



“Fusion Finance Limited  
Q4 & FY26 Earnings Conference Call”  
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**Moderator:** Ladies and gentlemen, good day, and welcome to Fusion Finance Limited Q4 and FY26 Earnings Conference Call. As a reminder, all participant line will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then 0 on your touch-tone phone. Please note that this conference is being recorded.

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

**Smit Shah:** Thank you. Good morning, everyone and thank you for joining us on the Q4 and FY26 earnings conference call of Fusion Finance Limited. We have the company's senior management team with us on this call. Before we begin, I would like to remind you that certain statements made in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q4 FY26 investor presentation which has been uploaded on the stock exchanges and the company website.

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

**Sanjay Garyali:** Yes. Thank you. Good morning, everyone. Thank you for joining us today for Fusion Finance's Q4 and full-year FY26 earnings call. FY26 was an important year of learning, testing and institutional building for us at Fusion.

During the year, we prioritized portfolio quality, materially strengthened our credit guardrails, invested in collections, infrastructure and technology and sharpened customer selection across both MFI and MSME businesses. At the same time, we gained far greater clarity on the operating segments and the customer profiles where we believe the business can scale with stronger portfolio quality and better productivity.

This gives us confidence that the growth we are now seeing is sustainable, operationally stronger and backed by better execution discipline while also positioning Fusion significantly better to navigate external and operating headwinds going forward. At the same time, we remain mindful of the evolving external environment.

Developments in West Asia, volatility in energy prices and the possibility of inflationary pressures are risks that the broader financial system will continue to monitor closely. However, let me reconfirm that we see no impact of the crisis on either book growth or the portfolio performance.

Before I move to the business update, I would like to acknowledge a few important leadership developments during the quarter. We are pleased to have Priyanka Wadhwa join us as the Chief Strategy Officer. Priyanka brings deep industry experience across financial services and will play an important role in Fusion's next phase of technology, process and transformation-led growth. We also welcome Remika Agarwal, who has joined the Board as Nominee Director representing Creation Investments, one of our key promoter group shareholders.

At the same time, I would like to place on record our sincere appreciation for Mr. Kenneth Van der Weele for his valuable guidance and contribution during his tenure as a Nominee Director with Fusion. We wish him all the very best going forward.

Let me now come to the business update. Q4 FY26 disbursements stood at INR 2,140 crores, up from INR 1,594 crores in Q3, reflecting strong sequential growth during the quarter. This momentum was driven by a deeper identification of the right customer segments and continued investments in automation across onboarding and collections, enabling field teams to operate with significantly lower process friction. Productivity improved materially across both MFI and MSME businesses during the quarter, helping the AUM trajectory turn positive during Q4.

Another important operating change implemented during FY26 was the move towards a far more granular branch level operating framework. Since November '25, we have classified branches across categories A to D based on credit metrics, operating quality and growth behavior. This framework is now helping drive both growth allocation and risk calibration at the branch level. We are beginning to see meaningful benefits from this approach. Currently, nearly 90% of our disbursements are coming from category A and B branches.

Importantly, we believe the business today has sufficient headroom to continue growing in a calibrated manner without meaningfully increasing portfolio risk. This confidence comes from improved customer selection, stronger operating guardrails and significant penetration opportunities that continue to exist within our existing branch network. Our AUM increased from INR 6,800 crores to INR 7,400 crores during the quarter.

Also, the average AUM for the quarter increased by nearly INR 200 crores sequentially. This is an important shift because the benefit of the higher average book will start reflecting positively in NII and PPOP from Q1 onwards, with operating leverage expected to accelerate from Q2.

Coming to portfolio quality, the forward flow rates in current bucket continue to remain at sub 0.1% level on a net basis, and we continue to see similar trends through April and May so far this year. In collections, we are now beginning to see the benefits of people, processes and technology investments made over the last few quarters. A large part of our monitoring and reminder systems is now becoming AI and trigger-driven, allowing early intervention, better execution consistency and tighter portfolio monitoring.

During Q4 alone, we executed over 5 million AI-led customer interactions, mostly in collection and customer onboarding. This is helping improve customer engagement consistency, early delinquency monitoring and field productivity.

Importantly, we continue to see very strong collection efficiency trends across most of our core operating states, including UP, Bihar and Odisha, where collection efficiencies continue to remain at approximately 99.75%.

