"Fusion Finance Limited
Q3 & 9M FY26 Earnings Conference Call"
February 09, 2026

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Moderator: Ladies and gentlemen, good day, and welcome to the Fusion Finance Limited Q3 & 9M FY26 Earnings Conference Call. As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 over the conference to Mr. Smit Shah from Adfactors PR (Investor Relations). Thank you, and over to you, sir.

Smit Shah: Thank you. Good morning, everyone, and thank you for joining us on the Q3 & 9M FY26 Earnings Conference Call of Fusion Finance Limited. We have the company's senior management team with us today on this call.

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 Q3 & 9M FY26 investor presentation that has been uploaded on the stock exchanges and the company website.

I now hand over the call to Mr. Sanjay Garyali, MD and CEO, Fusion Finance Limited, to begin the proceedings. Thank you, and over to you, sir.

Sanjay Garyali: Good morning, everyone, and thank you for joining us for Fusion Finance's Q3 & 9M FY26 Earnings Call. As we begin the new calendar year, I wish you and your families a very happy and prosperous new year.

Before moving to performance, I would like to acknowledge two important leadership developments that significantly strengthen our platform for the next phase of growth. We recently appointed Mr. Krishan Gopal as CFO, effective January 17, 2026. Krishan brings over two decades of experience and adds strong financial leadership as we scale the business. At the Board level, we have welcomed Mr. Brahmanand as an Independent Director, a veteran founder with deep operating expertise in MSME and rural financial ecosystems. His founder-led perspective and grassroots understanding of small enterprise lending will materially strengthen our strategic direction as we expand our MSME and semi-urban franchise. I would also like to place on record our sincere appreciation for Amandeep Singh, who served as interim CFO during a particularly critical phase for the company.

Q3 represents an important inflection point for Fusion. The business has now entered a phase of controlled stabilization and disciplined execution. I'm pleased to share that we have returned to profitability this quarter, delivering a PAT of INR 14 crore. This was supported by broad-based improvements across asset quality, collections, credit cost and disciplined disbursement growth. Importantly, our auditors have reviewed the company's financial position and confirmed that the earlier emphasis relating to going concern is no longer relevant, reflecting the strengthened stability and resilience of the business. The quarter also marks our third consecutive period of improvement in asset quality, collections and credit cost. Importantly, this progress has been achieved without relaxing underwriting guardrails, reinforcing the durability of our recovery.

Let me begin with disbursements. Q3 FY26 disbursements stood at INR 1,594 crore, up from INR 1,298 crore in the previous quarter. This growth was driven by two focused initiatives. First, reducing operational friction for our front-end teams; and second, leveraging a preapproved base of high-quality clients where approval rates are significantly stronger. Approximately 30% of our new disbursements now come from this preapproved base, with approval rates close to 50%.

As we highlighted last quarter, our credit framework is increasingly anchored at the branch and district level. Our top-performing branches categorized as A and B demonstrates significantly lower portfolio stress and superior collection efficiency. These branches account for 82% of our network and contribute 91% of fresh disbursements. Our credit guardrails remain stronger than industry standards and extend beyond traditional bureau-based assessments.

We are also seeing strong traction on the MSME portfolio, particularly in the INR 7 lakh to INR 15 lakh ticket size segment. While this is an evolving journey, we have built scalable processes and tools that position this business for meaningful growth. Momentum in disbursements in both MFI and MSME has continued into January, where we have already crossed INR 670 crore between more than 1 lakh customers. For the past 3 months, new additions have exceeded repayments, setting the stage for sustained book growth.

Turning to our most important metric, the current bucket collection efficiency. Through continued emphasis on ground-level discipline and strong guardrails, collection efficiency now stands at 99.4% in December and 99.7% within that on the new book, which currently represents 80% of the portfolio.

We are also seeing strong discipline in centre meetings reflected in improving collection behaviour. Approximately 94% of collections are realized on the same day, most of it from the centre meetings, with a further 4% collected within the same week and the balance 1.5% within the same month. We have also seen a sharp reduction in borrower leverage, with clients having exposure to more than 3 lenders now drastically reduced to 7% of POS, down from earlier levels of 16% to 17%.

Our net flow forward rate in the current bucket stands at 0.25%, translating to an effective collections efficiency of 99.75%. This performance gives us confidence that credit costs in a stable state are expected to normalize in the range of 3.25% to 3.75%. On recoveries, our in-house collection team continue to deliver improved results. We are currently averaging over INR 12 crore per month of 60-plus DPD recoveries in cash, with approximately over 85% driven by internal teams. We continue to invest in strengthening this capability and are targeting INR 50 crore in quarterly recoveries.

On the technology front, we are pleased to share that most of the work related to our enhanced LMS and LOS platforms is complete. We expect to begin UAT in the coming weeks with phased implementation targeted for completion by May this year. These upgrades will modernize legacy processes, improve front-end execution and provide real-time visibility into operational gaps.

