



**“Fusion Finance Limited
Q3 & 9M FY '25 Earnings Conference Call”
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MODERATOR: MR. SMIT SHAH - ADFACTORS

Moderator: Ladies and gentlemen, good day, and welcome to Fusion Finance Limited Q3 and 9M FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Smit Shah: Thank you, Neerav. Good morning, everyone And thank you for joining us on the Q3, 9M FY '25 Results Conference Call of Fusion Finance Limited. From the management, today, we have Mr. Devesh Sachdev, MD and CEO; Mr. Gaurav Maheshwari, CFO; Mr. Sunil Mundra, COO of MFI business; and Mr. Deepak Madaan, Company Secretary and Chief Compliance Officer.

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 and 9M FY '25 results presentation that has been uploaded on the stock exchanges and company website.

I now hand over the call to Devesh, sir to begin the proceedings of this call. Thank you and over to you, sir.

Devesh Sachdev: Thank you. Good morning, everyone, and thank you for joining Fusion's Q3 Financial Year '24, '25 Results Conference Call. I am here along with my colleagues Sunil, the Chief Operating Officer for Microfinance business; Gaurav, Chief Financial Officer; and Deepak Madaan, Chief Compliance Officer.

We were among the first ones in the industry to recognize and acknowledge the building stress at the beginning of this financial year. In accordance, we proactively and swiftly took several initiatives to address the issues and mitigate the impact. During the last earnings call, we had spoken about them in detail. I would now like to update you on some positive outcomes of these steps. Due to our well-thought-out initiatives across sourcing and collections since Q2, early green shoots are now clearly visible in terms of business improvement across various parameters.

Firstly, as highlighted in the previous quarter's earnings call, we have been following very stringent credit criteria, even tighter than existing MFIN guardrails. Due to tightening of underwriting norms, we are observing building up of superior-quality portfolio since August '24; and have also seen a moderation in AUM, which now stands at INR10,599 crores. What is most promising is that we have seen meaningful deleveraging in our customer base. I would request you to refer to Slide number 9, where we can see a significant downtrend in shares of Fusion plus greater than, equal to 3; and Fusion plus greater than, equal to 4 lender bucket within our customer composition from March '24 to December '24. About 80% of our clients fall under Fusion plus less than, equal to 2 lenders bucket as of December '24; and we expect this share to increase further over the period. Therefore, there will be minimal impact of new MFIN guardrails to be effective from April 1, 2025.

Fusion plus less than, equal to 2 lenders customer share was 79.3% in December and now versus 68.4% in March '24. There has also been a reduction in overall outstanding loan exposure of our customers, with about 50% customers having total MFI loans of up to or lower than INR60,000 as of December 2024. The lowering of customer indebtedness will ensure that our portfolio remains healthy.

Second, there has been a consistent improvement in net flow rates month-on-month across all DPDs. You will see that, since October, the net flow rate from current to PAR 1 to 30 has improved by 200 basis point. This is also evident in our net collection efficiency of current portfolio, which has been improving month-on-month and has risen to 97.7% in December '24 from 96.1% in Q2 FY'25.

We continue to focus on solvency and ended the quarter at 22.2% capital adequacy ratio, which would be 30-plus percent if you pro forma for the INR800 crores rights issue planned, further strengthening our balance sheet. Our liquidity position has been further enhanced since December with INR400 crores of incremental liability raised till date in Q4 FY25.

This quarter, we have also significantly enhanced our provision coverage across all stages, with coverage on stage 3 loans increased to 88% in December '24 from 76% in September '24, which has helped bring our NNPA down to 1.7% from 2.4% in the previous quarter. More specifically, we have not recognized interest on stage 3 loans and prudently reversed all deferred tax assets accrued till date.

Few important points to note here are the reversal of DTA is a noncash item and does not impact capital adequacy or cash flows. If you refer to Slide number 10, you will see that our PAT at a normalized tax rate would have been loss of INR380 crores if you applied the standard corporate tax rate on the PBT.

I would also like to inform you that we have successfully obtained waivers from majority of our lenders for covenant breaches. It is encouraging to see that our lenders continue to have complete faith in Fusion and its sound business and governance fundamentals.

The company has received waivers from all lenders for Sept' 24 covenant breach, except 5 lenders for borrowing amounting to INR939 crores, representing only 16.71% of total borrowings as of September 30, 2024. We have been engaging constantly with remaining lenders and are confident that there will be no demand for immediate repayment of borrowed funds.