This gives us the confidence that the portfolio stability we are now seeing is broad-based and supported by improving customer behavior as well as stronger field execution discipline. Our

90-plus DPD cash recoveries, including the write-off recovery, crossed INR 35 crores for the quarter.

Importantly, the write-back component within this stood at approximately INR 21 crores compared to nearly INR 15 crores in the previous quarter, reflecting improving recovery efficiencies and portfolio behavior despite a far reducing write-off book.

As communicated earlier, our collection model in these buckets continue to remain tightly managed through combination of in-house field teams and AI-enabled calling infrastructure. On customer quality, we continue to focus on lower leveraged and more stable borrower segments, while the new to Fusion customer mix in MFI increased steadily from 24% in Q1 to 35% in Q3 and now stands at 37% at the end of Q4.

Within MSME as well, we continue to strengthen our positioning in the loan against property segment, particularly within the INR 8 lakh to INR 15 lakh ticket size category. Collection efficiency trends remain robust across both the businesses with MFI collections improving to 99.7% and MSME at over 99.3% while our stated credit cost guidance remains in the range of 3.25% to 3.75% in MFI over the long-term, this is more so adjusted for any cyclical issues. Internally, however, the portfolio trends are modeled towards a credit cost of 2.5%.

We also feel that with MSME as a portfolio kicking in, the overall weighted credit cost guidance will be closer to 2.5%. As a result of the operating and portfolio improvements undertaken over the last few quarters, quarterly credit costs have reduced significantly to INR 56 crores from INR 80 crores in the previous quarter.

Alongside this, we are also in the process of migrating to a significantly more advanced LMS. The UAT process has already commenced last week, and the migration is expected to be completed by the end of August 2026. The new platform should materially improve branch productivity, onboarding quality, monitoring capability and customer service while reducing further process friction across both underwriting and collections.

As we move into FY27, we will additionally focus on two key operating priorities: one, stronger execution around branch consolidation and overall operating efficiency at a branch level; and two, further strengthening client onboarding, retention and calibrated book growth across existing and new centers.

Coming to profitability. Reported PAT for Q4 stood at INR 114 crores. However, excluding the one time DTA impact, core profitability for the quarter stood at INR 37.5 crores, translating into an annualized ROA of nearly 2.1% for Q4.

The first 45 days of FY27 give us further confidence in our direction. Growth trends remain healthy. Collections continue to stay strong and portfolio quality is stable across core markets. With a branch-led execution model now settling well on the ground, we remain confident of progressing towards our INR 10,000 crores portfolio aspiration by March 2027, while maintaining disciplined portfolio metrics.

With that, I would like to now hand over the call to Mr. Krishan Gopal to take you through the financials in greater detail.

**Krishan Gopal:**

Thank you, Sanjay, and good morning, everyone. I am pleased to present our Q4 and FY26 financial performance with greater context than at our last interaction. This has been a year that reflects meaningful financial strengthening across capital, liquidity, margins, asset quality and provisioning. Let me take you through each of them in turn.

Before I get into the financials, a brief but important word on where we have come from. During the earlier few quarters, the company was navigating financial covenants under stress, caveats on going concern and cautious lender sentiment. I am pleased to report that all these challenges are now firmly behind us. The improvement in our book is clearly evident in strong asset quality metrics - gross NPA of 3.21% and net NPA of 0.51%. Our capital and liquidity position remains robust and well capitalized.

Liquidity stood at INR 1,913 crores as on 31st March '26. This liquidity is higher by about INR 500 crores, which we have deliberately kept keeping in the geopolitical situation in mind. And of course, this additional liquidity comes at a cost. So, this has an additional finance cost of about INR 7 crores to INR 8 crores for the quarter.

In addition to on-balance sheet liquidity, company holds sanctions in hand amounting to INR 1,245 crores, which are drawable at any time, further reinforcing our funding flexibility and further, in addition to this, company has a strong pipeline of about INR 2,500 crores.

Capital adequacy stood at 36.46%, comfortably above regulatory requirement. This level of capitalization provides meaningful headroom to support the target of around INR 10,000 crores AUM in FY 27 without requiring any further equity infusion during this year.

