAM registered and over 95% digital collections. We have remained focused on creating a right to win through distribution reach, strong cash flow assessment and emphasis on property marketability rather than mere technical valuations. These measures are helping us grow the book meaningfully without proportionate opex increase.

We have also added cost-efficient channels on the ground to enhance per person productivity and scale sustainability. Technology continues to anchor our transformation. We are building

our origination and servicing systems in-house by leveraging AI for real-time KYC, geo-fencing and credit scoring, improving compliance, reducing fraud and enhancing customer experience.

We have also started pilots with multiple partners to test alternate models for early and mid-bucket collections. The AI models under training are already showing encouraging results with over 85% of our workforce in business roles and 75% of the branch managers over 3 years tenure reflecting depth and stability.

Governance has further been strengthened with the induction of Rajeev Sardana as an Independent Director and appointment of a dedicated Chief Compliance Officer and Head of Internal Audit, both reporting directly to the Board. Fusion is now operating from a position of strength, discipline and renewed energy.

Our strategic focus for the rest of FY '26 and beyond rests on three critical pillars: first, from an acquisition, so expanding presence in branches and districts, which we have identified as growth driven by products like Ujala and Sugam which ensure that we are adding less leverage customers.

Second, stronger underwriting, using data analytics to build credit guardrails, which are stronger than industry norms and reviewing them quarterly. We are also developing an advanced bureau plus 2 credit model for sharper credit separation.

Third, people capability through AI enablement, ensuring that every technology investment directly empowers our team on the ground and enhances their ability to serve customers better. In parallel, we are also reinforcing our capital position to support the next leg of growth.

The Board has approved calling the second tranche of INR400 crores from the ongoing INR800 crores rights issue in view of the improving asset quality, collections efficiency and rising credit demand across our operating states.

This call reflects our stronger performance and investor confidence ensuring that we enter FY '27 with ample capital headroom to fund both microfinance and MSME expansion sustainably. Having emerged from a prolonged credit cycle, Fusion today stands derisked, disciplined and digitally enabled. Our microfinance business is stabilizing and our MSME vertical now over INR710 crores in AUM when 93% secured loans is ready to scale as our second growth engine.

With renewed leadership, strong lender confidence and capital adequacy of over 31%, we are moving to forward building. We have proven that early recognition, proactive provisioning and consistent transparency build trust. Going forward, our focus will shift from protecting the balance sheet to expanding it safely, sustainably and profitably.

We are also confident that the strong foundation we have built supported by prudent governance, robust systems and a customer-centric culture will help us to deliver sustainable and profitable growth in the quarters ahead. Thank you once again for your time and continued support.

I will now hand over to Aman to take you through the financials in detail.

Amandeep Singh:

Thanks, Sanjay. Good morning, everyone. I'm pleased to walk you through our financial performance for the quarter ended September 30, 2025. The second quarter of FY '26 reflects continued operational discipline, a strong focus on balance sheet quality and sustained support from our lenders and partners.

Starting with our capital and liquidity position, during H1 FY '26, we raised INR1,813 crores through fresh funds between April '25 and September '25, including INR 258 crores through DAs, INR 327 crores via PTC and INR 173 crores via ECB. We remain comfortably placed with liquidity of INR 892 crores and a capital adequacy ratio of 31.31%, well above the regulatory requirement.

The completion of the party paid up right issue, along with consistent internal accruals has further strengthened our capital buffers and enhanced financial flexibility. Our relationship with lenders continues to be robust. Waiver coverage for covenant breaches of quarter 1 FY '26 has strengthened to around 89% as of date, up from 72% in the previous quarter. For Q2 FY '26, we are witnessing a similar trend with most waivers either received or in process.

This ongoing confidence is reflected not only in waiver approvals, but also in fresh credit line extended to us, underscoring the resilience and credibility of our company within the financial ecosystem.

Now turning to funding and margin performance. Our average cost of funds remained stable at 10.35% in line with previous quarters, while marginal cost of funds declined to 12.9%. Despite this, our NIM expanded to 10.9% driven by a richer yield mix, improved asset quality and lower nonrecognition of interest income on Stage 3 assets.

Now coming on ECL and asset quality. We have continued to maintain a strong focus on portfolio hygiene and credit quality. During the quarter, our disciplined approach led to further improvement in asset quality metrics with gross NPA declining to 4.61% while net NPA remained well contained at 0.38%. Our credit cost for the quarter was INR111 crores, equivalent to 1.7% of average own book loans.

ECL provisions stood at INR444 crores, down from INR579 crores in the previous period, with strong Stage III coverage of 92.1% and Stage 2 and 3 coverage of approximately 85%, reflecting our conservative approach towards recoverability and minimal P&L volatility.

During the quarter, we also wrote off INR246 crores of portfolio and released INR15 crores of management overlay based on management analysis, including asset quality metrics, the reduction in delinquency and conservative provisioning approach under ECL, supported by higher provision coverage across stages.