Our MSME vertical has shaped up well over the years, and we now believe that it is at an inflection point. The portfolio is growing at a good pace and the quality continues to be healthy. Of the INR630 crores of AUM in 9M FY25, the share of secured loans is around 85%. We have significantly honed our underwriting capabilities in this vertical. And we are confident that we can bank upon our MSME portfolio to become a key pillar in our future growth.

We continue to strongly focus on leveraging technology to improve our understanding of the customers and engagement with them. We are heavily leaning on risk analytics and data analytics to understand our customers in a more nuanced way so that we can engage with them in a more meaningful manner.

Further, we continue to invest on enhancing our technology framework. We had earlier in this financial year introduced our LOS and LMS platform FinDost built in-house for our MSME vertical. Now we have also started our journey towards building or making a hybrid model for microfinance vertical in the coming financial year.

It is important to note that, going forward, with strong industry-wide guardrails, the microfinance customers may feel credit squeeze for some time, but it will have a good impact in the long run. I must acknowledge that, with shifting customer behaviour and market dynamics, along with various technology adoption, the color of the industry is also changing. This calls for modifications in our outlook and processes too. We are certainly adapting with these changes and will continue to do so.

I would like to reiterate that we have always believed in maintaining transparency while being agile in our strategy and actions. As a result, we have achieved many significant milestones during our journey of 15 years. We have also faced many difficult sector-wide situations but have come out triumphant every time. Let me reassure you that this time is no different than others. The implementation of guardrails focused on prudent underwriting, portfolio monitoring and enhanced recovery mechanism is expected to act as a stabilizing force in the coming quarters. These measures are already yielding results in controlling incremental stress and ensuring discipline.

While we'll continue to closely watch the situation, we should start seeing stabilization from Q1 2026. Once that happens, we strongly believe that our extensive network, strong customer connects, solid reputation on the ground and extensive rural focus as well as experience will enable us to steer the company towards sustainable growth. At this stage, we remain cautiously optimistic and continue to be prudent and watchful in our approach.

Thank you very much. I now hand over to my colleague Gaurav.

Gaurav Maheshwari:

Thank you, Devesh. Good morning, everyone. First, I would take liquidity and cost of fund for 3 months to 9 months period, 9-month ended for financial year '25. In Q3 FY '25, we have raised -- amounting to INR395.18 crores, including INR95 crores of direct assignment. Till 9 months, we have raised INR4,450 crores, including INR1,010 crores of direct assignment. As of December 31, 2024, our liquidity stands at INR1,151 crores. And we have sanction in hand of INR1,223 crores. As of yesterday, the liquidity stands at closer to INR1,400 crores.

We would like to refer Slide number 27 on static liquidity position, where we have given position that, for the next 6 months, if we don't get incremental money from the lending side and we get only INR400 crores as a rights issue amount in the March, we are still very well positioned for the cash flow perspective.

We are maintaining a healthy capital adequacy ratio of 22.20% as of December 31, 2024. This will further improve post infusion of capital through rights issue.

We have received continued support from lenders by way of extending the condemnation of breach of financial covenant. We have received 83% of the waivers. Out of the amount of INR5,617 crores, these are the breaches which got breached as of, as on 30th September 2024.

As on December '24, we are in breach of financial covenant amounting to INR5,288 crores. As of yesterday, we have received waiver amounting to INR4,145 crores from a couple of lenders, where they have extended till Q3 and Q4. The company is in discussion with the remaining lenders to obtain condemnation of the breaches. As of date, none of the lenders have issued any acceleration notice to the company.

Our marginal cost of fund stands at 10.15% for 9M FY25, which is a reduction of 43 bps on a year-on-year basis. The average cost of fund stands at 10.21%, and it has decreased by 32 bps on a year-on-year basis.

The 9M NIM ended at 10.66%. It has decreased by 44 bps on a year-on-year basis. The reduction is largely pertaining to interest reversal on account of write-off and non-recognition of interest on stage 3 asset. The cost-to-income ratio stands at 47.38% in 9M FY'25. If we adjust this cost-to-income ratio for interest reversal, the cost-to-income ratio would come 43.1%.

The operating cost has increased by 151 bps on YOY basis for Q3. It is largely contributed by split of MFI branches and opening of 5 MSME branches. As mentioned in Q2 FY '25 Investor Call, increase is due to change of incentive structures, strengthening of collection team and rationalization of client per field officer. It also has a contribution because there is a degrowth in the portfolio.

As on December 31, 2024, the pre-provisioning operating profit is INR646.36 crores. The company has made ECL provision of INR572 crores in Q3 and INR1,615 crores in 9M FY '25.