During Q4 of this year, we raised INR 2,040 crores in new borrowings, comprising of term loans, direct assignments and pass-through certificates. For the full year FY26, total debt of about INR 6,000 crores across our lender base were raised.

During the fiscal, we onboarded 11 new lenders, underscoring the resilience and credibility of our franchise within the financial ecosystem. The lender engagement story has continued to evolve positively through Q4. Several credit partners that were previously in wait-and-watch mode have actively reengaged with fresh credit lines extended by both new and existing lenders.

The composition of our borrowing base has shifted favorably. Private sector banks now account for 42% of our borrowings, up from 36%, while public sector banks exposure has declined from 27% in FY25 to 16%, reflecting our broadening and diversification of our institutional lender relationship. Foreign banks contribute about 18%, NBFCs over 14% and development financial institutions constitute about 4%.

Cost of borrowing front, our average cost of borrowing for Q4 stood at 10.30%, broadly like last quarter, demonstrating the stability of our borrowing franchise even as we actively expanded the lender base. The marginal cost of borrowing moderated further to 10.8% in XIRR terms in Q4

FY 26 from 11.88% again XIRR in Q3 FY26. This is a 100-bps quarter-on-quarter improvement, reflecting the improving quality of our borrowing mix and the engagement of a broader lender base at a more competitive rate. Going forward, we anticipate our marginal cost of borrowing should continue to improve from current levels as the diversity of our sanctions and depth of our lender relationship grows. But of course, this is subject to the current macro environment and geopolitical environment.

Our credit ratings remain stable across instruments. Long-term debt and NCDs are rated CRISIL A- stable and ICRA A- stable and by CARE at A with a stable outlook with CARE upgrading outlook from rating watch with negative implications to stable in Q4. The CARE outlook upgrade is an external validation of the improvement in our financial and operational profile and gives us confidence in further rating momentum as our profitability and asset quality continue to improve. We continue to engage with our other 2 rating agencies on the upgrade discussions.

Net interest margin for Q4 FY26 stood at 11.44%, up 12 basis points from 11.32% in Q3. Net Interest Income for Q4 FY26 was ₹222 crore, compared to ₹237 crore in Q3 FY26, a 6% sequential decline, primarily reflecting higher finance costs due to the additional liquidity, which we have kept as we have discussed in the beginning of the section.

As the AUM grows in FY27, NII shall expand correspondingly. Total operating expenses have stayed stable in Q4 at INR 205 crores, nearly flat sequentially from INR 207 crores in Q3 and flat year-on-year from INR 206 crores in Q4 of FY25. For the full year FY26, opex was at around INR 832 crores.

As a result, pre-provisioning operating profits for Q4 FY26 stood at INR 93 crores, broadly flat quarter-on-quarter at INR 94 crores in Q3 FY26 and up 3% year-on-year from INR 90 crores in Q4 of FY25. This flat PPOP is after absorbing additional finance cost of about INR 7 crores to INR 8 crores due to additional liquidity maintained during the quarter. The full year FY26 PPOP was INR 362 crores. This demonstrates the franchise underlying earnings strength and the tangible benefits of the operating efficiency systematically built throughout the year.

Profit before tax for Q4 FY26 was INR 37 crores, up 166% from INR 14 crores in Q3 FY26. A deferred tax asset of INR 76.8 crores was recognized during Q4 FY26 arising from temporary taxable differences, primarily from the ECL provisions to the extended considered recoverable based on our forward profitability assessment.

This DTA recognition reflects our confidence in the trajectory of future taxable profits. Thus, with the impact of recognition of DTA, the PAT for the quarter was INR 114.19 crores. Excluding the impact of DTA, the annualized ROA for Q4 FY26 stood at 2.08%.

For the full year FY26, PAT was INR 13.9 crores, making a decisive return to the annual profitability after a loss of about INR 1,200 crores in FY25. On ECL, we had provisions as per ECL model of INR 53 crores during the quarter, write-offs were INR 136 crores, closing ECL was INR 270 crores. This works to a provision coverage of 84% on Stage III assets and 71.5% on Stage II assets, collectively constituting about 81% coverage

The write off recovery during the quarter stood at INR 21 crores, up from INR 14 crores in Q3, demonstrating improving effectiveness in our in-house collection teams.

