"Fusion Micro Finance Limited Q3 FY23 Earnings Conference Call"

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MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL**

Moderator: Ladies and gentlemen, Good Day and welcome to Fusion Micro Finance Limited Q3 FY23 Earnings Conference Call hosted by JM Financial.

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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you and over to you, Sir.

Sameer Bhise: Thank you Nirav. Good morning everyone to the Q3 FY23 Earnings Conference Call of Fusion Micro Finance Limited.

At the outset, I would like to thank the Management of Fusion Micro Finance for giving us the opportunity to host this call.

From the management team today, we have Mr. Devesh Sachdev – MD and CEO of Fusion Micro Finance, Mr. Gaurav Maheshwari – Chief Financial Officer, Mr. Tarun Mehndiratta – Chief Operating Officer of the Micro Loan business, Mr. Deepak Madaan – Company Secretary and Compliance Officer. As always we will have opening comments from the management and then we open the floor for Q&A.

With this, I would like to hand over the floor to Mr. Devesh Sachdev – MD and CEO. Over to you, Sir. Thank you.

Devesh Sachdev: Thanks Sameer and thank you to JM Financial for hosting us. Good morning everyone and thanks for joining Fusion Q3 Results Conference Call.

I am here along with my colleagues Tarun Mehndiratta who is the Chief Operating Officer, Gaurav Maheshwari – my CFO, Deepak Madaan – my Compliance Officer, and Investor Relations.

I would request you to keep the presentation which we have uploaded handy because I may refer to some slides. Picking up from our Conference Call after Q2 Results the Company continues to make good progress even in Q3. The credit demand is robust and consistent in our client segment which we expect to further get buoyed by the recent budgetary allocation for rural India. We continue to deliver good portfolio growth and client acquisition with strong profitability, return ratios, operating matrix in Q3 as well.

In the midst of interest rate environment, inflation, tightening liquidity and global uncertainty and considering the total increase by RBI in the current rate cycle our NIM has increased and we have a strategy in place to further increase as per our guidance. We are confident of ending the financial year 23 on a strong note subject to market conditions. Our consistent and focused strategy of diversification, building network, investing in human capital, strengthening the processes, digitalization and building for future is playing out well.

Now I will take you through our quarterly & 9-month performance which you will see clearly reflects that we remain focused on Fusion building blocks which have been our key strengths across the years. If we go to Slide #17 in the PPT which has been uploaded diversification is one of our key strength, we have grown from 12 states in 2017 to 20 states as of Q3 Financial Year 2022. With top five state Bihar, UP, Odisha, MP and Tamil Naidu have a concentration of 67.7% as of December 2022 versus 74% in 2017.

The portfolio in Bihar and UP has moved slightly up to around 20.5 if you remember in the last call we have mentioned that this may go up to 22% in the short term, but we stay committed to keep it less than 20% with share of other states increasing. We have always been a rural focused MFI and composition of rural portfolio has been 93% over the last few years. Now staying on the same Slide #17 I would like to take you through how we have built a very solid distribution network in all the 20 states. With our focus on organic growth, we added 123 branches in the 9 months till Q3 of this year. Our branch strength now stands at 1,057 versus 934 as of the financial year 2022 which is a growth of 13% versus the last financial year.

I would also like to mention here that we have started operations in Karnataka taking total tally to 20 states. We have opened 9 branches to start with. Let me also mention here that we will be following a very calibrated approach whenever we enter a new state we actually look at the portfolio, we look at the client behavior, we settle down human capital then only we expand. We also continue to mine deeper in our existing states as was mentioned in my last call that we were targeting to open 170 branches in this financial year between the two business lines MFI and MSME of which around 140, 123 which are opened, there are around 17 which have sanctioned we are confident of closing near to 170.

You can see that Slide #18 depicts the resultant outcome where our AUM as of Q3 is 8653 crores registering a year-on-year growth of 45%. You can also see consistency in disbursement over the last three quarter and this was made possible by the early implementation and execution of new harmonized guidelines, pent up demand and our diversified and extensive network, helping us achieve consistent disbursement numbers in Q1, Q2 and Q3. Let me also mention here that we have followed a very calibrated approach with equal focus on process, risk, and portfolio quality. We believe in quality growth with an eye on long term sustainability.