Finally, a brief word on our people, who remain the foundation of our execution. The branch manager role, core to our JLG processes and field culture, has stabilized meaningfully with annual attrition at around 30% and firmly under control. Over 75% of our branch managers now have more than 3 years of vintage. This deep experience at the frontline is critical to sustaining operational discipline and consistent execution.

Looking ahead to FY27, we have outlined a detailed road map to cross INR 10,000 crore in AUM. We are confident that on the stable book, the credit cost will be in the range of 3.25% to 3.75%, and we will continue to optimize the operating expenses. With a strengthened leadership team and solid capital backing, we are confident in delivering on this plan.

With that, I would like to hand over the call to Krishan for his introductory analyst call and take you through the financial performance in greater detail.

Krishan Gopal: Thank you, Sanjay, and good morning, everyone. As this is my first earnings call with Fusion, I would like to briefly say that I'm pleased to be addressing you all this morning. Over the past few days, I have worked closely with the management team to ensure continuity in the execution and financial discipline, and I'm encouraged by the strength of the people, balance sheet and the progress made by Fusion across key financial matrices.

I'll now take you through our financial performance for Q3 & 9M FY26, starting with our capital and liquidity position. The liquidity remained comfortable at about INR 1,783 crore as of December, and our capital adequacy stood at 38.8%, providing adequate headroom over regulatory requirements. In addition to the liquidity of INR 1,783 crore, the company has sanctions in hand of INR 1,825 crore, which we can draw at any point of time. The first and final call of the rights issue received a robust response, and we got INR 395 crore subscription, which is approximately 99% from the issue size of INR 400 crore.

Fusion is indebted to its lenders for their continued support towards liquidity supply and the support extended to the company during recent times, with the challenges around the going concern and covenant breaches. We are glad to share that the support has continued, and the going concern challenge is behind the company now. The company has significantly strengthened its funding profile through diversified borrowings across banks, financial institutions and development-focused lenders, reducing concentration risk and enhancing funding resilience.

During the quarter, we raised INR 2,127 crore, comprising term loans of INR 1,347 crore, direct assignment transactions of INR 434 crore, NCDs of INR 310 crore and PTCs of INR 37 crore, totalling the total debt raised in the first 9 months till December '25 to INR 3,940 crore from our lenders. This ongoing confidence is reflected not only in waiver approvals but also in fresh credit lines extended to us, underscoring the resilience and credibility of our company within the financial ecosystem.

Importantly, several banks have freshly opened up to Fusion, and lenders who were earlier in wait-and-watch mode have now started to actively re-engage with Fusion, underscoring the improving lender sentiment towards the company. This expanding lending universe, combined with healthy liquidity and sustained profitability, positions us well to support our growth plans in a prudent manner.

During my early interactions with our lending partners, it is clear that relationships remain strong and constructive. Waiver coverage for covenant-related matters has improved further with approximately 97% coverage achieved as of date, reflecting continued lender confidence. This confidence is also visible in the continued availability of funding lines and renewed credit limits, reinforcing Fusion's credibility within the financial ecosystem.

Moving to funding and margin performance. Our average cost of funds remains broadly stable at 10.3%, while the marginal cost of funds moderated to 11.8%. Net interest margin for the quarter stood at 11.3%, supported by a favourable portfolio mix, improving asset quality and lower income reversals from Stage 3 assets.

Going forward, we are confident that with the diversity of sanctions in hand and availability of liquidity and profitability, we would be anticipating our marginal cost of borrowing to continue to improve from current levels. We expect that our credit rating agencies shall take cognizance of the developments at Fusion, reflecting the strengthening of our funding mix, lender confidence and overall financial profile.

Turning to the expected credit loss and asset quality, the company has maintained a strong emphasis on portfolio hygiene and conservative provisioning. Asset quality metrics improved further during the quarter, with gross NPA declining to 4.38% and net NPA remaining contained at 0.60% with write-off recovery at INR 14 crore, and net credit loss impact to the profit and loss for Q3 FY26 stood at INR 65 crore, equivalent to 1% of the average on-book loans.

ECL provisions as of December stood at INR 353 crore compared to INR 440 crore in the previous quarter. Stage 3 coverage remained strong at 86%, while combined Stage 2 and Stage 3 coverage stood at approximately 80%, reflecting a prudent approach to recoverability and focus on minimizing P&L volatility.

During the quarter, there was a write-off impact of INR 170 crore on the portfolio, and we released INR 15 crore of management overlay based on the management analysis, including asset quality matrices, the reduction in delinquency and the conservative provisioning approach under ECL, supported by higher provisioning coverage across stages.