Thus, the net P&L impact of credit cost for Q4 was INR 32 crores, equivalent to INR 0.5 crores of average on-book loans for the quarter. This compares to the INR 65 crores in Q3 FY26. The trajectory of credit cost normalization has remained clear and consistent.

I would like to mention that during this quarter, we have released management overlay to the extent of INR 5 crores less as compared to Q3. Based on the monthly net forward flow rates from the current bucket, which is 0.03% in Q4 FY26 and continued improvement in delinquency buckets and the quality of the new book performing at 99.77% collection efficiency, we remain positive to maintain our stable state credit cost of 2.5% to 3%.

The company has maintained a strong emphasis on portfolio hygiene and conservative provisioning through Q4. Asset quality metrics improved further during the quarter. Gross NPA declined to 3.21% in Q4 from 4.38% in Q3 FY26, a fourth consecutive quarter of gross NPA improvement. Net NPA improved to 0.51% from 0.63% in Q3 and 0.60% for the internal calibration. These are among the most important validation metrics for our recovery. Total equity as on 31st March '26 stood at INR 2,456 crores.

To conclude, Q4 and FY26 marked the completion of a meaningful phase of financial stabilization and the return to profitability. The year has been characterized by the stable and improving margins, strengthening provisioning coverage, healthy liquidity and a materially improved lender landscape.

As we enter FY27, our financial priorities are clear: Sustaining financial discipline and cost efficiency — with cost-to-income ratio improvement as the primary lever of operating leverage; and deepening and diversifying our lender relationships to support AUM of INR 10,000 crores target and continuing to benefit from the marginal cost of borrowing improvement as lender confidence builds on. With improving asset quality, robust capital adequacy, a strengthening funding profile across 11 new onboarded lenders in FY26 and a clear path to credit cost normalization, we are well positioned to deliver steady and sustainable progress in the year ahead.

Thank you and with that, I open the floor for the Q&A session. Sanjay and I, along with the rest of the management team are available to answer your questions.

**Moderator:**

Thank you, sir, for your presentation. Ladies and gentlemen, we will now begin with the question-and-answer session. First question comes from the line of Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Please go ahead.

**Abhijit Tibrewal:**

Yes. Good morning, sir. Thank you for taking my question. Sir, 2, 3 things. One is this DTA that we have created in this quarter, is this the only quarter where this DTA will be created or going forward also, there can be more DTA creation?

- Krishan Gopal:** Thanks, Abhijit. So, as you are aware, we were not recognizing DTA as there was a caveat on the going concern. Now we have started deferred tax assets for the first time after about 4 - 5 quarters. Now going forward, it is going to be a BAU as far as the deferred tax asset is concerned. And to the extent recoverable and availability, we are going to recognize the DTA every quarter for the year based on the availability.
- Abhijit Tibrewal:** Got it. For the next few quarters, we can see DTA creation and to that extent, there could be tax write-backs in the coming quarters as well?
- Krishan Gopal:** Yes, that's the normal situation, and we'll follow that.
- Sanjay Garyali:** Abhijit, the total DTA, as we are aware, is close to around INR 390 crores. So you are aware, we released about INR 77 crores. Now the balance is left, which is in the due course on a pro rata basis. So, there is no hurry to consume that. But on a pro rata basis in the next 12 to 18 or 24 months, we will consume as and what the auditor is also comfortable with. But that's the amount that is left to be, let's say, consumed or whatever. So, INR 390 crores minus INR 77 crores is what is still left on the table.
- Abhijit Tibrewal:** Got it. The other question I had was on the liability side. Of course, I mean, last year, meaning FY25, we had reported a big loss. So obviously, PSU banks don't really give out lending lines. Now that we have at least reported a profit this year, FY26, do you expect that going forward, lending lines from PSUs can also start opening up?
- And the related question, in the opening remarks, Krishan sir said that we are in discussion with the credit rating agencies, the other 2 for an upgrade. What is it that they are looking for? Is it improvement in profits, improvement in asset quality that they will be monitoring or do they also have some size, the balance sheet size?
- Krishan Gopal:** I'll go one by one on your questions, Abhijit. One is during this year also, we have had decent support from PSU banks. Like one of the large PSU banks has supported us to the tune of INR 800 crores on direct assignment fund in this year. So, we continue to get support from PSU banks and going forward, we have had discussions with all the PSU banks, and they were looking for these annual results and the final balance sheet, and everyone is broadly open to consider, and we are hopeful, we are confident that we'll get the support.
- While we speak, our proposals are already with about 5 or 6 banks, including 3 and 4 PSU banks for the credit sanction under the credit guarantee scheme. There is a positive trajectory on that side.
- Sanjay Garyali:** I think, Abhijit, the PSU banks may want to start with the credit guarantee scheme with everybody because you are aware that we have close to about INR 300 crores that we can take up. My sense is that our applications are under process. Most of the INR 300 crores that we take up will come from the PSU banks and that will trigger the normal lending from them.