Now coming on operational performance. We continue to streamline cost and enhance productivity. The cost-to-income ratio was 70.2% and overall operating costs stood at 11.38% for the quarter. Some modest increase in the operating cost ratio over the previous quarter is driven by a reduction in AUM.

This is expected to normalize as AUM expense in the coming quarters. Despite a moderated portfolio size following the recalibration undertaken over recent quarters, our pre-provision operating profit stood at INR89 crores, reflecting the underlying strength of our core operations and efficiency gains.

To summarize, Q2 FY '26 marks another step forward in our journey towards sustainable profitability characterized by stable margins, high provision coverage and strong liquidity. With continued lender trust, improved asset quality and disciplined cost management, we are very much confident of delivering further improvements and building durable growth with robust guardrails in the coming quarters. Thanks.

- Moderator:** Can we move on with the question-and-answer session?
- Sanjay Garyali:** Yes.
- Moderator:** Thank you very much. We will now begin the question and answer session. The first question comes from the line of Renish from ICICI.
- Renish:** Congrats on a good set of numbers, especially loss further reducing to INR22-odd crores. So now my first question is on the P&L charge, which stood at more INR100 crores. Now can you please help us with some reconciliation like how much is towards incremental PAR provision and how much is towards write-off?
- Obviously, write-off number is there in PPT but when I do a reverse math of looking at your incremental par zero rate, which is 0.5, 0.6, so that number actually doesn't reconcile with your P&L charge?
- Amandeep Singh:** Actually, P&L charge, whatever provision we have made, INR15 crores of management overlay what we have released, that charge you have to add back if you want to calculate with the respective flow rates. So -- and with reference to ECL calculation methodology, the same factors what we have applied in the earlier quarter, that's the same we have followed.
- So flow rate metrics will calculate the same. And one thing more, the flow rate calculation is on AUM based on own bucket and DA bucket and the calculation of ECL is based on our own bucket. So there must be a difference between that.
- Renish:** I mean can you just give me 1 number, what is the incremental provision towards fresh par accretion?
- Amandeep Singh:** Total incremental provision, including that write-off is around INR126 crores, including management overlay.
- Renish:** Okay. Maybe I will pick it offline. Sir, my second question is on the market exits, right? So in the last 6 months, we have closed almost 25 branches. Now can you please throw some light on which geographies we are exiting the market?

Sanjay Garyali: So Renish, most of -- there is no specific state that these branches lie in and they are -- most of these branches are distributed between the top 3 states, which is UP, Bihar, Odisha and some of it in MP.

So these -- essentially, these branches were closed down, and there are some branches that we have added because these branches were not making headway for us, but these are insignificant in terms of the existing POS. We have also shut down some MSME branches and merged with our ROs to reduce our overall opex.

Renish: Got it. And sir, my last question is on this asset tenure. Now if you look at repayment rate for last 3 quarters, it has been hovering around 25%, which used to be 20%, which essentially means that incrementally, we are disbursing loans with lower tenure. And when we look at the average ticket size, we're sort of going up, which again means that the share of 3-year plus loan will be increasing. So just wanted to know why repayment rates are higher for last 2, 3 quarters?

Sanjay Garyali: So essentially, what happens, Renish, is that when you focus on an existing set of customers, so there are customers moving out and adding. The process that we follow is that existing customers, the moment is ready for our second cycle, which is after 14 months, which means that about 60% of the loan should have retired for the customer to be eligible for a second cycle which means that essentially if I lend to my existing customers, my overall tenor will reduce because there are loans which will close and there are new loans which will get created.

Renish: Got it. So pre closures are higher is what you are going to highlight?

Sanjay Garyali: Versus let's say, if I would have gone to an open market and acquired new to Fusion customers.

Renish: Got it. Okay, okay. And lastly, given in absolute terms, our repayment rate is close to INR2,000-odd crores on a quarterly basis. When do you see our disbursement sort of start matching the repayment number?

Sanjay Garyali: So I think, Renish, we are seeing continuous improvement in disbursements and the numbers that have got -- that we have reported in Q2, we already see a significant upside in Q3 as well. I think somewhere in Q3 end or beginning of Q4 is where we think that the disbursements will take over the book degrowth or what you are mentioning as repayments. So somewhere, I think, between December and Jan is the, if, let's say, you're asking for an exact month, I think between December and Jan is what we will -- we should encounter that.

Moderator: The next question comes from the line of Rajiv Mehta from YES Securities.

Rajiv Mehta: Congrats on better numbers than previous quarter. Sir, my first question is on the flow rates from current to par zero bucket. So it has actually increased from 54 basis points to 60 basis points in Q2. And I believe the needle moving market has been UP, which is our largest geography also in terms of operations?