I would also like to mention here that we do not believe in doing seasonal quarters. As you can see that our disbursement growth have been very consistent even in the Q4 you will find consistency, you will not find a sudden spike in the Q4. The growth rate will be in this range even in Q4. We were amongst the earliest to incorporate the new guidelines in May 2022. The guidelines clearly broaden the strike zone and defines the parameter of household income and fixed obligation to income ratio which will help streamline per borrower exposure as also give an updated status of the household debt service the capacity. Given that our portfolio is 93% rural, our retail overlap is 12% to 14% against semi urban, urban overlap of 30%, 34%.

I would also like to mention here the early impact brought after the implementation of the new harmonized guidelines. We have seen that the approval rates have marginally decreased by 8% to 10% after launch of this new guidelines which we see is a positive thing because it will improve the overall client acquisition, quality of the client acquisition and long-term sustainability of the sector.

Moving you to Slide #20 which I would request attention to it highlights that while maintaining consistent growth we continue to maintain our focus on fundamental prudence. Let me briefly cover the key matrix here. It will be very pertinent to talk about our consistency in adding new clients the way our field team are oriented with overarching organizational strategy of diversification and organic growth. Fusion team members are focused towards broad basing our coverage and leverage in the diversified network by adding new customers to the portfolio. We have now total 3.4 million borrowers as of Q3 registering a year-on-year increase of 37% and quarter-on-quarter increase of 7%, number of borrowers at the end of Q2 was 3.18 million.

I would also like to add here that in 9 months till in this financial year we have added 6.7 lakh customers in comparison to 3.6 lakh customers that were added in the corresponding 9 months last financial year. We continue to have a healthy mix of newer versus existing customers as defined in our overall average ticket size, disbursement size of 37.9k as of Quarter 3 versus 36.2k in Quarter 2. So, you could see that the growth which you are seeing is not coming by increasing the ticket size. What we are seeing is that our borrowers are now moving to the next cycle that may have some impact in terms of our disbursement size. Also, I would like to mention here that the ticket size of first loan cycle we have not increased in the last three years because of the COVID. We have mentioned in the past we are very calibrated; we look at 10% - 12% increase in the ticket size depending on inflation, market conditions, competition so we are relooking at some of these aspects but let me assure that this will be as per our guidance of prudence.

If you see our outstanding for borrowers which in Q3 is 24,800 it is basically largely flat if you compare from the last quarter. Another very relevant data point in the context of our focus on borrower addition customer unique to fusion as of September is around 36% - 37% as per the data from the bureau. If you remember we have mentioned in the last call that this number as of March 22 was 41% there is a marginal decline because of the fact that disbursement at a sector level has increased.

Going ahead Slide #19 mentions our performance vis-a-vis the key productivity matrix and clearly demonstrate our focus on leveraging scale and consistently and constantly working diligently on improving operational efficiency. Our GLP per branch has consistently grown and now stands at 8.4 crore per branch as of Q3 versus 7.1 crore as of Q3 of Financial Year 2022 even from Q2 of Financial Year 2023 from 7.9 crore it has moved to 8.4 crore. Similarly, our gross loan portfolio per field officer or what we call as relationship officer has also been tracking strongly across quarters with Q3 being at 1.3 crore per RO versus 1.14 crore per RO as of Q3 of Financial Year 2022 even from Q2 of 2023 it has moved from 1.25 to 1.4 crore. We also continuing to focus on optimizing reach and customer coverage our borrowers per branch now stands at 3,381 per branch as of Q3 of Financial Year versus 2,983 as of Q3 of Financial Year 2022 and in Q2 of this financial year it was 3,223.

Our borrowers per RO for MFI business now stands at 549 as of Q3 versus 505 in the corresponding quarter last financial year and it was 534 in Q2. Let me also mention to you that out of our total branches 57% of the branches have a vintage of more than three years and their contribution to the portfolio is 72%. So, you can see the kind of headroom which is available for growth.

Coming to Slide #7 composition of our portfolio sourced between pre-April and post April as of December 22 portfolio sourced post April 21 is 8,180 crores which is 97% of the total MFI book and the pre-April 21 portfolio is 252 crore which is 3% of the total MFI book. You can see the collection efficiency which is depicted in this slide the standalone collection efficiency in the portfolio sourced after COVID 2 is more than 98% including over dues, but without prepayments. Moving to the Slide #8 our GNPA stands at 3.69% and net NPA at 0.98%. As per our earlier guidance we have added another 7.7 crore to management overlay.

Now the management overlay stands at 25 crores as of December 2022. As we mentioned in our last call we want to build extra buffer for any uncertainty and whenever there is any pressure on the profitability because of the credit cost we can dig into this buffer. We are taking a long-term view on building our business. It helps us anchor our business much more strongly. We are working internally on some very key static initiative which cut across various verticals of the organization. Hopefully, we will further strengthen our business, customer engagement, efficiencies, credit underwriting, risk management and create long-term sustainability. Thanks a lot.