**Krishan Gopal:** On the rating front, we continue to engage with all the rating agencies. As per our discussions, the other 2 rating agencies were looking forward to our annual results in the balance sheet and then they wanted to take a call.

However, in between, you know this geopolitical situation has happened. So now it's less of the internal because we are already profitable. Asset quality is robust and they should be comfortable. But I think the whole geopolitical situation and the performance of the industry would be monitorable for them. However, as we have mentioned, we are confident and we continue to engage with them.

**Abhijit Tibrewal:** Got it, sir. Thank you. The last question I had was on how should we look at FY27 now. A few things that came up during your opening remarks was that despite this West Asia war, we are not seeing any impact on growth and asset quality, collections holding up well. Then we also said that on credit costs, maybe 3.25%, 3.5% is through cycle credit cost. But this year, given that MSME is also going to ramp up, we are thinking of something in the ballpark of 2.5% credit cost.

So if I were to put this all together, how should we think about maybe AUM growth in FY27 and how the borrowing costs could shape up and the fact that going forward, the interest income reversal should be lower. So margins could expand. What would that kind of translate into the ROAs for this year?

**Sanjay Garyali:** Abhijit, I'll answer your first part, and I'll let Krishan take the second one. In terms of FY27 outlook, we continue to hold firm to the guidance of INR 10,000 crores. Like I explained, the first 45 days, which have been like complete part of the West Asia crisis, we do not see any impact.

You're right. There could be some challenges in the economy and there could be inflationary pressures. Our view is that in the last 1 to 1.5 years, the book that we have built has been very, very strong in terms of the credit metrics that we have used.

I think these kinds of measures help manage whenever the, let's say, macro headwinds come because nobody knows when the macro headwinds are going to come. But I think the prudence or the over prudence that we used in customer selection, that is going to ensure that the portfolio is able to manage multiple headwinds on the macro side.

However, I think the government has also talked about it, austerity measures must be there, and we have already started working on austerity measures in the last 30 to 45 days. There will be certain costs, which we think we need to cut down, whether it is some additional branch costs or travel costs. But, there are already significant austerity measures that we have put in place.

However, from an AUM growth perspective and portfolio perspective, we'll continue to hold that INR 10,000 crores and, let's say, a portfolio flow rate of between 0.1% to 0.15% net in the current bucket. Rest I'll leave for Krishan to answer.