Please refer Slide number 11 of the presentation. The coverage of stage 3 have been increased from 76% in September to 88% in December 2024. This includes management overlay of INR59.50 crores. The coverage of stage 2 has also been increased from 60% to 72% in December '24. Similarly, the coverage of stage 1 has also been increased from 1.84% to 2.68% in December 2024.

The coverage of stage 2 and stage 3 is 84%. And the company has derecognized the interest on account of write-offs and on a prudent basis did not recognize the interest income on stage 3 assets. The amount is approximately INR95 crores to INR98 crores. The gross NPA stands at 12.58% and net NPA of 1.71%. Thank you.

Moderator:

The first question is from the line of Shreya Shivani from CLSA India.

Shreya Shivani:

So I have two questions. First is now that we are at a certain level in terms of our collections and we've been making efforts on the collection side, etc. And we've slowed down our disbursal also, so going ahead, what is our outlook on how long will we take to stabilize our collections and efforts so that our disbursements pick up? What will be our outlook? What should we expect for 4Q, 1Q, onwards? That's my first question.

Second is on the branch-level activity. So we've heard that the loan officer attrition has been quite elevated in the industry, which is something which happens during times of stress, so can you help us with what is the attrition number for our loan officers and branch managers? And

what efforts are we making towards stabilizing our branch operations and employee performances, etc?

Devesh Sachdev:

Yes. Thank you Shivani. I will answer your first question, where we are right now, because of this challenge which we have faced and the overall operating model needed a certain tweak, so we have been working on it. Starting from the onboarding of customer, credit underwriting, collection; looking at the whole process, how do we look at KYC.

So I think we have used this time to really look at every aspect, and then there are buckets which have bulged. And this customer in the past also comes back because they know that there is a credit bureau record. They would like to -- money is required. There is always a demand, but it needs a lot of effort, a lot of follow-up.

Right now it's not that we are consciously saying that we will not disburse. It's just that the whole system is getting acclimatized to the new credit underwriting norms and the rejections and everything. So I believe that this will continue further 1 or 2 quarter. And then I think you will see us coming back. Because we have 1,400 branches and we have the team experience.

So once all these new changes which we have done, the whole system gets acclimatized. And there will be some -- overall, you can also see that there are branches where the PAR is high, we are going very slow. We are just going with our existing customers.

So once we see that those branches also coming back, like -- I can give you a simple example like you see Punjab last year, we faced a lot of challenges in Punjab, but Punjab, for the last 8, 9 months, has been doing very well. And we are thinking of starting some of the branches where we're not doing disbursement in this quarter and start slowly with adding new customers.

So I think the idea is that we remain focused. We remain prudent. Overall, there are many changes which happened, including the MFIN guardrails. You can also see that, overall, customer leverage is coming down, so I think we would like that this whole phase where there's a lot of consolidation is happening.

Once we pass through this -- keeping a very high focus on collection. and with the kind of network we have, we can always come back in terms of our strategy to grow, so I think it will take us another 1 or 2 quarters before we start looking at very actively on the growth. I think, by the time, team, everything will settle down.

Now second, your point on the attrition. So you are right. So if you remember, even in the last call, we have mentioned about many steps we have taken. So starting from changing the whole -- if you see, one important thing is -- because there are many customers where you still have to do door-to-door.

So what we have done is we reduced the load of the field officer. If you'll remember, at one point of time, we had around 550 customers being handled by a field officer. It has now come down to around 400. So that is one big change we have done. A lot of telecalling support, a lot of collection support is being given. In branches where there are high 60-plus numbers, there's a separate team for doing collections. Incentive structure has been changed.

We are providing extra facilities for them in terms of mess facility. For a new joiner, for the first 3 months, there is no target. We are giving a fixed incentive, and then continuous employee engagement is happening, so I think we are -- you're right. We have seen very high attritions, especially in August, September, but now what we see is that accretion is coming down but still remains high.

So I think we still believe that a lot of work needs to be done to make sure that we are able to retain people. A lot of challenges are not because we have not taken step but also because of the whole environment has become slightly challenging, but I think our HR teams and we have a ground team or HR team also at the ground.

And we are continuously trying to source, train people and try to engage with the people. I think -- we believe that we will be able to -- now some green shoots, we have seen, if I look at from August to November, December, it is slightly coming down, but I hope, once this challenge, overall stability happens, the people retention rates go up.

Shreya Shivani: Got it. So sir, just a quick -- so how much was the attrition in August, September? Was it more than 50%? And has it come down under 50% right now...

Devesh Sachdev: Yes. It has come down to under 50% now.