Gaurav Maheshwari: Thanks Devesh. Here are the key highlights for finance and accounts from Q3 FY23 perspective. Interest income has increased 51.75% on a QoQ basis. Our total income has increased to 57.22% on a QoQ basis. As Devesh has mentioned NIM has expanded in Q3 from Q2 perspective by 10 bps. The Company has provided impairment in 9 months of INR 131.17 crores out of which 25.52 crores is management overlay. As Devesh has mentioned in this current quarter we have provided 7 crores and in the earlier quarter we have provided 17.77 crores for the management overlay.

In this quarter we have also done a write-off of 45.04 crores, cumulatively we have written-off Rs. 201.42 crore which is 2.3% on December 22 portfolio. The marginal cost of borrowing has increased by 50 bps in this quarter and the annualized cost of fund has increased by 14 bps from Q2 FY23 to Q3 FY23 perspective.

In the first 9 months of the year the total increase in our cost of borrowing is 78 basis points whereas RBI has increased the rates by 225 bps till December 22. We expect the benefit of last rating upgrades which happened in the month of November 2022 to play out in coming quarter. Given that we run our liability maturity longer than the asset maturity we will continue to maintain the same. In December we have utilized the IPO proceeds and we have only borrowed 60 crores in the month of December. In the month of January we have utilized our IPO proceeds totally and our new borrowing in Q4 quarter would be lower than Q3 marginal cost of fund. In this quarter we have done direct assignment of approximately 350 crores in comparison to the Q2 of 383 crores. We would like to continue the same momentum and in the same range subject to market condition as far as the direct assignment is concerned. The proportion of DA to the total AUM stands at 9.86% as on December 22.

As far as operating cost is concerned operating cost has reduced by 9 bps in this YoY from last quarter however if we compare it from March 22 it has increased only 5 bps despite opening 123 branches. The cost-to-income ratio has reduced from 48.13% to 39.41% on a 9-month basis. We are reasonably confident that we are able to sustain these matrix and reduce it further as we move forward in the next quarter and the next financial year. As mentioned before we have done a write-off of 45.04 crores in this quarter. So, there was a reversal of income which has happened in this quarter due to that there was a reduction very minuscule reduction in the PPOP which is approximately 3 crores from the previous quarter.

Now key highlight for the liabilities. We are borrowing 80% to 82% from the banks, 10% to 11% from NBFCs, the rest is ECB and NCD issued to the foreign portfolio investors. The borrowing mix will largely be the same and steady in the coming quarters. As on December 22 the sanction in hand is 3,033 crores and sanction in pipeline approximately 2,000 crores. So, this is from the finance standpoint.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manuj Oberoi from Yes Securities. Please go ahead.

Manuj Oberoi: So, sir my question is on the bad debts recovery experiences of ours, so when I compare with the bad debts recovery versus the overall return of pool it is slightly lower for us versus peers, so in the last 7 quarter we would have written-off 500 odd crores worth of portfolio and the recovery we have got is only 20 crore so far, so why would this difference be in terms of recovery experience?

Tarun Mehndiratta: As you referred back to our last call we had mentioned that post 21 large part of the COVID portfolio when RBI allowed us restructure under the RS two norms fusion had undertaken a very selective about 2.5%, 2.4% of the portfolio at that point in time only about 85,000 cases versus a lot of peers in the sector would probably take a very higher double-digit composition of their portfolio to be restructured under that program. So, we have always believe very strongly in looking at very justifiable arrangements especially under the restructuring program itself where we did not taken the large part of the portfolio. Also we believe in also kind of doing physical engagement with the customers in order to give them the kind of relief and rehabilitation that they required coming out of COVID. We are very organic when it comes to even kind of resolving hardships of our customers and that is why probably the pace of recovery would tend to differ a bit when you look at peers. However, I think the devil lies in the detail and we have dedicated set of team now which is a 360 members from teams like we mentioned last time which looks after dedicatedly customers in 60 plus buckets also especially 90 plus buckets and we have seen very progressive engagement and results coming in by that team in almost all pockets where we thought there were some prolonged hardships because of COVID and I will try and name those geographies be in parts of Tamil Naidu, be in parts of Chhattisgarh or parts of Gramin Punjab which were also railing after the farmers related events. So, yes you are absolutely right for the sector the progression of these recoveries have been a lot of curtailed, but I would say that we have chosen the path to take it in the more organic manner and you will see as we go along with the further quarters because we are seeing the early indicators of that particular thing. So, people in our portfolio who probably did not pay us any single installment have come down significantly. So, month-on-month I am seeing a reduction in people who did not service any part of the debt even when their loans were active or for that matter there has been very, very encouraging improvements in current efficiency across all our states. Thank you.