On operating performance, the focus on cost discipline and productivity improvements continues. The cost-to-income ratio for the quarter stood at 69%, while overall operating costs were nearly flat quarter-on-quarter. Any sequential movement in operating cost ratios is largely attributable to portfolio normalization and is expected to stabilize as growth resumes. Despite a calibrated approach to the balance sheet expansion, pre-provisioning operating profit for the quarter stood at INR 94 crore, demonstrating the underlying earnings strength of the franchise and the benefits of operating efficiencies. During the quarter, there was also a one-time charge to the P&L towards the New Labour Code, which resulted in an impact of INR 6.91 crore. Excluding that, the PPOP would have been about INR 100 crore, and the profitability would have been above INR 20 crore.

To conclude, Q3 & 9M FY26 mark a period of continued strengthening of Fusion's financial profile, characterized by stable margins, strong provision coverage and healthy liquidity. As I take on this role, my focus will remain on sustaining financial discipline, strengthening lender relationships and supporting calibrated, well-guarded growth. With improving asset quality and robust capital buffers, we are well-positioned to deliver steady progress in the coming quarters.

Thank you. We can now open the session for the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from YES Securities.

Rajiv Mehta: Congrats on good performance. While you have already communicated January's disbursement numbers, can you also talk about the net flow forward trend in January and so far, how it is shaping up in February? If you can share the first bucket, 1 to 30 DPD bucket, as of September and December.

Sanjay Garyali: On disbursements, we have explained that the disbursement trend continues, and this is despite stronger guardrails. On the flow rates, I can't tell you exact numbers because we don't publish like that. We give you only quarterly numbers. But I can give you a confirmation that January is better than the Q3 flow forward rate on the net flow forward rate on the X bucket.

This is very secular and across states, and there is no particular state. We also share state-level collection efficiency, so this is across states. There is no state where we see any dip. Secondly, on the first bucket, the total is about INR 48 crore.

Rajiv Mehta: That would have come down, right, from September?

Sanjay Garyali: Yes, that's come down by about INR 15 crore from September. That's come down from about over INR 75 crore from September. Just to give you an exact number, September end 1 to 30 was close to about INR 87 crore, and now it is INR 44 crore.

Rajiv Mehta: Great. When you talk about this preapproved eligibility, how we approach growth, which is also helping you. You said that pool of customers where you have figured out there's a preapproval, you can do some preapproval-based lending. How exactly do you approach the customer? I mean, this is all a group, right? Nothing is individual when you talk about preapproved opportunity in a certain client, right?

Sanjay Garyali: Let me explain to you. The preapproval happens at an individual level. It happens within the group, but not every customer would I preapprove. So, let's say, my average centre meeting size is 7, and 5 of those customers are eligible for the next stage. Not everybody would I preapprove. I'm preapproving on a certain base of customers where I see the propensity of taking that to be very high. I'm keeping in the preapproved base; I'm keeping the leverage even lower than what my guardrails are.

So, essentially, what I'm directing my sales team or the front-end teams to focus on is this, because our data says that the approval rates and the behaviour and the power of the preapproved base is far better than even the rest of the customers that we are acquiring. The preapproved base essentially operates at an individual level, but it addresses the group. The customer is not acquired as an individual customer. The customer will be group. In a pre-approved, there will be at least 2 customers in the group, who I will give a repeat loan to for that centre meeting to be eligible.

Rajiv Mehta: Okay. Would you introduce another loan, or you would enlarge the size of the loan if he were eligible for a larger amount of loan as per your analysis? Will you do that to that customer, or you'll wait for the cycle to get over and then you offer him a larger loan?

Sanjay Garyali: Correct. We do not have two loans for the same customer in the system. We just have one loan for one customer in the system. While the normal cycle is after 14 months, the preapproved is after 19 months. So, the vintage of the customer with us is much higher.

The customer who's had a vintage of 19 months with us. One of the critical guardrails is that the customer should not be delinquent currently. Whatever bucket, the customer should not be delinquent currently. We do not fund delinquent customers even in the first bucket, whether of competition or Fusion's. To qualify for a preapproved base, the customer has to be 19 months of vintage versus 14 months, which is our normal guardrail.

Moderator: The next question is from the line of Viral Shah from IIFL Capital.

Viral Shah: Congrats on finally having the first quarter of profits after this entire stress. First of all, the profitability itself, now that we have turned the profit, do you intend to recognize the DTA in Q4? If my calculations are right, what would be that quantum? Would it be roughly around INR 400 crore, INR 450 crore in Q4?

My second question was just a clarification with regards to the current collection efficiency. I think on the executive summary, the number is a bit different from on Page 17. Is it a change in the methodology that we have done in this quarter? If you can just touch base on that, what is that change?

Thirdly, I wanted to understand the net forward flow rate, as there is a sharp decline from 60 bps to 25 bps from Q2 to Q3. If you can just help us understand this reduction basis the forward flow rates that you have given across buckets? Because I see an improvement, of course, in the first bucket, but the second and third bucket largely, the forward flow rates seem to be stable. Probably could be a function of the net write-back, but that would be helpful to understand.