Moderator: Next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, first thing, on the rights issue. You have already published an update in your presentation that SEBI approval is awaited, but I'm just trying to understand, if you can give some more color beyond SEBI approval, right? What is it that we are waiting for? Is it the new CEO appointment that we are waiting for?

Or is it that, I mean, among the 2 promoters that we have, I mean, either 1 is not very keen to subscribe to the rights issue? Basically what I'm trying to understand is, in your presentation in March, you have shown that we will get around INR400 crores, part of the rights issue. So just trying to understand the thought process, whether this will be in 2 tranches of INR400 crores each. Or how should we read it?

Devesh Sachdev: Yes. So first, we clarified it even last time that, this INR550 crores, we made it to INR800 crores. And also, when we looked at the advice we get from our bankers, this is the right overall structure. And now, hindsight, if you see, I think INR800 crores was the right decision.

Even if we get in the first tranche the INR400 crores, I think our capital adequacy will start touching around 25%. And then we will have a next tranche available to be called anytime that is there. So there is no hesitancy in terms of putting money. There is no other thing which is in our mind or anything which is going on. We have got approval from both the stock exchanges, NSE and BSE.

We even 2 days back, got some queries from SEBI. And we are hopeful that very soon we'll get the approval from SEBI and we'll get over with it. So there is no hesitancy. We are not waiting for any other thing. It is just procedural regulatory approval is awaited from SEBI.

And then you said that we are waiting for the new CEO to join and all that, so I don't think it has anything, any link to the rights issue. That's a parallel process which we are running. And whenever we have a development, we will definitely share with all of you, but let me again reiterate there is no hesitancy from the promoters to put money, or any other reason for delay. It is just that we are following all the process. Our bankers are working and we are awaiting the SEBI approval.

Abhijit Tibrewal:

Got it. And sir, the second question, I mean, I had was just trying to understand. We have already put out the Zero-bucket collection efficiency, which seems to have improved in December and slightly again in January. You have called out in your press release early green shoots that you have seen. I mean I'm just trying to understand. I mean, today, when we speak to MFI companies, we get sort of mixed reviews in terms of the status which is there on the ground in Feb 2025.

So if you can give some more color on that. All that I'm trying to understand is, whatever we have seen until January, are we not confident that this is a trend. Or is it something that needs to be monitored over the next couple of months before we can be confident that this is indeed a trend and we will see things improving?

And a question, related question for Gaurav, sir, here is: Given where we are today, are we now in a position to kind of call out how much of credit costs will be required in this credit cycle?

Devesh Sachdev:

Yes. So I'll first answer. Look. I would not like to comment on anything about competition, but I can only tell you that we are only presenting what we are seeing. We were the first one to call out, in Q1, when we saw that there is some sudden flow rates which have gone up. And now it is very clear that it has happened in the sector. We are very confident.

And if you can see, that we took huge steps to really arrest this; and it is now very clear and green shoots are visible. Even I can tell you one more data, that the new sourcing which we are doing, which we changed in the middle of August. And now when I look it's a five-month MOB, though it is too early, it's just a 5 months MOB, but I believe the numbers are infant or early delinquency is clearly showing trends which we have seen in year 2022, '23. But the idea is that we remain cautious because we want to see at least 1 or 2, 3 more months to remain confident and look all the buckets.

I can also tell you that we are seeing even our February, up till now, is better than January, but as a prudent company, we would like that we see this through further 2, 3 months to really then form opinion that, look, now we can get back to this thing. Because there are other balls in the air. There are certain geographies we are still lagging.

If you refer to the Slide number 8, there even you see Tamil Nadu or, for that matter, Odisha, some top 5 states that's bigger. The challenge we faced was because 2, 3 large states for us in top 5 have faced challenges, so we remain cautiously, as I mentioned in my commentary, optimistic, but the overall trends which we are seeing, even I'm talking with confidence, till yesterday are encouraging. And Gaurav...

Gaurav Maheshwari:

Abhijit, to your question on the credit costs. I think most of the pain is being taken, but having said that, the evolving situations happening in the microfinance sector, we are just taking a stock

of it. And obviously the effort is to get all the things done in this financial year. So that is the way we are looking at it.

And if you see, if we have gone as per the ECL of September, our loss would have been far, far lower without the interest reversal and the DTA, but having said that, the quarter which we have used for increasing the coverage across stages -- so that the impact for the new financial year would be very minimalistic. And we can start afresh from Q1, onwards.