Manuj Oberoi: And the second question is on the flows so when I look at flows into stage 3 adding back the write off the flow is about 50 crore, 55 crore slightly higher number again here because when I look at the collection efficiencies being reported in the new pool and the old pool they are pretty high even adjusted for the repayments and not adjusted for prepayments, so they are not indicative of such slightly higher flow forwards, so how should we look at NPA now because see if every quarter if we have slightly material flows forward and even if you try to clean up the book because we have got significant amount of provisions and we can keep on writing off the old NPAs, but when where do we see this gross NPA number settling because there is some consistency in flow also going into the gross NPA number?

Tarun Mehndiratta: As far as the gross NPA flows is concerned so largely out of the total portfolio which we have on PAR 90 near about 65% to 70% is largely towards on the older portfolio and looking at the base of the new portfolio which we have at a 97%. So, obviously the historical pattern suggest that there would be a flow which is going to happen naturally which is at the part of the business. So, if we see the total combination 65% to 70% is the older portfolio and the 30% on a larger pool. I think that will give you a greater sense that once we are slightly go beyond this progression of a write off from a coming quarters so maybe post that we will see us sustainable gross NPA levels going forward in the next financial year.

Manuj Oberoi: So, then that normal and sustainable number of credit cost will be around what number?

Gaurav Maheshwari: So, it would be very difficult because as of today the pool which we have on a 90 plus largely pertains to the older portfolio and as Tarun has mentioned that we have a separate collection team which is putting in place on that to have a collection. So, to give a number to that I think in Q4 results when we are going to give there would be slightly more particular guidance around that. So, let us wait for the Q4 results to give a guidance for the next year going forward.

Manuj Oberoi: Lastly Gaurav on the other income being lower in this quarter 12 crores and this quarter was 7 crore and the balance sheet liquidity has slightly gone up, so why this other income was slightly lower?

Gaurav Maheshwari: So, there are two, three things which has happened because once you receive a IPO money you cannot invest in a mutual fund, you have to put it in a fixed deposit and because we are going to utilize that money for our disbursement perspective. So, we have put it in the shortened term of the FD which are not that equivalent to your mutual fund rates when you put it into some period for more than 14 days or more than 21 days. So, your alpha becomes there so that was the case for this quarter, but you will see because now we have utilized our proceeds this number coming back in Q4.

Moderator: Thank you. The next question is from the line of Darpin Shah from Haitong. Please go ahead.

Darpin Shah: Few questions from my end first is you know if we can help with the overlap with other lenders in a key geographies if you can help with that number?

Devesh Sachdev: As I mentioned to you that our 35%, 36% customers out of a total 3.4 million customers where it is unique to Fusion where 25%, 26% are first-time borrowers and other 15%, 20% are customers who are unique at that point of time. They have close their loans to others and the trend slightly differ in different geographies like Tamil Naidu this number is the unique borrowers lower in comparison to UP and Bihar. So, I think that is what we have at a consolidated level.

Darpin Shah: So, can we assume that the borrowers in our key states will be or slightly on a lower side because now we are seeing many of the players still entering UP, Bihar and then making the place more crowded there?

Devesh Sachdev: We have very closely looked at household level potential available in all our states of operation and I think that is the very key input which goes into our selection when we enter into either a new state or part of the state when we look at a district or a cluster of locations. We still think that with a states like let us say Utter Pradesh is about 20 crore plus population, penetration level only being in about 16% to 19% or 20%. We still think there is a lot of headroom there and I think the overall ecosystem over the last few years has been very conductive for not only germination of more practitioners to reach out to the unserved, underserved people in the states and similarly we are seeing across the country where we see the situation now improving significantly post COVID, there has been a lot of momentum which is come into rural level livelihood generations from the government standpoint as well. So, we are very hopeful even with where we are currently and over the next few years given the fact that there are new harmonized guidelines which have been kept in place I think uniform adherence of the guidelines across the country by all practitioners. We should be able to kind of see sustainable growth as we go forward for the sector as a whole and all practitioners in largely all these potential states.