**Krishan Gopal:** Abhijit, can you please elaborate what the other question was?

- Abhijit Tibrewal:** So Krishan, sir, what I was trying to understand is, if I look at fourth quarter also, right, I mean, we are yet to see an improvement at the PPOP level, so going forward, given that maybe interest income reversals, which were happening become lower, hopefully, the marginal cost of borrowings reduces as we move forward, how should we think about margins, opex and finally, the ROA for this year?
- Krishan Gopal:** Yes. The baseline for this is, the AUM has grown during this quarter. However, the average AUM is broadly flat. On top of it, the PPOP is broadly flat because of the 2 things, . One is, as we have mentioned, we have kept the additional liquidity of about INR 500 crores, which has an impact on the interest cost to the tune of about INR 8 crores. Deliberately, I mean, the DA income has been accrued less by about INR 7 crores during the quarter.
- This has been broadly the impact. If we nullify this impact, the PPOP would have been higher by that amount. As far as opex is concerned, at a broad level, the total opex for this year has been INR 832 crores. What we envisage for the next year is broadly a 5%, 6% increment into that at an annual level.
- Having said so, as a team, the whole of Fusion Finance team is running an opex rationalization project, and we are going to look for the avenues wherever possible, including, as we have mentioned in the past, branch rationalisation and any cost through processes, and we have engaged some experts, also on that front.
- So that should result in an opex reduction, opex rationalisation. And it should not go beyond 4%, 5% of increment over INR832 crores. So, in summary, going forward, there should be an increase in AUM, and that will reflect in PPOP. We don't see any increase in the opex. That will again come into the PPOP. Credit cost guidance, as Sanjay has mentioned is a stable state. There would definitely be an increase in PPOP.
- Sanjay Garyali:** Abhijit, net-net, PPOP, you will start seeing growth in Q1. And the acceleration in PPOP that we all expect as a part of the AOP will start coming in from Q2. The real acceleration will happen in Q2, but you will see growth in Q1 on PPOP.
- Abhijit Tibrewal:** Got it. This answers all my questions. Thank you so much and I wish you well.
- Moderator:** Thank you. Our next question comes from the line of Nidhesh from Investec. Please go ahead.
- Nidhesh:** Thanks for the opportunity, Sir, first question is on interest income. On a Q-on-Q basis, the interest income is flat, despite seeing a decent AUM growth on a Q-on-Q basis and the sharp improvement in asset quality. So, what is the reason for flat interest income on a Q-on-Q basis?
- Sanjay Garyali:** Nidhesh, any other question, we will answer them together.
- Nidhesh:** Yes. Second question is about active borrowers growth. How do you see active borrowers growth in FY27? Let's say, any target of new customer acquisition for FY '27? Third question is on what are the plans to add branches in FY27? These are the 3 questions, sir.

**Sanjay Garyali:**

Okay. So, on the flat NII, Krishan has already explained, a flat or slightly reduced NII is essentially because the average book growth impact will start coming in. Right now, you see the average book growing or the average AUM growing by already between INR 150 crores to INR 200 crores. So that is about INR 6 crores, INR 7 crores upside.

However, the dent comes from the additional liquidity, that's about INR 8 crores to INR 9 crores P&L impact, lesser DA that we've done, that's another about INR 6 crores to INR 7 crores. So that's why you see the NII flatter.

However, as I explained, Q1 onwards, you will see this NII growing and then the acceleration will start in Q2 because that's where the real acceleration on the average book will start. So right now, you see the AUM growing, but the average book has grown much less. You understand how the average and the EOP concept operate. So that's one. Hope that answers your flat NII.

On the active borrower, see, there's a call that we have taken that we will go slow on entry-level borrowers. So, that's less than INR 40,000. That's why you see that coming down. There's a slide that we have explained in less than INR 40,000 and between INR 40,000 to INR 1 lakh is where the sweet spot is.

So, from a new client acquisition, most of the upside in Q4 has come from the new loans rather than the ticket size increase. The ticket size has only gone up between these 2 quarters by 2% to 3%. The real upside has come from the number of borrowers, which has gone up by about 30%, to 31%.

We were acquiring in terms of numbers, about 34% volume was coming or disbursement was coming from new borrowers. This time, it is 37%. So now you see that focus, we've been telling you that between 35% to 40% of the new volume will come from the new disbursement will come from new borrowers. So now you see that inching towards 37%.

The good thing is that in that 37%, and we have explained, majority it is coming from less leveraged borrowers and less new to credit borrowers and 80% of that is coming from just one borrower other than Fusion, yes. So that's on the active borrower and we continue so 37% of this is between 35% to 40%. Right now, we are 37%. I think we will be closer to 40% on new client acquisition on the new disbursement.

On branch consolidation or on the branch growth, what we had done was that when our book was at about INR 12,000 crores, we had 1,400 microfinance branches. There were some 250 branches, which we had split because the existing AUM of the branches had crossed INR 12 crores to INR 14 crores.

Now we are all aware that the AUM has dropped since then. So, there are close to about 200 branches which we have split to form another set of branches. Now the parent branch itself, the AUM has collapsed and that market can be managed by the parent branch rather than the offshoot branch that we created.