Abhijit Tibrewal:

Got it. And Gaurav, sir, in your opening remarks, you have shared the quantum of interest income which has been written off and interest income which has not been recognized on stage 3 assets. So if you can share that again. I'm just trying to understand. I mean, until Q2, we were accruing interest income on stage 3. This quarter, we have stopped recognizing interest income on stage 3 assets. So I mean if you can just explain that one.

Gaurav Maheshwari:

So Abhijit, it is all done in a way that, if potentially there is going to be any write-off in Q4 because gross NPA is at like 12%, 12.5%. So the impact on the balance sheet, on the P&L will be very minimalistic. And that is why we have used Q3 as a coverage to sense it in a two way that we have increased the coverage on the overall portfolio.

Apart from that, the interest reversal, which is going to happen once we do a write-off in Q4, so that will not impact the P&L, in a way. So to answer your question, that because of a write-off and interest not to have interest recognition is approximately closer to INR95 crores to INR98 crores in totality.

Devesh Sachdev:

Abhijit, the idea is that we are future-proofing the balance sheet to make sure that since all actions are -- whether the action is taken at the operating level or a balance sheet level, are to make sure that we are able to future-proof it, make it very solid and start fresh and set it up for the financial year '26, '27.

Moderator:

Next question is from the line of Ankit Surana from JM Financial.

Ankit Surana:

My question pertains to the Karnataka ordinance that got notified last evening. And I believe that close to -- from the September numbers, your portfolio is around 1% in Karnataka and overall 10% in Southern India, so I'm trying to understand. Even though it's not applicable on RBI NBFCs, but -- any kind of collateral damage that the management oversee in this one?

Devesh Sachdev:

So it's all right. Look. One, at a sector, our association, SRO MFIN, has been working very closely with the government. And as you rightly mentioned, it clearly says that banks and NBFCs registered with RBI will not be covered under this. However, there are elements in the field which try to take benefit out of it. I think the intent of the government has to be seen very positively, where they are mostly talking about the code of conduct.

And RBI already and MFIN also has a very stringent code of conduct. However, this ordinance, as you can see, has come yesterday only. We are cautious in Karnataka. As we've mentioned, that we have 1% portfolio. So we are watching the situation. The ordinance has come only yesterday.

I did not get the full hang of it in terms of what all things are there. I've already told my team to look into it, that what are the things which we need to be careful of in the field. We will be cautious and watching the situation, but the good thing is that it excludes RBI-regulated entities. But yes, I think we need to be watchful. We need to be cautious and understand the intent.

I think, if everyone, all of us, at a sector level also have talked about that all the people in the ground need to follow certain code of conduct in terms of timing, interacting with the customer and everything. So I think all that is more related to code of conduct, but yes, we would like to see and watch very closely how does it impact the field situation. And I'm hopeful that there will not be a major impact, but we still have to wait and watch and see.

Moderator:

Next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje:

Just a couple of questions. Firstly, if I look at the recoveries from write-offs in FY '25, so far, that is about INR 12 crores. If I compare that with the amount of loans which we have written off, let's say, in FY '24, that was about INR320 crores, and another INR420 crores in the last 9 months, so the bad debt recovery seems to be a fairly low number as a proportion of what we have written off. Can you elaborate on why? What is the reason for this? That is one. And second is just a data-keeping question, if you can share the SMA 0, SMA 1 and SMA 2. Yes, that's all.

Devesh Sachdev:

Yes. So on the write-off, if you see, historically, we are able to recover anywhere between 5% to 6% from the write-off. And we have recovered close to INR27 crores, recovery we have done, in FY '24. And this time, I think we have already recovered INR12 crore, but yes, now what happened this year was that, as there were the flows and early buckets were very heavy, so the teams are oriented towards that. Now from November, December, we have put a separate team for the write-off pool. And we are hoping and we have seen that the December numbers are in this pool, the collection is better than November.

And similarly the January numbers from this pool overall amount which we have collected is better than what we collected in December. So that focus is there, but it comes with the overall with some period. But I think you will see broadly the recovery will be anywhere between 5% to 6%, to 7%. That has been the trend, if you see, even go back to what we but this time have because we have a separate team. We are using telecalling. So all that should help us to get more, but it will happen over a period of time.

Gaurav Maheshwari:

On your question on SMA 1, 2. So our overall PAR 0 is at 19% because, if you see from a collection standpoint, there is a still the roll-forward rates had gone slow, but it is still slipping to 0 plus, but the pace has gone slow.

Devesh Sachdev:

But also because this the portfolio has got slightly degrown. So the denominator impact also, but that's how the number is.