And when I look at UP's collection efficiency between March and September, I think you gave March, June and September collection efficiency in the presentation. The collection efficiency

has actually slightly gone down for the last 6 weeks in UP. So just wanted to understand what is happening in UP because when I look at your reported collection efficiency, instead of improving month-on-month it's actually come off a bit.

And plus the new portfolio in UP must be giving you higher efficiency, which also implies that the older portfolio collection efficiency seems to be still coming down. So if you can just give us more colour of why UP is dragging our overall flow rates and collection efficiency? And what is the underlying issue and when this will be resolved?

Sanjay Garyali: Okay. Sure, Rajiv. So I think first, let me -- so while your -- the question that you have asked is on the net flow rate, which presumably you are referring to 0.54 in the last quarter going to 0.6 in this quarter...

Rajiv Mehta: And the source seems to be UP last year, yes.

Sanjay Garyali: I'll just come to that, Rajiv. I'll just explain. I think it's a very valid question. And so there are 2 important things that we need to look at. One, I will first explain the collection efficiency, the way industry reports it, which is on value because most -- which is on POS.

Now if you see the new book which is now 63% to 65% of the overall value, that collection efficiency is at about 99.47. And the old book has about 98. So from a value perspective, which what I said and explained in my notes, our collection efficiency is 98.89 for this quarter.

That's how the industry calculates which is gross roll forward on POS level, which has improved from 98.65 which is a 20 to 23 basis points improvement over previous quarter. That's one. Now the net -- so also, the way our demand happens is that the demand stretches through the entire month, which is even the last day of the month.

And because of which, there are some customers who will flow forward. In the month or in the quarter, our roll forward rates were much better than the previous quarter that you can understand from the collection efficiency.

So the roll forward rates were in the previous quarter were 1.35%, while in this quarter was 1.12%. And that is why the collection efficiency has improved to 98.88 from the previous of 96.65. Now the rollback and that is how you get the net roll forward, the rollback has come down by about 15 basis points. Okay, despite the overall improvement on collection efficiency. And that is why there is a marginal increase.

However, I think the way we look at it is that we are not losing much of sleep on this. The first bucket collection efficiency if you see where the roll forward rates continue to be upwards of 60%, we are at least 10% to 20% better than the industry. So I think this is -- if, let's say, we were to like to like, we focus on 98.85 as collection efficiency over, let's say, 98.65 in the previous quarter, we are now nearing 99% the way industry reads it on POS on the entire portfolio.

And I have also given you the breakup. For the last quarter, the rollback was about 15 bps lower because of which this issue happened. And that was more to do with the festivals and the floods that happened and there were not any specific issue. The -- now let's come to UP that you are explaining, asking. Now UP if you see continues to be -- we have explained that our collection efficiency at a number level is 98.47 which is 98.85 for the quarter.

UP continues to be above the country benchmark, which is by about 15 basis points. Certain parts of UP, which are adjoining Uttarakhand and Eastern UP were little impacted, but that doesn't cause any concern going forward. And if you see in October, we are back to -- it is higher than the overall country by about 30 basis points UP specifically. This is despite festivals and Diwali and everything else in October in UP.

So we continue to be strong on UP. And it was -- there are no concerns that we see and UP continues to be 20 bps higher than the industry level. And I think what we will do, Rajiv, is from next time onwards, we didn't want to in between change what we are reporting. We will start reporting on POS from next, the way the industry reports. And I think that will give you a much better sense.

But I thought we will not change it in between. That's why I mentioned it in my call details. But next time onwards, we will start reporting. But let me reinforce our collection efficiency the way industry measures on POS is 98.87 to 98.88 for the quarter, which is a 20 basis point improvement.

Rajiv Mehta:

Okay. Clear about that. And on broadly, when I look at the disbursement on a monthly run rate basis, I mean, September, you did about 430, which is in your micro finance. October, you said the collections were better for UP.

But one can expect this month and month pickup in the disbursement number with the approval rates getting better and hence, overall figure for disbursements would start climbing up for the for Q3 and then similarly in Q4 and which is why you also replied in the previous question that your book will stop degrowing from December year, mostly January onwards. That's coming back to growth?

Sanjay Garyali:

Absolutely, Rajiv, and that's one of the reasons when we presented to the Board the details, the confidence that the Board got on our credit guardrails, which are -- which continue to be at least plus 2 stronger than the industry. And that is why we called that second tranche of INR400 crores on the rights issue because we are confident of growth on the credit guardrails now.

Rajiv Mehta:

Okay. And why did the release management overlay? I mean I know -- I mean, it was supposed to get released at some point in time. But in a quarter, just coming back to the flows were stable, I mean we hadn't seen much improvement, you started releasing management overlay. But then now that you've already started utilizing, can we assume full utilization of the balance in the next 2, 3 quarters?