Sanjay Garyali: Okay. First, starting with the DTA, the overall quantum of DTA is close to about between INR 380 crore to INR 400 crore. You understand that DTA is not necessarily an operating profit. So, we are not very pushy about when to claim that DTA. We will let it happen in the due course. I'm not pushing whether we will do it in Q4 or next year or we will do it in a staggered manner, and we are also not focusing on it. But just to give you a quantum, that's close to about between INR 380 crore to INR 400 crore.

Viral Shah: Sanjay, just on that piece, the only reason is that a lot of lenders would typically look at an annual financial, and it just helps the balance sheet metrics much better from a rating standpoint. So, that was just the only thought process behind this.

Sanjay Garyali: No, I completely agree with you. I understand that, and we give a monthly update to all our lenders on the complete P&L, including our collection efficiencies and matrices. If you see, that's where the confidence is coming from, and there are some PSUs also which have opened their wallets for us in the last quarter. However, we don't want to be pushing this because of this reason. So, if it happens in due course, that's fine. We will not push the DTA. But yes, we are evaluating that. I won't say anything further on this.

On the collection efficiencies, the figure that you see in the executive summary is 99.14%, which is at a POS level. This is average for Q3 FY26. What you see is 99.41% for the month of December, that's like quarter ending. The difference between the previous and now on collection efficiency, what we have done is we have put it on pause because that is a meaningful way, that's how the market does it. However, in the annexure, we have also put numbers in case you want to refer to the previous. That's the difference between the two.

On the net flow rates, there are two areas where we have seen improvements. See, on the first bucket, which is 1 to 30, when we were evaluating ourselves against competition, our flow rates were close to about 35% to 40%. Now, we were much better against the industry on this. We were doing a better job on the 1 to 30. We realize that where we need to do better is in the gross collection efficiency. There's a lot of focus that we have put on the centre meeting discipline.

The same-day collections, as I have told you, 94% of our entire collections are happening on the day of the demand. So, the flow back is more or less the same as before. The gross flow forward rates have drastically come down, because of which the net flow rates are far better.

On the second and third buckets, if you see, there is an improvement in each of the buckets over the previous quarter, on second and third buckets as well. On the graph, if you see, there is 5% to 7% improvement on each. If you see the collection efficiencies or the flow forward rates, in

November and December, in the 30 to 60. We are in the range of 65 and 57 for December. This was averaging about 70 in the previous months, if you can refer to Slide Number 13. 60 to 90 has remained more or less the same because we think that by 60 to 90, we have juiced out everything from the customer. But 1 to 30 and 30 to 60 are where you see improving trends over the previous quarter by at least 5% to 7%. I hope this answers your queries.

Moderator: The next question is from the line of Ashlesh from Kotak Securities.

Ashlesh: Two questions from my side. Firstly, if I look at this net forward flow rate number for Q3, which was at 25 basis points, where do you eventually expect this number to end up, when most of the bad loans have been cleaned up? Secondly, if you can share what the outstanding pool of bad loans which were written off over the past couple of years in this cycle is, and how much recovery you eventually expect from that pool?

Sanjay Garyali: Okay. First, on the net forward flow, this has nothing to do with the bad book. This is only the net flow rate in the current book, as we all understand. The biggest change that has happened is that the leverage on the current book has drastically come down. You are seeing that greater than 3 lenders on the overall book is close to about 7% or less than 7%. So, one, this has distinctly come down, and this will help us get better and better, even on the current bucket collection efficiency. For January, I have already told you that we are better than the average that you see for the quarter.

Now, I think the way I'm looking at it is that even if we continue at about 0.25% of net forward flow and assuming everything else flows forward. In a stable state, the way we should look at it is 0.25% translates into approximately annualized credit cost of about 3% and add another 25%. 80% to 90% of whatever flows forward will eventually flow into 90 plus. So, take about 85% of that. That is about 2.65%. So, 2.65% is the credit cost that should be there in decent times and adds about 50 to 60 basis points when there is a tough scenario. That's why I said that the credit cost will range between 3.25% to 3.75% in a stable environment. I hope this answers.

Ashlesh: Understood, sir. Yes. The second one was a different one, the outstanding pool of bad loans.

Sanjay Garyali: The total write-off is close to about INR 3,000 crore. I have explained in the previous calls that we've done a bureau run, and we have done multiple propensity checks. About INR 800 crore to INR 900 crore is what we see recoverable, which means that these are the customers where there are some of the other transactions happening in the bureau, or we see some trade lines, which gives us a positive sense.