Ashlesh Sonje:

Sir, just one follow-up on the first question. On these written-off borrowers, are you able to identify them, meet them? Or have they completely absconded?

- Devesh Sachdev:** No. I think it's a mix of that. There you are right. There are around 15%, 20% where we see that customers have also migrated. And there are customers who have changed their numbers and contactability is an issue, but there are customers where we are able to do meeting.
- And we are speaking to them, we also look at data scrubs where whether this customer, how this customer is behaving with others, if there is a payment which is being done to others. Are they current with others? Or any other buckets. So we look at all that.
- And accordingly, the strategy is based, but broadly I think what we can see is that there has been a pain. And we see some customers even coming after 1 year, 2 years to pay because they are not able to take further loans. Overall, at a sector level also, there is a huge consensus on that we should not be doing "anything will default because you must have seen the guardrails where they're even talking about 60-plus. I think that also should help. When the customers will not be able to get the money from any other source, they will come and try to settle their account, but I think it's a mix of that, so yes.
- Ashlesh Sonje:** Sir, just one last one: the proportion of borrowers which you have shared across buckets, Fusion plus 2, plus 3, plus 4. Can you also share a proportion by value of the exposure? That's what those were on the question side? Thank you.
- Devesh Sachdev:** Okay. We will share with you separately. We don't have right now, but we'll share with you separately. You will reach out to our team, yes, separately.
- Ashlesh Sonje:** Okay.
- Moderator:** Next question is from the line of Chintan Shah from ICICI Securities.
- Chintan Shah:** Sir, I just missed the number on interest reversals, so could you please just quantify the number on interest reversal for Q3 and 9M? And is it that we were not reversing the interest on stage 3 in Q2 and Q1? So yes, please have clarity on that, yes.
- Gaurav Maheshwari:** So we as a prudent practice, in this quarter, what we have done, we have done, well, you can say, the derecognition of interest on the stage 3 asset in Q3. And obviously there was in Q2, Q1, where we have also derecognized, because if you see, that once we do a write-off in Q4 or Q1 there would be an impact on the P&L, so that is why we have taken a prudent call to reverse and -- on the NPA asset and so that it should not have that impact on the P&L.
- Devesh Sachdev:** Impact is minimal.
- Chintan Shah:** Yes. Of course also, earlier, it means, even if the account slipped into stage 3, we were not reversing the interest. We were considering the interest in the interest income. Is that understanding correct?
- Gaurav Maheshwari:** Yes, yes.
- Chintan Shah:** Okay. So sir, what will be the total quantum, total amount of interest, I think, INR95 crores to INR98 crores, you mentioned. Was that the number of interest reversal in Q3? Or -- yes...

- Gaurav Maheshwari:** No. So it's a combination of a write-off and the interest derecognition.
- Chintan Shah:** Okay. So that would be total INR95 crore. Just the amount, I mean, basically the interest income reversal from stage 3 account in Q3, if you could just share that number, which had an impact on margins, sir.
- Gaurav Maheshwari:** Yes. We'll share you separately on that.
- Chintan Shah:** Sure, Okay, okay, yes. That's it from my side, yes.
- Moderator:** Next question is from the line of Pranav Gupta from Aionios Alpha.
- Pranav Gupta:** Just a couple of clarifications before the questions, wanted to check when you mentioned current book collection efficiency. What is the exact definition that we are using in terms of what does the denominator and numerator include?
- Devesh Sachdev:** Yes. So Pranav, basically where we are saying is the book which was current in the month of October; out of which, how much people have paid in November. So this is a basically current book behaving every -- how it is -- because that was the basic issue because from a current -- the loans are going into 1 DPD and then flow rate.
- That's what we are trying to show here, that even if you look at the new loans, current customers going to PAR 1 to 30; and from PAR 1 to 30, going to 30-plus, that both where we have been able to see a huge improvement. That's what we have here, yes.
- Pranav Gupta:** Understood, sir. Sir, also just another clarification. I think Gaurav, sir, mentioned that marginal cost of funds were about 10.1%, if I get, if I got the number right. If I look at the PPT, it sort of shows that marginal cost of borrowing is at 11.3%. Is there an understanding gap?
- Gaurav Maheshwari:** Pranav, I was talking about on a 9-month perspective. And I think you are looking at on a Q3 stand-alone perspective.
- Pranav Gupta:** Understood. So Q3 number is at 11.3% in terms of marginal cost of funds.
- Gaurav Maheshwari:** Yes
- Pranav Gupta:** Understood, sure. Just a couple of questions, now that the clarifications are away, in terms of interest reversals. So you mentioned that INR98 crores is the number that we reversed in this quarter, but if I look at our interest income, it's seen a sharp fall. And it seems that the number would have been higher than what we mentioned, even if I talk about the cost-to-income ratio that you mentioned excluding the interest reversal, so maybe there is some understanding gap from my end. If you could clarify that as well, that will be very helpful.
- Gaurav Maheshwari:** Pranav, if you see, that over the last 6 months, there is a degrowth in the portfolio. So obviously there is a lesser interest which is because there is a portfolio which is getting -- running-down and it is going out of the portfolio. And so the interest income is slightly getting lower.