And even adjusted for this and even adjusted for when the whole write-offs get finished, maybe another 2 quarters of write-offs also getting completed, where do you think that the ECL rates, ECL coverage on Stage 2 and Stage 3 will get eventually settled in the next 2, 3 quarters, which then becomes your recurring rate of provision in the next year?

Amandeep Singh:

Great. So first thing, let me state, see the way -- the reason why we are giving the flow rate is for you to -- for everybody to get a sense of how much that is going forward, we are able to roll back. And we are consistently measuring ourselves. However, it is also important to look at collection efficiency. Now collection efficiency, I have explained is now closer to 99%, which is a significant improvement to the overall credit cost has come down.

So when we -- and this was in Q1 as well that when we looked at our ECL model and the management overlays, you understand both of them go hand in hand. What we realized was that -- so there is an over provisioning that we have done or, let's say, we have taken a much higher provisioning because of what happened in the previous year. But at the same time, keeping the advice from everybody was that there is -- between the two, there is no point in creating both.

So there is a management overlay as well as there is a higher provisioning that we are doing, and that provisioning is 15% higher than, let's say, what others are. Now the -- or the industry is. So which means that there is -- between the two, we should be balancing. And deliberately, so the guidance that we are giving here on the call also is that we will constructively over the few quarters, continue to release this management overlay in line with the ECL provisioning and reduced overall better collection efficiency.

We will continue to do that. And we have not used all of it, so we have explained there that overall INR60 crores of management overlay. So we have utilized INR15 crores. And the balance, we will continue to utilize rather than using a big chunk in one particular quarter. So from a -- as a percentage of the overall income, this is very insignificant part. While you see the loss reducing, but if you see overall income that we have generated, against that using INR15 crores is a very small amount. Yes. So that's -- I hope that answers the 2 queries that you have put, Rajiv.

Rajiv Mehta:

No, no. I think -- so one part is, of course, utilization of management overlay, that's very clear. So once you utilize the management overlay and this INR45 crores goes out of the ECL balance. And then, of course, the write-offs, the pending write-offs will also get finished in the next 2 quarters. Then where does the ECL coverage of Stage 2 and Stage 3 settles?

Sanjay Garyali:

So if you look at -- so let's -- from a -- let's move from a percentage to an actual absolute level in Stage 1 and Stage 2, which we have shown. So if you see last -- and I'm saying we can't give you an exact guidance, but if you look at the trends, last quarter, INR172 crores, Stage 2 coming down to INR140 crores.

Stage INR383 crores to INR294 crores, which means that there is significant recovery happening because technically entire Stage 3 should be written off but we wrote off INR240 crores and now write-off is not a discretionary thing.

We write off everything that goes into 180. I think if you take these 2- 3 things into tandem, you will understand that there is a recovery that is happening pre write-off also. The third thing is that we have also reported a better write-back number over the previous quarter. So INR13 crores over merely INR4 crores to INR6 crores in the previous 2 quarters. And this will continue to improve. So I think that the discussions that we internally had with the Board and the auditors, the confidence came from these 3 areas.

The efficiencies in 90-plus and the write-off rates, the improvement in write-back and the collection efficiency in the X bucket. Rajiv, coming back to your first point. we are -- you should look at flow forward rates in tandem with all the other matrices and not standalone. That is my suggestion.

- Rajiv Mehta:** No, no. I think that confusion was happening because you were reporting on volume and we were looking -- and then POS movement. And then the POS movement was reconciling with the volume movement. So now once you start reporting consistently, I think then that question will not come?
- Sanjay Garyali:** Absolutely. And that is why I thought that we will not change it in the Investor Deck because there will be confusion. But however, we have mentioned in the -- our analyst call.
- Moderator:** The next question comes from the line of Kushagra Goel from CLSA.
- Kushagra Goel:** Firstly, this is some data keeping question. Could you tell us the interest reversal this quarter?
- Sanjay Garyali:** Interest reversal is around INR19 crores, excluding write-offs, INR19 crores to INR20 crores, right?
- Kushagra Goel:** Got it, sir. So on your customers' disbursement this time, you said around 75% is to existing and 25% to new. In the new, how much is new to credit and what is new to Fusion?
- Amandeep Singh:** Right. So Kushagra, around -- out of that 25%, 13% to 14% is new to credit, and about 11% to 12% is new to Fusion.
- Kushagra Goel:** Okay, sir. Got it. So now coming to my first question. It's regarding this disbursement only. So you have mentioned that you expect disbursements to overtake your repayments by December or January. On that, do you expect this similar existing to new sort of percentages to remain? Or do you expect new to go up? And how do you see that playing out?
- Sanjay Garyali:** So Kushagra, there are efforts that we have put in to ensure that new also goes up because we see that new to credit behaves quite well. And if, let's say, the credit metrics continue to be strong, we see confidence in new to credit. But you also understand that, let's say, we were deciding to scale up, we should spend a little more time on scaling up a new to credit or new to Fusion.