Devesh Sachdev: Also just like to add here that if you see today Utter Pradesh we have 212 branches and Bihar we have close to 145 branches. So, we are very well established in some of these geographies I think our understanding, our people are closest to the customer and the vintage because we were very early entrants of Bihar and we keep on improving or tightening our credit norms. So, all that will make sure and all others, as I mentioned in my opening remarks that some of the strategic initiatives we are taking, we will make sure that we are able to navigate if there is any challenge from the competition. I think we are confident and for us competition is always welcome, it makes you more razor sharp. So, we are very confident that we have such vintage position in some of these states and we will be able to maintain that.

Darpin Shah: So, next question is on growth even though you sustained the growth if you can help us with what kind of growth you are looking for say FY23 and then beyond over next couple of years?

Devesh Sachdev: I think this year we are already at 44%, 45% because as I mentioned again in my opening remarks there was a pent-up demand, we had the network, we had opened around close to 400 branches in the last three years before this financial year. So, all that has now played a role making sure that we have been able to grow. I think once the basis grows you will see some tapering in terms of the growth numbers, but we will give a clear guidance in terms of some range-based guidance once we come out with our Q4 results.

Darpin Shah: And sir last question on asset quality if you can provide some numbers if possible on the GNPA state wise top two, three state wise if you can provide that number that would be helpful?

Devesh Sachdev: So, for us our top five states, like I mentioned in my earlier answer to the question was that all our top five states continue to show significant improvement in current efficiency month-on-month over the last 8 to 10 months. So, assuming if you look at 90 plus numbers for our top five states very happy to share that for the state of Bihar our 90 plus numbers are in the range of about 1.2% to 1.4% for Utter Pradesh the number is again in the same range of about 1.2% to 1.3%, Odisha and MP again are at our almost like our national average of around 3% to 3.5% range and we have seen a lot of improvement in our fifth largest state which is Tamil Naidu which has shown great kind of recovery from its post COVID times.

Moderator: Thank you. Next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: So, wanted to understand which are the companies with whom we would be having the largest overlap in our top five states in terms of lenders?

Devesh Sachdev: Look Bharat is everywhere so I will say that if I talk about UP it could be Bharat in some parts, it could be Utkarsh or set in so these are could be in UP like similarly if we go in Bihar it is somewhere it is Bandhan also, Bharat then you have a Arohan in Bihar similarly I think it is a state wise, but there are some common players which are present across India. If I talk about Odisha basically it is Annapurna and Bharat other than us I think which are the top and L&T which are the top players. So, I think it varies, but there are some common lenders and now we have as we are in Tamil Naidu CreditAccess where has a major share there.

Shreepal Doshi: And sir who would be at book level, at overall Company level who would be the largest if you can highlight couple of players with whom we have the highest overlap?

Tarun Mehndiratta: As I think Devesh mentioned earlier that we are in 20 states and while the 20th state has been added just very recently, but 19 states when we look at the listing of the top 10 states let us say in the micro you will realize that all of them are there in 14 plus states. So, there is a overlap which you will see in every geography. However, some of these financers over the years have grown in selective geographies. So, like Devesh mentioned earlier that in Utter Pradesh we would see this in parts of geographies with Utkarsh or with Satin and Bharat and similarly in Bihar with parts of Arohan, in Odisha with L&T. So, there is not really one set overlap which I would say has we have more kind of a matchup in every state so there is difference. So, CreditAccess especially in Tamil Naidu and parts of South Madhya Pradesh. So, it does that is a makeup of every state because everyone is diversified and the listing is very clear there and if your similar question is asked you will find them having Fusion as an overlap or a competition in let us say 4 or 5 of those bigger states rather than all states. So, it depends how one is placed.

Shreepal Doshi: Sir, second question was with respect to tenure so like have we tweaked the future of our loan product by providing three-year loan tenure to our customers?

Tarun Mehndiratta: We have not done that because the higher ticket size which we give still in the range of 85,000, 90,000. So, we do not see, but yes right now we have not done that.

Shreepal Doshi: Right now the highest tenure that we provide to our customer would be two years?

Tarun Mehndiratta: Yes.

Shreepal Doshi: Is there any plans of moving to three years?

Tarun Mehndiratta: Right now it is nothing, it could be triggered because of two factors. One you want to give a larger loan and you want to reduce the burden of EMI. Right now, as I mentioned the top 10 players if you look at for a mature customers the ticket size which we have season has is one of the lowest. So, we do not see that. So, that trigger is not there. The second trigger could be that you are actually wanting to make sure that in the household level guideline you want to be only the one lender and all that, but I think and third could be where you want to reduce the burden of the EMI for the borrower. So, we keep on discussing some of these issues, but right now we do not see us doing it in the short term.