We are expecting about INR 50 crore of recovery in the entire 60-plus. I'm saying INR 60-plus is because most of the provisioning in our case happens in 60-plus itself. So, I'm looking at about INR 50 crore every quarter. Over the next 4 quarters, I'm looking at approximately INR 200 crore of cash collection, which will come from the entire 60-plus, of which about 85% to 90% will come from 90-plus, which will be divided between 90 to 180 and the write-off. So, you can assume that from Q4 onwards, for the next 1 year, we are targeting close to about INR 200 crore of recoveries in the entire 60-plus.

Ashlesh: Understood, sir. Sir, and just lastly, and just your opening remarks today, if you can -- if you have given the guidance for loan growth for next year?

Sanjay Garyali: Yes. Which I have already given. You want me to repeat that?

Ashlesh: No, sir.

Moderator: The next question is from the line of Sohail Kanalil from ULJK Financial Services.

Sohail Kanalil: Congratulations on a good set of numbers. I had a couple of questions. First one being what the attrition rate is, in this quarter, among the field officers? The second question was how many of the customers of Fusion Finance still have more than 3 lenders as of Q3?

Sanjay Garyali: Okay. Sorry, Sohail, the second one was Fusion+3, greater than Fusion+3.

Sohail Kanalil: Yes.

Sanjay Garyali: Okay. So, I've answered the second one, but I'll repeat the first one . First, I'll address the attrition. I have given you attrition figures at a branch manager level that are close to about annualized 30%. 75% of branch managers are greater than 3 years of experience.

The question you are asking is for field officers. Now, the way we measure is that the field officers greater than 6 months are close to around 50%. It's just a little less than 50% and greater than 6 months, which is how we measure because a lot of people less than 6 months are trainees, and the book allocation doesn't happen.

On the Fusion+3, I've explained to you that at a cost level, now we are sub 7%. You remember, we used to be hovering around 17% to 18%. Now, we are at 7%. So, 7% of the entire book at a POS level is greater than Fusion+2, and the new disbursement that we are doing, which we have shared with you, is about 80%, is just Fusion and Fusion+1, not even Fusion+2. So, that is also important to keep in mind.

Moderator: The next question is from the line of Maitri from Sapphire Capital.

Maitri: Could you repeat the disbursement number that we mentioned for January? Against AUM, any ROA, ROE target do we have for this year?

Sanjay Garyali: Jan disbursement numbers are a little over INR 670 crore, which has come from over 1 lakh customers, approximately 1,10,000 customers. In MFI, 80% of these customers that we have acquired, 76% of these customers at a POS level are our existing customers, and 24% are new.

On the ROA and ROE, we don't give exact guidance, but I've given our NIMs. You can clearly figure it out. We have shared with you our margin analysis and the income streams that we have.

We've given you a sense of credit cost to look at in a stable environment, 3.25% to 3.75%. So, the only metric that you would want is opex. I can tell you confidently that opex at a percentage level will significantly keep coming down.

The call that we have taken is that 85% of our opex is people. Now it doesn't make sense in a falling book to cut down on people, and then we would again require people later. So, the call that we took was about how we utilize our existing people in more productive areas, one of them being collections.

We have a INR 3,000 crore written-off book, and that is why there is a significant number of people we have put behind collections, at least for the next 1 year. So, the compensation of, let's say, a little higher opex against a normal opex that you would want to see is about 5% to 6%. We will obviously be higher than that. That will be, to some extent, compensated by the recoveries that we get in the 90-plus or the write-off pool, at least for the next 1 year.

Moderator: The next question is from the line of Viral Shah from IIFL Capital.

Viral Shah: With regards to your collections and the write-off that you mentioned, INR 50 crore of recovery per quarter, this is on the 60-plus portfolio. I'm sure part of this is basically your normal, I would say, the recovery of an overdue book roll back, all those things that happen. Out of this INR 50 crore, what is the exact, but more likely proportion of recovery from the write-off portfolio of INR 3,000 crore? Can you help us with that?

Secondly, also with regards to your credit cost guidance of 3.25% to 3.75%, does this kind of take into account, say, the use of the residual management overlay of around INR 30 crore, given we have used another INR 15 crore this quarter as well?

Sanjay Garyali: The second question, I'll let Krishan take on. I'll just answer your first one. On the INR 50 crore breakup, like I already explained, while this is 60 plus, 90% of it, which is approximately INR 45 crore, will be 90 plus, which is 100% provisioned. Right now, out of this INR 45 crore, about INR 13 crore we are averaging from the write-back for the quarter, which we will be taking close to about INR 18 crore to INR 20 crore. So, out of INR 45 crore, about INR 20 crore for the quarter will be write-back, and the balance INR 20 crore to INR 25 crore will be 90 to 180 recoveries.

For the second question, I'll, yes, pass on to Krishan.

Krishan Gopal: On the credit cost, irrespective of management overlay reversal, there is an improvement, and that should continue. As far as utilization of that management overlay is concerned, it is based on the improved flow rates and asset quality. So, as we have communicated earlier, there is a plan to utilize some bit of it every quarter.