Not that the customer is overleveraged, but just from our own confidence perspective to there are significant number of customers which are only Fusion and Fusion + 1, which are currently requiring or not been so taken care of and require more attention from our side.

So I think the way, hence, the strategy that we have laid down that for the next 1 - 1.5 quarters, you may see this percentage continue to be at about 75%. But the way we are making changes in quarter 4 onwards, you will see this tempering. Eventually, a go-to number, we think should be somewhere between 60% to 65% from Fusion customers. And the balance, 35% should be new to Fusion and within that, new to credit.

Kushagra Goel: Okay. Got it. But that you will expect from fourth quarter or from next year essentially?

Sanjay Garyali: Yes, because there are a lot of-- so it is not just by design, it is just that from an existing customer perspective, there's an opportunity we have. So why should we neglect our existing customers and go after new customers. That's the only thing, not that there's anything wrong in the second strategy. It's just from an prioritising perspective.

Kushagra Goel: Got it, sir. Just one more question. So I just wanted to know if the industry or different players have hiked new loan rates because of this increased sort of stress situation or credit cost situation. So I just wanted to know about that?

Sanjay Garyali: Yes. So absolutely. So I think the key thing is that if you look at the industry, there is a pressure on NIMs. And I think if you look at NIMs is supported by 3 areas: cost of borrowing, how the book behaves in terms of delinquencies and the yields that you give to new loans. I think yields you give to new loans is the easiest to change. The other 2 are much tougher to work on.

So we are cognizant of this fact. There is an internal discussion that we are having. We have made a presentation to our internal audit committee and Board. And I think post discussions with that, we will come back to the market in terms of what our strategy will be on rates or yields to new customers.

But yes, you are right, we see that people in the market have increased those rates from 75 to as much as 350 basis points. So we are evaluating that option. And there's an internal audit and we have an asset pricing committee, which is evaluating all the options. Post discussions with the Audit Committee and the Board, we will come back to the market on what our plans are very soon.

Kushagra Goel: Okay. Got it. So you haven't done it till now. You will -- you are planning?

Sanjay Garyali: No, we have not increased the rates until now. But we have had a detailed internal discussion on the same.

Moderator: The next question comes from the line of Abhijit Tibrewal from Motilal Oswal Financial Services Limited.

Abhijit Tibrewal: So just picking up on the yield bit that you said, right, before I asked my questions. Just trying to understand, maybe a year back, right, we were all kind of discussing that the regulator is asking NBFC MFIs in particular, right, and other MFI players to reduce their lending yields. And suddenly, 1 year forward, today, we are looking at everyone like your acknowledge, increasing their lending yields by 75 to 300 basis points in a declining interest rate environment?

So I mean fair to say that, I mean, today, inherently, the risk that we see in MFI lending at an industry level has gone up and which is why maybe the regulator will be okay with NBFC MFIs and other MFI players kind of taking an increase in their lending yields?

Sanjay Garyali: So I think -- so you have -- it's a very tough question. But I think the way we should look at it is that the challenge is less to do with the risk cost and more to do with the borrowing. I think Alok Mishra ji, SRO, MFIN, has already in multiple interviews said that there is a borrowing challenge to a lot of MFI players in the market. And he's also -- they are also representing us and talking with the government and the regulator to see what are the opportunities.

I think somewhere that one should not -- we should -- whatever the industry is doing. I think right now, everybody should be doing what is right for them. Rather than overall at an industry level and chasing each other that if someone else is doing, should I increase rates. So very tough to comment on that.

But like I said, we are evaluating that. And amongst all the other 3 variables, I think the reason -- the big reason is less to do with the credit cost and more to do with the borrowing cost. So the cost that the MFIs are paying, I think that is -- and Alok Mishra, MFIN as the CEO has clearly identified that as a key metric rather than just the risk cost going up.

But like I said, I think we would want to -- we are not taking it like a light decision, and that is why we are evaluating all the options that are available. I think how the regulator should look at is very tough for me to say but I think the -- there is -- we should -- we would want to -- Fusion as a company should -- would want to focus on what is right for Fusion.

And there is enough representation that as an industry, we have made through Alok Mishra ji. So I think overall, at an industry level, there should be some solution to that. But I think Fusion is more focused on what is right for Fusion at this point of time.

Abhijit Tibrewal: Got it, sir. I think I understand. I mean that's very useful. The second question I had was around the credit costs. I mean, like previous participants in the call acknowledge, right, I mean, it's heartening to see credit costs coming down even after we include that INR15 crores of management overlay release that we had in the quarter. But just trying to understand how are we looking at credit cost trending in the second half next year.

Now why I ask this is, I mean, the largest NBFC, MFI, which is already reported earlier in this earnings season kind of increased their guidance on credit costs for the second half as well as the next full year because they're seeing now higher ECL provisioning requirement.