Shreepal Doshi: Sir actually where I am coming from here is that because if you look at like inflation has increased and while the income of the people have stayed as it is, so one tool that lenders are deploying is tweaking the tenure, so just wanted to understand from that point of view?

Tarun Mehndiratta: I think the board fundamental aspect to also look at and dissect here is the level of ticket offering at every cycle. I think that is where the crux of the issue is. We have seen even a midst competition that even third cycle we offer about Rs. 55,000 to our customers in third cycle and that has been consistently like we said over the years grown at about 8% to 10% which is line with how the growth typically income generation has also been net of let us say a few patches of the COVID month. Having said that I think we are in very intense engagement with all our customers when we meet them during the center meeting and whenever we see the need we look at modifying our ticket size. As Devesh mentioned that we have not kind of increased our first cycle for the last three to four years, but the point is that when we are not offering a larger ticket size even the fifth cycle and the customers are absolutely able to manage. Also given the fact that we have not seen that kind of a challenge whenever we have done household level assessment because we are 93% rural and the retail overlap for us is only about 12% to 16%. So, we think there is a strike zone available, we are adding new customers, we are adding new to credit customers and that really helps us in our overall theme of being prudent when it comes to the fundamental aspects of working out what product size to offer to customers and what tenures to offer them for them to be able to kind of quickly look at taking net cycle loan in line again with their aspirational progression.

Moderator: Thank you. The next question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: So, my first question is on the NII growth which remained lower than the earlier growth despite the margin expansion, so can you just explain what is leading to this lower NII book?

Gaurav Maheshwari: So, if you see from a NII perspective so as we have mentioned earlier that there is a incremental write off like last quarter we did a write off of 20 crores and in this quarter we have done a write off of 45 crores. So, there is a larger reversal on the interest income which is approximately Rs. 7 crore to Rs. 8 crore so that is one of the reason and second when you do a direct assignment transaction it totally depends what kind of a yield you are giving to the lender or the purchaser, so if the yield is on a higher side your present value come slightly on the lower side. So, that are the two major reason if you add them back into your NII it commensurate with your or it equalizes your AUM growth.

Renish Bua: And my second question is to Devesh sir we have been growing since COVID and now we are clocking or maybe crossing almost 8,000 crore of AUM, so in this base what do you think could be a sustainable growth assumption for us internally?

Devesh Sachdev: One structurally we see that there is a potential to grow and this household new guideline though the overall your sanctioned rates have really gone down, but it increases the sustainability. We have a wide network and as I mentioned 57% of branches are contributing 72% of our portfolio. So, I believe that we would be able to sustain a good growth momentum, but as I mentioned in my earlier question some guidance we will give in the next quarter.

Renish Bua: So, let me put it this way so it is not about guidance let us say the kind of run rate we have seen in past and specifically after COVID because during COVID there were players who are not growing, there were players who were sort of disbursing in one quarter then again going away from the market, so we have seen all those up and downs in the sector in last two and half year, but Fusion of course did that cycle pretty well and has scale the book to this level, but when now you are entering new states wherein we might not have the same demographic experience what we have in top five states, so what gives you that confidence that we will be able to replicate at the same model outside the 5 states?

Devesh Sachdev: One Renish that is how diversification helps because we are in now 20 states, any new state which we have mentioned we have entered we are not going to go very fast. So, we have done our Math internally. We are not saying that okay any new state we enter and we do not want the new state to become a very significant contributor in our portfolio. In the existing states there are opportunities, but again I am telling you that we are not looking from a number perspective, we look at more from the risk perspective, opportunity perspective, how we are able to marry the risk and growth. So, we look at all these things and the portfolio quality is we look at aspects of customer behavior, we look at any other macro environment or a micro or a macro environment in the customer life. So, I think all this strategy will be based on so any state we may feel that okay we have to slightly go slower because there are some risk emanating we will do that and we have done that in the past. However, on a consolidated basis because we are present in so many states it really make sure that on a consolidated basis we are able to grow. So, let me tell you the growth will be very calibrated, we are not talking about any number, but I think it will be keeping in mind all these parameters and that is how we have been growing in the last few years and also if you look at the number I still believe that the kind of network we have more than 1,000 branches now we are still at a 20%, 25% less efficiency what we were, what it was pre COVID. Now I am not saying that we will be able to cover that ground because the overall structure of microfinance is also slightly changed, customer behavior has slightly changed. So, we would like to make so there are many states Renish where the customer acquisition per field officer is lower than some of the states. So, we do this calibration every month and we say okay in this state this month this is how we are going to grow. So, it is a very calibrated approach.