Apart from that, the call which we have taken on -- because that INR95 crores to INR98 crores includes the write-off also; and if you see, that we have done a write-off in Q2 also. So I think it has 2, 3 impacts. One is the write-off. Second is the interest reversal call which we have taken in Q3. And apart from that is you're seeing the degrowth in the portfolio in last 6 months.

Pranav Gupta: So absolutely I understand the degrowth bit, no doubts there, just that the dip if you just compare, say, Q2 versus Q1 and Q3 versus Q2. Obviously you've seen a portfolio degrowth even in Q2, but it seems that we haven't reversed any interest in Q2 itself, so I wanted to get clarity on that bit.

Gaurav Maheshwari: No, So we have derecognized the interest on stage 3 in this quarter only. In Q2, we have not done that. Only what we have derecognized in Q2 was only on the account of write-off.

Pranav Gupta: Okay, sure. And if you could just quantify the interest reversals in all 3 quarters or maybe 9 months, that will be great.

Gaurav Maheshwari: Yes. So Pranav, as I mentioned in the earlier question, we can deal this in a separate discussion. Or you can just write it to the investor relation. We can just respond on that.

Pranav Gupta: Sure. And just one last question. Could you give out the rationale on the DTA reversal this quarter, especially given that, I mean, this quarter itself also was a loss? Just some rationale there.

Devesh Sachdev: So basically, Pranav, if you see our notes to account, point number 7, which has been a -- we have clarified that there is a note on going concern. And it is linked to and as a matter of prudence, we have under Indian accounting standard, AS, 12, this has been done.

So we have clarified that. And also, as soon as in medium term our balance sheet turns back to black, I think we can always accrue this. So it's more of an accounting entry. And it is a noncash item and it does not impact anything else, but we have clarified in the notes to account, in point number 7.

Pranav Gupta: Sure. I have more questions. I'll join back in the queue.

Devesh Sachdev: Thank you.

Moderator: Next question is from the line of Zakir Husain from AU Small Finance Bank.

Zakir Husain: I just have one question. Out of top 10 state, which state are worst in terms of collection efficiency?

Devesh Sachdev: We have -- if you -- just a minute. I'll tell you because we have mentioned this in our -- if you look at the Slide number 8. If you see, Tamil Nadu and Odisha are still lagging behind. That I also covered that these 2 states -- even Bihar. You see, from November, it has started picking up.

And in January also, it has more or less -- it has not shown much improvement -- it has not shown improvement from December, but I think these Tamil Nadu and Odisha are 2 states where

we are still seeing some kind of lag. It is coming up. We are doing efforts, but I think it's still lagging from the other states in the top 5.

Moderator: Next question is from the line of Srijan Sinha from Future Generali.

Srijan Sinha: Devesh, just wanted to understand on this deferred tax asset bit once again. So when we have not recognized the -- we have not taken the benefit of the negative tax credit that we would have got this year, when we turn profitable next year, does the accounting imply that we will have a 0 P&L taxation next year? And thereby, your PBT is equal to PAT and which will inflate your ROA and ROEs. Is my understanding correct on the accounting treatment?

Gaurav Maheshwari: Yes, you are absolutely correct. Srijan, what we need to understand here, as Devesh has mentioned in his earlier remark, that as today, there is a covenant breach of a lender; and most as per Ind AS 1. So you need to have a certainty of a cash flow for 1 year, but most of the lenders where we have got the condonation of the breaches valid till Q3, Q4, so auditors are pointing out that there is a going-concern issue

And consequently, on prudent basis there is no point continuing DTA. Once it turns out into a black, whether it is Q1 -- we can immediately recognize the DTA benefit. And we can just take the benefit in the coming quarters/years.

Srijan Sinha: Okay, fair enough, but Gaurav, what changed between Q2 and Q3? Because the same comment was there in Q2 results as well, right?