I acknowledge, I mean our cover on both Stage 2, Stage 3 is actually very good. Compared to everyone else that we have. So how are we thinking about credit costs trending for us? Or do you think there is a reason to believe that earlier what was thought of as maybe 3% kind of normalized steady state credit cost, which will it be higher now going ahead, maybe next year onwards?

Sanjay Garyali:

Okay. Great. So I think without reference to any particular company, what we see -- one, we see credit cost trending hugely down. And you're absolutely right. Despite the management overlays, the way we should look at credit cost is management overlays utilization versus the provisioning or the ECL model that we have. And the management overlay release is not a stand-alone. It is because of improving performance and the over-provisioning actually that we have done through the ECL model.

So -- and ECL model is not something that can be changed every quarter. And that's an important thing to acknowledge for us. I'm saying now from a credit cost perspective, I think -- and I'm reporting collection efficiencies and you see collection efficiencies significantly improving. We were reporting collection efficiencies on a number. That's why you didn't see the new portfolio kicking in this time. In my analyst call at least, we have not changed the investor deck numbers so that there is no confusion.

However, in the analyst call, I have mentioned that the collection efficiency is now closer to 98.9 which is 18 to 20 bps improvement over the previous quarter. There are improvement in recoveries. We have reported write-backs almost doubling, collection efficiencies in 90-plus is improving. So clearly, the credit cost will significantly continue to come down.

The way I'm looking at it is that, let's say, and that's why one of the reasons we publish the flow forward rates, net flow forward rates to give you a sense on the long term. that from a, let's say, a 0.5 to 0.6 flow forward rate moves to, let's say, a 6% annualized cost. And about roughly between 50% to 55% of that is what gets knocked off in the entire year. So on that, we should assume a credit cost of roughly between 3% to 3.5%.

However, the way we are building our portfolios in our modelling, the credit cost that we are building is sub 2.5%. So the guardrails we are building sub 2.5%, but I think from a more realistic, we should consider ongoing future credit costs at about 3.5%. I hope that takes care of the query that you had.

Abhijit Tibrewal:

Yes, yes, it answers my question. The other question that I had was around opex. I mean we see that in other peers, right, wherever we are continuing to see a rundown in the POS, right, there are some measures being taken on the opex side, right, to bring them down, including rationalization of branches, maybe employee attrition, which is there is not being filled in as proactively as it was done in the past. But there are steps being taken to bring down opex.

I mean, how are we approaching opex given that you share that maybe for 1 more quarter, AUM will continue to trend lower. And then a related question to this is that I mean looking at whatever you said, right, net flow rates now in the 0.5%, 0.6% range, write-backs improving, collection

efficiencies improving. Are you now getting, I mean, higher confidence in scaling up your disbursement momentum in the coming months and coming quarters?

Sanjay Garyali:

Okay. Right. Yes. So I think first is on the overall opex that the first question that you asked. If you see, we have -- there are certain roles that we have redeployed and we have not backfilled certain positions, which we thought were redundant in the current -- so the net head count position that you see has come down from 15,600 to about 13,600. So close to about 2,000 people over a period of 2 to 3 months.

You have not seen that significant improvement in opex because most of the happened during the quarter and the salaries and everything will kick in -- the reduction will kick in from quarter 3 onwards, which is October onwards. So that you will see. The second strategy, we said that we are -- when we are going to start seeing growth happening, we are again going to require people.

So there are 2 things. One, if you see the disbursement growth has come on the drop of 2,000 people lesser, which means that our productivities have significantly gone up. So there are 2 things that we have done on the disbursement. One, there's a lot of redundancy in terms of the entire onboarding, which we have moved completely digital. That's one big change that has happened and the first time not right. Which used to be 65%, 67% has come down to now sub-30%.

So that's a big reason of increase in disbursement and it is not just more efforts, better credit, it's not just that. It is a mix of this as well. This will continue to happen. So right now, we have gone live with our digital receipting, which means that no physical receipting in the market. So we feel that these 2 will reduce the burden on the front end and productivities will continue to improve without adding people and without any increase in opex.

And this I'm saying for both the businesses, MSME as well as MFI. So you will see people opex coming down and there may be certain IT expenses, but most of it will go into capex in long term and will not be front-ended. But there are a lot of investments that we are doing in IT to ensure that the overdependence or the heavy lifting that the front-end person has to do distinctly comes down.

So hence, the confidence on disbursement or growth without having to significantly increase opex, that is extremely high in the current environment. And that is why when we presented to the Board in detail, that is where the Board got the confidence that we feel that we should be on acceleration. We will not let down the guardrails.

But even with the current guardrails, you see that our approval rates have improved from 15% - 16%, 2 quarters back now to about 27% - 28%. While we are talking, we are closer to 30%. So these are more aligned with the industry. And this is happening when our guardrails are tougher than the industry. So the demand definitely is there. And these 2 - 3 things give us the confidence that the disbursement will continue to sequentially grow without putting any pressure on opex.