However, every quarter, we take an assessment of this, and we'll take a call. Our stand is that we should utilize this over the next 1 or 2 quarters gradually, the way we have utilized in the last 2 quarters. Having said so, there is a clear-cut improvement in the credit cost removing the management overlay, and that should continue in the next quarters as well.

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

Rajiv Mehta: When you talk about doing an INR 10,000 plus crore book in the next year, it's a big jump in terms of where we are right now. So, from a funding point of view, how confident are we of funding this kind of growth? If you can also talk about now, at what cost? Your marginal cost of funds is running pretty high, and it has to come down now. So, where do we see our cost of funds broadly stabilizing as we get the benefit of coming back in terms of the overall P&L?

Sanjay Garyali: I'll just partially answer your first question, and the financial aspect of it I'll leave to Krishan. Let's say, we end this year at about INR 7,200 crore to INR 7,300 crore, and you're looking at it, let's say, from INR 7,000 crore to INR 10,200 crore, that's close to about 40% growth. But I'm saying we should not look at it like that because this is something that the current infrastructure anyway supports. So, if you look at our customer base of over 25 lakh customers, 1,600 branches, and 1,450 MFI branches. Technically, we should be just MFI. We should be about INR 12,000 crore of AUM, just MFI. With the branches that we have, maybe we need to just add people at the front end, nothing else. We should be at about INR 12,000 crore of AUM only on the MFI book.

While you see it as growth, I look at it like reinstating or utilizing the existing infrastructure because we have not let a lot of people go, we have not caused any huge anxiety amongst people. Hence, I realize maybe in hindsight, we were anxious about the fact that we are carrying a high opex. I think in hindsight, we did the right thing, because, for example, you see 2 quarters back, we were averaging INR 250 crore. I'm telling you we are at INR 670 crore. That's 2.5x. But we're not feeling like that. The pressure is not like we have gone up 2.5x, because it's just the people were there, the muscle memory, the way people were operating. We let people be there, and I think that's worked in our favour.

However, you'll see a significant buildup on the MSME side. The book that you see is about INR 700 crore. About 15% of this INR 10,000 crore will be MSME, which means that the MSME will be almost double. Now this is where we are creating a right to win, and we are in a completely secure environment. We are only into self-occupied residential and commercial.

We are very confident that we will be able to offer at a lower credit cost the right to win, which will differentiate us from the market. So, 15%, as I said, of the INR 10,000 crore will be the MSME AUM.

Krishan Gopal: On the capital front, as you can see, our leverage stands at 2.2x, and capital adequacy is touching about 39%. This 2.2x is on the back of like extra liquidity of about INR 1,800 crore. So, this number should continue till March when we come to the normal level of liquidity. These two metrics clearly show that we have a good headroom of growth, the number we talked about, next year and one more year. This is based on the current level. I'm not even talking about DTA. Now we are profitable, and this is just a matter of time. So, that way, we have enough capital for growth without that DTA as well. When DTA comes, there is a straight addition of about INR 400 crore. As I said, that is just a matter of time. So, we are not worried on that front.

As we have mentioned, on the debt side, we are already getting sanctions. We have liquidity of INR 1,800 crore, and sanctions in hand of about INR 1,825 crore. So, the focus is on the business and the growth, and we are getting good support from the lenders. Plus, as I mentioned, we have a good headroom plus capital adequacy as well.

Rajiv Mehta: Just one last thing I want to check on was that the government-sponsored credit guarantee scheme, which was supposed to come, any thoughts? Is that coming, signed or something on that?

Sanjay Garyali: Conceptually, we have agreed that Alok ji, who is the CEO of MFIN, is representing us, and he's sharing that. So, anything pertaining to that, I would deem it fit and proper for him to do the talking. But obviously, if it comes, it's great for the industry. I think he's the spokesperson for the industry, and he should do the talking on this.

Moderator: The next question is from the line of Sonal from Prescient Cap.

Sonal Minhas: Sir, you were talking about recoveries of the order of INR 200 crore in the foreseeable future. If I see Slide 25, I think the recovery rates are much lower than that on a quarterly basis, as we see right now. Am I reading the data, right? Just want to understand the numbers first and how that is going to be enabled, going further to meet those numbers.

Sanjay Garyali: Okay. There are 2 parts of recoveries. Like I said, INR 50 crore is the total 60 plus, and I gave a breakup of that. Out of that INR 50 crore, about INR 5 crore is 60 plus, and the balance, INR 45 crore, is 90 to 180, and the balance, about INR 20 crore, is write-off.

Now, the write-off, let's say, I'm positioning right now. So, the total number that you see right now against INR 50 crore is about INR 36 crore to INR 37 crore. Between this, the write-off is INR 13 crore for the quarter, which I'm positioning at INR 20 crore.