Gaurav Maheshwari: No. So if you see from a loss standpoint. So the loss has increased in this. And obviously there would be a taxable loss for this year, so as a prudent basis and as per Ind AS 12 also, if there is a, you can say, certainty that, in the coming 1 or 2 quarters, you are not going to have that profitability, it's prudent to reverse that DTA.

Srijan Sinha: Fair enough. My second question, Gaurav, is on interest income reversal, just to get a clarification out there. So if you were to hypothetically, let's say, write off the entire INR1,200-odd crore of the stage 3 assets, does that imply that you only have to provide for the unprovided portion which is, let's say, 11%, 12%? And there is going to be no interest income reversal on that pool.

Gaurav Maheshwari: So going forward, if I do a write-off of my stage 3, then there would not be any interest reversal going forward from that particular asset.

Srijan Sinha: So the entire INR1,200 crores, the interest reversal, up to December has already been taken this year?

Gaurav Maheshwari: Yes. So as I mentioned, Srijan, in my earlier comment and Devesh has also reiterated, that we are preparing for FY '26 and going forward so that, the impact, whatever we need to take in this financial year, we have already. And most of the pain is already being taken till Q3.

Srijan Sinha: Okay, fair point, fair point. One more question, on the disbursement side, Gaurav. I mean I see that, in the Q4 till date, you have already raised about INR 400 crores of liquidity. The entire

last quarter, you raised just nearly about INR 500 crores. So have you seen some bit of a disbursement pickup in this quarter already, in January and February, initial part of February?

Devesh Sachdev:

No. Srijan, we are still being very calibrated, and we are very watchful. And as I mentioned earlier, the system is taking time. The whole team is taking time to acclimatize to the new changes. A lot of credit underwriting with a lot of system development is also happening, so we will still be prudent and calibrated in this quarter.

And once we have a confidence that the things once we see the -- on the ground and there is empirical evidence -- as I mentioned earlier, 5 months MOB is now giving us confidence, but we would like -- still like to wait for 1 or 2 months and also look at the certainty in terms of our liquidity.

And before we really start talking about growth, right now effort is to recover as much as possible, which has gone in different buckets, but I think we have a huge network, team and everything. We are confident that, once we see more evidence of stabilization, we can get back to a sustainable growth path.

Moderator:

Srijan, kindly come back. Ladies and gentlemen, we'll take one last question, from the line of Bhavik Shah from InCred Research.

Bhavik Shah:

Sir, I appreciate your efforts on asset quality front in various areas and the new customers underwriting. Sir, I just want an update on what's happening on state-specific level. How are you seeing the competitive intensity for your -- are you facing any asset quality come back, like, massively? Like any update qualitative, and particularly Tamil Nadu, will be helpful.

Devesh Sachdev:

So look. I think every -- so if you can just -- one is -- Tamil Nadu, I heard, but in between, I could not hear. What did you say? What do you want my view on?

Bhavik Shah:

So as in how the collections is happening over the period. Any articulative comment on -- as in, how is the customer behaviour? How are they coming back, so on and so forth?

Devesh Sachdev:

Yes. So look. We are as I mentioned, and we have shown, every -- we have shown early bucket, but I can tell you, each bucket, we are seeing an improvement. If I talk about from October to November, November to December, December to January, even January to February, every bucket, we are seeing improvement. This customer, you can understand it's a vulnerable section. This customer cannot give you 3 instalments together or 4 instalments together, if we have to work with this customer.

And then a lot of follow-ups. Also one important thing which we have, your point, is -- we have seen in various crises with this customer is that they understand the kind of value which microfinance companies bring on the table. They understand that those steps are raised. They understand that it is one of the least, if -- in terms of the cost, this is much better than going into informal sources. And it's all the other benefits which is available.

So I think what we are seeing is that green shoots. We have already shown that the current -- the overall flow rate from current 1 to 30, 30 to 60 is coming down. Slowly, we are seeing that --

People want to pay, want to come back. And once I think this whole guardrail and the industry coming together will also help because it will send a very strong message that customers, nobody will be able to get money if they default.

So I think, in the short term, there could be there is some pain, but in the long term, I think this will be very good for a sustainable growth of sector because it will send a very strong message that people need to pay and every company will follow guardrails. So all that, in my view and you have seen in our... even the customer leverage is coming down.

So all this clearly points out to that whatever heating which has happened, overheating which has happened, in the sector, it is slightly cooling off. And then I think, in the next 1 or 2 quarters, you will see a stabilization and normalcy coming back.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. On behalf of Fusion Finance Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

Gaurav Maheshwari: Thank you. Thank you, everyone.

Devesh Sachdev: Thanks.

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