Abhijit Tibrewal: Got it. This is useful. Yes, sir. And I just wanted to squeeze in one last because you've already made a presentation to the Board, at least from next year onwards, how are we thinking about the MFI growth and the MSME growth and put together at an overall level, how is it that we are looking to grow from next year onwards?

Sanjay Garyali: Yes. So we presented a plan for the next 1 year, and it is a positive plan and there's a significant book building that we will be doing, both in MFI and MSME and that is one of the reasons why so you will see the disbursement trend continuing. And we can safely assume that, let's say, right now, we are at about, what, INR450 crores per month figure. I've given you the number that we should be somewhere around December and January, where the book turnaround will start happening.

We continue to see this sequentially improving in the next year as well. So the overall book size, and that is one of the key reasons why we called -- we thought that there's an extra capital that would be required from next calendar year onwards. And that's why the second tranche of money was called in.

Moderator: The next question comes from the line of Pranav Gupta from Aionios Alpha Investment Managers.

Pranav Gupta: Congratulations on a good set of numbers. Some of my questions have already been answered. But to get more sense on the liability side, 2 things here. One is that you mentioned that the industry is obviously facing some challenges on raising incremental funds given that the entire industry has gone through stress.

And obviously, our marginal cost of funds also have gone up. Obviously, this quarter, you've seen a decline quarter-on-quarter, but on an overall basis have gone up. Just to give a sense on how we are seeing the incremental demand being fulfilled by banks and whether we can see an increased pace of DA, securitization, etc., going forward? That's the first question.

Amandeep Singh: As you have seen, as per the market trends now it is a little bit difficult for getting the funds. But Fusion is getting the funds. In this quarter also, we have raised around INR1,394 crores in respect of term loans, ECBs, PTCs, DA. So we are getting the funds. For boosting our disbursement, we are getting that INR400 crores of right issue money. So that is the first thing that funding problem is not there.

We have -- currently, we are having a sanction in hand of around INR2,730 crores, which includes DA, PTC, term loans. So sanctions we are having, liquidity we are having. So it will not be difficult for us. But for marginal cost of borrowing next quarter, it will little bit get down maybe 20, 30 bps down.

So trend is like that only. And our cost of fund, that may get increased in the next quarter, might be 20, 30 bps due to that we have raised the fund in the last month or you can say, in the last part of the quarter. So that impact of interest cost will come in the next quarter. But we will try to maintain the NIM or maybe plus/minus 10 bps.

So we will try to figure it out that how the things will go on and whether we have to increase our rate of interest in terms of yield and all. So that discussion is already been going with the Board. So let's see, next quarter, marginal cost of borrowing will come down, and that is the guidance.

Pranav Gupta:

Right. And on the employee cost, Sanjay, sir, you mentioned that a large part of the benefit of the number of employees going down will start coming in from third quarter. But just on a more long-term basis, how do you see overall productivity on a per employee or per branch basis? Because obviously, the numbers have come off as the AUM has come off significantly. But on a more long-term basis, where do you see overall productivity settling in? And then obviously, what is the implication on cost ratios over a longer-term period?

Sanjay Garyali:

Right. So I think -- so one is there's a medium term and a long term or a short term and, let's say, a medium and long term. In the short term, we -- there are two things where the opex has been focused right now, one in disbursement, the second is collections.

There were 2 strategies that we had. One, let people go or retrench like a lot of people would do in a similar situation. I think the -- what we realized was that there is about INR1,800 crores to INR2,000 crores of book that we wrote off over the last 18 to 20 months. And multiple cuts that we do on that, that gives us the confidence that there is a recovery that can happen on this book.

And there is recovery that can happen on the INR250 crores, INR300-odd crores of Stage 3. So -- and hence, there is a significant number of people we have redeployed in collections and our business structure, we have integrated in a way to make recoveries, which is 90 plus a significant part of it. You will -- so you will see the write-backs you've already seen at about doubling over the previous quarter.

And you will see recoveries improving in 90-plus and write-offs in the next 2 to 3 quarters which is the -- so we feel that we should be able to clean up this book in the next 3 quarters. Post that, once I think we come to a INR700 crores, INR800 crores of monthly disbursement, I think then the current team should be able to manage that disbursement and the opex will see more in line what it used to be previously rather than the jarring figures that are obviously, there right now.

So the opex will be partially -- or significantly, let's say, about INR15 crores to INR18 crores per quarter through other measures of other income which will come in. And then the way we will look at that opex is that, that is not a non-productive opex, while it is not giving me disbursement, it is giving me a better recovery percentage or a better write-back percentage. That's how we are looking at that opex.

So the non-productive opex will be almost zero and by the time the question that you asked, I think in 3 quarters' time, we would have -- we have fair confidence that the book cleanup would have happened on the write-off and the 90 plus. Forward flows you're seeing are almost negligible.