There are certain changes that we have done on how we were and there's some experiments that we were doing in a certain set of branches, and we've been extremely successful, and the results have been encouraging. There are some technology changes we have done. We have taken advantage of propensity. There are some AI calling that we have done because reaching out to like 10 lakh, 12 lakh customers. Reaching out to them would have been very expensive manually. We have also taken the help of AI, and actually, we were amazed. We were thinking that the rural customers' response to AI would be weaker as compared to urban. We were pleasantly surprised. All of us have listened to a lot of those calls. I think if we choose the right partner and if we do this right, there is a significant upside that we can get rather than burning money on hiring people on contact centre and warm bodies.

That's one of the reasons why the overall cost of collections, even in the write-off, has been hovering around 20%. Otherwise, in the market it's close to about 35%, 40%. So, this is what our sense is that the INR 50 crore breakup will come from. If I were to give you the January number, against this INR 50 crore, we are very close to, let's say, INR 14 crore; we are about INR 12 crore to INR 14 crore in Jan, and my previous average was INR 11 crore.

Basis that also, we are getting confidence that this will be not saying a cakewalk, but with INR 50 crore, we should be able to target it in about 1.5 quarters' time. This is the average per quarter for the next 4 quarters, so that we will be at INR 50 crore. So, I'm pretty confident.

Sonal Minhas: Got it, sir. Going further from a prudence perspective, and in microfinance, the up and down cycles are there after every 2 to 3 years. Just want to understand, like there is C-DAC, which has early provisioning policies. Just taking them as an example, but there will be other more who are basically more conservative in terms of provisioning much ahead of time compared to peers in the market.

How should we see Fusion going further, going ahead from a 2- 3 year perspective? Like, is there enough buffer you want to create in provisions from the profit pool, so that whenever the next down cycle comes, you're ready, and that secures the institution for the next cycle as well from a down cycle? Just want to understand from a risk perspective how things are going to be different for Fusion, not from a regulatory perspective?

Sanjay Garyali: I think a very, very apt question. From a risk perspective, the way we are looking at it is that there are two ways of managing, let's say, a tough situation, a market or a cycle. During the good times, you take less risk, you build your guardrails much stronger, and all this challenge happens because of the fringe customers or customers who are on the bench, and those are the customers who move to, let's say, delinquency during the bad times. So, one is that guardrails have to be much tougher. We have already explained that our guardrails are at least 2 to 3 times tougher than what the industry guardrails are, and we're not using just a simple bureau as a baseline. So that's one.

The second thing, if you look at our ECL model, it is extremely aggressive. In fact, most of the analysts have come back and said that you are overprovisioning. We didn't want to change all this during the year. You are absolutely right. Between provisioning and ECL, let's say, creating a fresh management overlay and provisioning, should we be creating a buffer? Absolutely, what you're saying is right, but both things cannot happen at the same time. We cannot take a very high provision and a very high ECL and create a management overlay.

So, we have taken a very aggressive provisioning, and this was because we had a very tough time last year. We did not want to change it during the year. But I think as a team, we will sit down. There are two people who are working on the ECL model. There's an external consultancy that we have also hired, which gives us a very fair and unbiased view. At the beginning of the year, we look at both whether we need to build more management overlay or whether we need to make the ECL provisioning a little fairer. But you are right. So, we will take this call in Q1, the moment we are done with Q4.

Sonal Minhas: How do you tie this with growth, because you have given a growth guidance which is aggressive? So basically, just want to understand from a growth-cum-the risk perspective, is that growth something which you feel is reasonable enough for the risk that you want to play with?

Sanjay Garyali: Okay. Great. Let's break this down. Where is the growth coming from? One, we are saying that the MSME book will almost double. Currently, INR 720 crore will go to INR 1,500 crore. Yes. The risk is much less. Why is lesser? Because it is completely secured. The LTVs are far protected. Our book LTVs are close to 55%. We are very, very clear on what kind of properties and what kind of risk we will take. We are not taking any cash flow risk there. The only risk that we are taking is in marketable properties. Let's say, INR 700 crore to INR 1,500 crore will be a far less risky book.

The second part is that MFI is going from, let's say, INR 6,500 crore or INR 6,400 crore to INR 8,600 crore. As I said, we should not see this as real growth because we did not cut down on branches; we did not cut down on people. I'll just give you a number. We did INR 670 crore, out of which about INR 35 crore is MSME, and INR 630 crore is MFI.

Now the question that you have to ask is, for next year, if I have to do, let's say, INR 8,000 crore of disbursement from MFI, INR 650 crore. My this month number or INR 630 crore will take me to INR 7,500 crore. Do you think going from this number to, let's say, INR 720 crore average for next year, is it really growth? Is it an aggressive growth? I think that's sounding growth to you because the first quarter was down. We were less than INR 1,000 crore in disbursement, and there was a huge runoff because of the book quality or the previous book that we had acquired. That's why you saw the book deterioration happening very quickly.