Renish Bua: And last thing from my side so it is fair to assume that let us say whatever incremental growth strategy we adopted we will ensure 4% plus and around 18%, 20% sustainable ROE?

Devesh Sachdev: Yes that is what we are it is important for us that with the growth we also have right margins and as we have mentioned the last time in about 4.5%, 4.75% of ROA, consistent ROE of 18% to 20% is that what we stay committed.

Moderator: Thank you. Next question is from the line of Aditya Bhandari from Incofin Investments. Please go ahead.

Aditya Bhandari: I have three questions I will just highlight one by one and so each one of you will take up so first question is for Gaurav I understand that finance cost is gone up by around 80 basis points while you had mentioned that the RBI has increased certain rates, but just was curious to know what is the rate increase that Fusion has conducted and what is the basis point that has been passed on to the borrowers, second question is for Tarun I understand that we have opened into Karnataka a state where I see that there are already 25 plus MFI is operating where the NBFC, MFI are local MFI maybe even more, so what is the strategy between opening another microfinance state vis-a-vis going with MSME why not expand more into MSME and provide a product level risk diversification and last question is for Devesh just wanted to understand like we discuss in the previous call as well there is quite a significant funding winter in the market to that extent we are already at 8,000 plus crore on AUM at 2,200 crore networth so almost 4 times AUM to networth, what will be our strategy to quickly draw up a follow on public offer to maintain a stronger capital because going forward things are not looking as good in general for market it is not Fusion specific it is more about the capital availability in the capital markets so these are three questions?

Gaurav Maheshwari: I will start with the third question which is on the plans for raising next capital look we are very clear. I think it will be a factor of one the capital adequacy which we want to maintain, the growth momentum we want we are seeing and also we would like to make sure that we are able to optimize the stakeholder value. So, it is a combination of all three things where definitely for us Company's paramount if we see that there is a growth opportunities and we have to raise capital, but we will make sure that we understand the expectation from all stakeholders as an optimize fund raise that is what is the plan as far as the capital risk is concerned. Coming back to the question first Aditya so one is that Fusion is very much calibrated that what needs to be passed on to the ultimate customer and what would be the futuristic cost which is going to happen and whether we should pass on that or not to pass on so that it can subsume in the coming quarters. So, coming back to your question on that RBI has increased 225 bps and till 9 months we have an increase of 78 bps out of that in our last analyst call we have said that we have already increased at the time of new asset guidelines 150 bps. So, there was a certain price which we have already passed on to the customer at that point of time keeping in mind the interest rate rising scenario 30 bps has been passed at that point of time and in the month of August we have again 30 bps has been passed on. So, out of 78 bps 60 bps is already been passed on and because in November we have already borrowed some money because IPO money was on the monitoring account and in December as in my earlier statement we have started utilizing the proceeds.

Aditya Bhandari: Is it okay if before Tarun starts I can ask follow up question to Gaurav. I see that we have 60 basis points that we have passed while in the industry people have gone beyond what they have experienced as in increase in raw material cost, so to that extent is not it prudent enough to pass everything and expect something, some level of higher provisioning because I think there is very much likelihood that the cost are going to remain here or slightly higher and I understand the responsible organization that we are trying to work upon, but still I think if the raw material cost goes up should not we pass it to the borrower quickly enough?

Devesh Sachdev: So, when we did the first increase after the new guidelines came into picture which is from May we factored in some of the increment which can happen in the interest rates and then in August we did 30 bps and we believe that we have already done some internal working on the kind of NIM we want to maintain. As we mention we are already at 10.31 that is this will go up to 11.3 between 11.3 to 11.5 I think which is sufficient for us to make sure to give a very sustainable ROAs also the fact that you mentioned about the responsible organization I think that is also very critical because after the new guidelines have come in the RBI has not done an inspection and I am sure I can tell you RBI is also sensitive because if you look at the guidelines it does not say that if you can then I think the word which has been used when we say it has to be risk based pricing. So, we have done that so I think we have to make sure that on the one side we look at the kind of margins we want to maintain, we also have to look at the customer as customer is coming out of COVID there is a pressure on the customers livelihood and they are just coming back on to normalcy and then third is the fact that how the expectation of regulator and I think we would like that we have this comparative advantage and customer should see us as a Company which is giving a less rate than other competition. So, we would like it has to be a very calibrated approach the combination of all these factors come into play when we decides the onward lending rate for our borrows.