And the team would then be redeployed. So just to give you an overall sense, if, let's say, we have to -- if the question is, let's say, we have to go to about INR700 crores, INR750 crores a

month. Which will lead to what, 30% growth next year, we don't envisage adding too many people. Actually, the people head count will hardly go up from the current level.

Pranav Gupta: Fair, sir. I have some more questions that I'll take them offline. Just one clarification. Where does the recovery from write-off classification happen in the P&L, which line item, if you can clarify that, that will be great?

Amandeep Singh: Earlier, we are showing it as in other income. Now we have moved recovery from write-off to other operating revenues.

Pranav Gupta: Okay. So it's moved from other income to other operating income?

Amandeep Singh: Right. Right. In this quarter. Retrospect effect also has been regrouped.

Moderator: The next question comes from the line of Hardik Jain from Investec.

Hardik Jain: Okay. Sir, I have a few questions. So 1 question is there's one note related to covenant breach. So I want to understand something about covenant breach and what could be in future? So if you could explain me?

Amandeep Singh: Covenant breaches are those when we take the loans, there are some conditions that is mentioned in the agreement about that if your gross NPA is like this, then there must be a breach and you have to take that covenant breach waiver from the bank if that part increases. So like this, we are having covenant breaches from last few quarters.

So that way, waivers we are taking from the bank regarding that covenant breaches so that the bank will not ask for repayment of loans and based on the historical trend and current trend, and I can -- nobody has asked from Fusion for recalling of amount. So we have a cordial and good relations with the lenders, and they are providing us the covenant breach waivers on time.

Sanjay Garyali: This flows from the previous year. And we have continuously been reporting quarter-on-quarter that over 90% of the breach, the waivers have been provided by the lending partners.

Hardik Jain: Okay. So we are remaining with the 10% only. So for that, we are also expecting some waivers also in future or else...

Sanjay Garyali: There are certain banks which do not have a specific policy of giving waivers, but there are no concerns that have been identified by any of these banks. So they don't have a specific approval. But other than that, all the banks and all the partners we have received approvals from.

Hardik Jain: Okay. So just we are pending the 10% of that loans only, right?

Sanjay Garyali: Correct. And the way to look at it is that some of these are annual. So they are not reviewed during the quarter. They will be reviewed at the end of the year.

Hardik Jain: Okay, understood. And my another question is I want to know that from your total borrowings, what is the portion for variable rate borrowings?

- Amandeep Singh:** Like some of the borrowings that we are having of variable rates regarding term loans as well as variable rate contents ECB that we have raised for INR173 crores. But for that, proper hedging we have done. So we have converted that variable rate into fixed rate for the particular ECB.
- But during the quarter, out of INR1,394 crores, we have taken variable rate loans as well and fixed rate loans as well. But the major quantum pertains to fixed rate loans.
- Sanjay Garyali:** So about 15% to 20% of the new borrowings would be -- about 15% to 20% other than the ECB that Aman spoke about. So -- but then ECB we should not consider as variable because it is completely hedged.
- Amandeep Singh:** So I will -- around INR445 crores around that we have taken on a variable basis.
- Sanjay Garyali:** Out of the INR1,400-odd crores.
- Amandeep Singh:** Excluding ECB.
- Sanjay Garyali:** Yes, out of INR1,400-odd crores. So that's not much.
- Hardik Jain:** Okay. Understood. And my last question is I just want to know, as for credit cost, you have given the guidance, but wanted to know guidance related to write-off as looking at asset quality trends. So if you could highlight a few points that will be better?
- Sanjay Garyali:** I think the write-off is as per policy, there's no discretion we do in it. And we have put 180 DPD, Anything that goes beyond 180 DPD as a write-off. And you -- from a trend perspective, you can make out that there is a significant reduction.
- The way you should look at it is look at Stage 3 and assume that from a trending last 2 quarters, whatever is being written off because Stage 3, technically, if we don't do anything, will completely move into write-off 180 DPD at the end of the quarter. If you are able to -- from the last 2 quarters, analysts report you can make out how much we are retaining. And you will get a sense of what is -- what will be the write-off for the next quarter.
- Moderator:** Ladies and gentlemen, we'll take that as the last question for today's call. If anybody missed to ask questions, you may connect with the management offline. I would now like to hand the conference over to the management for closing comments.
- Sanjay Garyali:** Yes. Thank you so much. I would just -- my closing remarks would be, I think there's a lot of positivity that we are seeing. However, we continue to be calibrated and I think all the learnings that we have had, that makes us much stronger going forward from here.
- We have a very strong second line in terms of the entire CXO team that we have and growing from here for the next 6 months to 3 years, we are very confident that we will -- the execution will be flawless.
- So thank you so much, and have a wonderful year ahead.



*Fusion Finance Limited
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Moderator:

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