Moderator: The next question is from the line of Abhijit from Motilal Oswal.

Abhijit: Firstly, do you see an increasing propensity of MFI lenders to go to a CGFMU? So, our thoughts around that are, is there a portion of our portfolio which is guaranteed under CGFMU? If yes, what is the proportion? If not, how are we thinking about it?

The other thing is incrementally; we have seen MFIs talking about taking a hike in lending rates. So, what are our thoughts there? Lastly, today when you meet MFIs, we see a certain acknowledgement that in MFI, while the group lending will continue, basically in JLG, the group base will continue, but joint liability is something people don't sound very confident about going forward. So, if you could just share your thoughts on these questions, sir?

Sanjay Garyali: Okay. Great. We are evaluating a credit guarantee, but we have not yet enrolled. None of our books is right now on a credit guarantee as and when we close that. But we are evaluating it. So, as and when we close, we will come back to you.

On the lending rates, you're right. I think most of the industry has increased lending rates by 100 to 125 basis points. We have not increased lending rates in the last one quarter. We are evaluating the situation, and the pricing committee has clearly put about 75 to 100 bps, which is a window available for us to increase. The decision is on the table, not taken yet. But there is a play of about 75 to 100 bps on the interest rate, which is available to us if we compare it against whatever the industry or the market is. When do we do this? We are evaluating this. I think there are 1 or 2 more external things that we are looking at, basis which we will eventually take a call. But yes, we will take a call by the end of this quarter.

On the JLG, I think the group never had a liability. However, if you look at it, there was a nudge by the rest of the lenders, and they would support her. Any one person in the group, he would support her. I think the thing that we are observing is that, depending upon how we acquire the group, the group will stay together versus not stay together. So, let's say, the centre members, how close are they to each other from where the centre meeting is happening? We have kept a certain distance less than a particular distance from the centre meeting.

Are we getting homogeneous customers on board? In the centre, are there customers with very different leverage backgrounds? How is the entire centre being looked at? Is there some reward the centre is getting for, let's say, centre attendance discipline?

So, there are multiple things that we are working on, and I think it is getting more complex. But when I talk to some of my peers, mid and large both, they also see significant value in the JLG concept continuing. I think with the use of technology, and I explained to you that our entire LOS and LMS, we are upgrading to a very modern system. It will be operational by May of this year. I think that will support a lot of JLG, which is right now too dependent on the front end. So, that heavy lifting that the front-end person has to do, that will move on to technology and systems.

I think we'll be able to give you a clearer picture on this by the end of the quarter. We are already undergoing implementation in a certain set of branches. I think we will be ready with progress when we talk about it in the next quarter.

Abhijit: Just one last follow-up. When I look at this thing that you've put out on the Slide 11, the book composition, what is Unique to Fusion, Fusion+1, Fusion+2, do you think, given that the propensity for you as well as the industry, now is to come out with preapproved loans, right? If you have a good borrower, you try to take care of most of her borrowing needs. You think this proportion of Unique to Fusion and Fusion+1 is going up in the coming quarters?

Sanjay Garyali: I think Unique to Fusion will definitely continue to grow. Right now, we are at about over 40% Unique to Fusion. There are a lot of initiatives we have launched around this customer. You're absolutely right. I think this is very similar to any other NBFC or bank that you look at. There's a certain loyalty around existing customers. Anybody who's catering to just one customer, I think the only thing that we have to be aware that there can be overleverage. So, there is a challenge. Hence, the selection criteria are very critical.

But you're absolutely right. We are working on how we can use technology to give more value add to this customer, because if she is relying only on Fusion and the criteria that we set are similar to Fusion+1 and Fusion+2, then we are doing a gross injustice to her and not giving her enough reason to continue to stick to only Fusion. However, if we take the entire risk, and something happens in the family, the entire risk will be borne by us. That's also a challenge. This is not an easy thing, and that is why I said that this is as complex as any retail finance. I think all of us are realizing that the involvement of credit in the entire JLG and microfinance is very different from what it used to be about a year back.

So, you will see significant focus on this. I don't know what this percentage as a number should be. But yes, we are very cognizant of the fact that a certain set of customers should only rely on Fusion for everything.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand over the conference to management for closing comments. Over to you, sir.

Sanjay Garyali: Yes. Thank you. At the outset, with great humility, I would like to thank all the stakeholders, each one of you. The entire industry and Fusion had been through a very challenging time. While the internal teams have been rallying around to get Fusion to this level, I think each one of you on this call, your involvement, your guidance, and your inputs have helped us hugely, and we will continue to bank upon you for advice.

With that, I would like to thank each one of you. I think it's been an amazing two-way communication with each one of you. I'm absolutely sure that the Fusion that we are building from here on will be able to take on bigger challenges than what the industry has witnessed in the past. Thank you so much.

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.