Tarun Mehndiratta: Aditya to your second question as you are aware that we have just entered Karnataka, but let me also tell you that we had obviously done our research and done a lot of data even when we looked at let us say Tamil Naidu about four years ago because you see as Fusion we were looking at South zone from an overall sectoral potential standpoint, but what we saw was that yes while you are right when we look at data there are double digit number of kind of practitioners in almost all districts, but there are still very significant pockets of opportunity and kind of where we think that there could be place for an established player like us with the kind of offerings and the kind of level of customer service and engagement that we bring to the table to help people in their livelihood. So, we did this analysis for Karnataka as well and I completely agree with you that I think we have to look at the majority evolution of each and every market and yes there could be probably a kind of a opportunity for us to look at bringing in our expertise that we are kind of building in our MSME vertical in terms of being able to kind of asses large ticket loans or higher loans and probably be able to kind of hand hold customers from one level to the other under the same roof and I think that is what really is domain sharing expertise that we want to kind of reach at not just nearly kind of setting up a list of customers for just kind of putting from a cut paste to one MFI to MSME. So, we are you are absolutely right it is just been about three, four months we are taking baby steps there, but we have done a lot of homework we started with certain clusters there and we are closely studying the market, the customer positioning the behavior, we are also looking at how the customer requirement and strategy of other practitioners is getting kind of married because we think that there could be different kind of product proposition which we could kind of also bring in as we go along, but then like we said it is just too early and let us see how this kind of shapes up over the next 6 to 9 months from where we are today.

Moderator: Thank you. The next question is from the line of Manuj Oberoi from Yes Securities. Please go ahead.

Manuj Oberoi: Just to check on pricing so last quarter I think you had mentioned about the disbursement happening in 21.75, so in the current quarter as we speak has there been a revenue and pricing or we are still at 21.75?

Devesh Sachdev: No we had mentioned in the last commentary that we had only made one change after the new pricing guidelines have come out by RBI and we continue to kind of maintain them, we have not changed the pricing over the last at least last 60 days and that is what the status is and our latest pricing guidelines I have mentioned on a website as well.

Manuj Oberoi: So, in the audit side I mean so we have a large audit team if you can just take us through in terms of say order size versus the AUM size and how are we kind of more I mean better in terms of super revision on monitoring of portfolio versus peers because in terms of frequency of audits or in terms of debt of audit if you can just take a couple of minutes in making us understand the audit structure and the process?

Devesh Sachdev: I will first talk about the structure so structure is like this where it all depends on the geography and the risk matrix. There are areas where we say okay it has to be one audit officer for four branches. There are areas where it is one audit officer for three branches, areas where the one audit officer and two branches. So, that is the kind of it is all risk based and then coming to the second point we have a risk matrix on audit how we asses as the branch player. So, most weightage is given on the field monitoring which is how the branch manager and the field officers are doing the field monitoring or the senior people are doing a field monitoring. So, that is very important component for us. Third thing is where we have also now started move towards as per the RBI guidelines more on a risk-based audit and we also do a group audits depending on the intensity where we feel what are the kind of some challenges which are coming up and or being reported by the audit team. So, we are very extensive this whole process and that is why the reason I think if you look at the last 10 years, 12 years we had to close only one or two branches because when the audit gets involved when we open a branch we were talking about extensively on Karnataka even in Karnataka the audit team has done their own assessment before we opened our branches. Similarly there are many stage just to give example we are in Bengal for last four, five years, we have 15 branches, we have not increased more branches because audit has not given us green signal. So, audit plays a very important role is structure level and the whole report to audit committee of the board. So, that is very quickly, but because of the lack of time we will be happy to discuss this offline and give you more color about how we do the audit, but let me also tell you the whole audit is now automated where when you do audit, what are your observations and any when the audit compliance happened everything is captured around that and there are complete escalation matrix if any branch at or less than a certain scoring point that branch even that report comes to me as a CEO to make sure that I look at what are the key risks which are being observed and then we monitor top 10 branches where the scoring has gone down and we monitor that and even the board is given that presentation that okay how the branches have moved which were earlier scoring not well and any branch who is scoring well its scoring has gone down. So, we are very extensive whole audit mechanism.

Moderator: Thank you very much. I now hand the conference over to Mr. Sameer Bhise for closing comments.

Sameer Bhise: Thank you everyone for joining this call today and thank you to the management of Fusion Micro Finance for giving us this opportunity to host the call. You may now disconnect. Thanks.

Moderator: Thank you very much. On behalf of JM Financial Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.