The plan, hence, is that of these 200 branches, a lot of branches we will consolidate, and there are about 70 to 100 branches that we will add. So, the net addition will be negative by about 100, but that is more like a technical because these 200, 240 branches are more like a drag on opex and not technically now required considering that the parent branch can manage and these 70 to 80 branches, essentially, we are looking at in 3 states between Tamil Nadu, West Bengal and Assam. In all these 3 markets, our collection efficiency is around 99.8% and the portfolios are roughly sub-5%.

**Moderator:** Our next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.

**Viral Shah:** Yes. Hi, Sanjay and Krishan. Good morning and congrats on a good set of numbers. I had 2 questions and probably 2 follow-ups, if that's okay. I understand Krishan has given fairly detailed explanation with regards to yields and why NII did not see growth in this quarter. What I wanted to understand is, have we taken any rate hikes from April?

Importantly, is there actually a scope for us to now take a rate hike given that the asset quality trends are now on an improving trajectory and the reported numbers now already start factoring in a better credit cost outcome and while the cost of funds in general for the markets are likely to increase or has already started increasing for especially us, it's unlikely to increase at least in the near term. So, is there a case for us to say, increase the rates on an incremental basis?

**Sanjay Garyali:** Any other question, Viral, then we will collectively answer.

**Viral Shah:** Sure. The second question I had was with regards to if you can give some numbers around the disbursement growth and also the collection efficiencies in the month of April and maybe May first half. I understand you gave the qualitative flavor, but if you can help us with numbers, that will be quite helpful.

The 2 clarifications or a follow-up that I had was as you mentioned about Credit Guarantee Scheme MFI helping us. The INR 300 crores cap now, is that very clear that it is at a borrower level and not at a lender level? The second was the DTA recognition that you mentioned of, say, the residual INR 313 odd crores, will that be over the next 4 quarters or 6 quarters or 8 quarters? Just some clarity over there.

**Sanjay Garyali:** Okay. So, the first 3 questions, I'll answer. DTA, I'll let Krishan take. So rate hike, see, we have been saying that for the last 9 months, there was no rate increase that we had done and despite the borrowing cost going up by 150 to 200 basis points.

From 1st of April, we have increased the rates by a small 0.75% which is in line despite the borrowing cost having gone up by 200 basis points, and this is in line with the industry. But 1st April onwards, rate has increased by 0.75%. We can't talk about how this will pan out in future and what rate hikes will happen in the future. So, we will wait and watch.

On the disbursement growth, like normally quarter 1 is about 25%, 30% down as compared to quarter 4 because quarter 4 is supposed to be elevated and quarter 1 is a little lazy because of

multiple things. For us, Q1 was very similar to Q4. Q4, we were at about, what, INR 700 crores. Q1 so far, we are at about between INR 625 crores to INR 650 crores.

So that's just 4% or 5% lower than Q3, Q4, but this is budgeted. As per the AOP, the INR 10,000 crores AUM and the INR 9,000 crores disbursement plan, this is as per the part of the AOP. We had budgeted Q1 to be at 10% to 15% lower, but we are pleasantly surprised that we are better than that or there.

On the collection efficiency, I'm reconfirming we continue to be 0.1% flow rate net in MFI, which translates to a net collection efficiency of 99.9% and a gross collection efficiency of 99.75%. This is for the entire month of April and for the first 15 days of May that have passed.

On the credit guarantee scheme, I think there's a lot of clarity while we have given applications, our understanding is INR 300 crores at our level. But there are a lot of other questions to be asked and answered. So, we have given our applications, and now we are waiting. On credit guarantee, I think we should wait and watch for further steps and then see how it unfolds. On the DTA recognition, I will leave it to Krishan.

**Krishan Gopal:**

So Viral, on the DTA recognition, we will recognize the DTA as and when the profit comes and whatever the tax liability is equivalent to that, we will recognize DTA. That is the plan as of now.

We will assess the situation at the year-end again, and this is a dynamic situation. So as of now, it is going to be equivalent to the tax liability. It will not be 4 to 6 quarters. It may be more than that.

**Sanjay Garyali:**

It will be between 18 to 24 months.

**Krishan Gopal:**

18 to 24 months.

**Sanjay Garyali:**

Yes.

**Viral Shah:**

Got it. Just to clarify, Krishnan, what you mentioned on the DTA pieces, which would imply that there would be a 0 tax rate or no tax for the next 8 quarters, right? You won't be recognizing it like this in the one you did in this quarter?

**Krishan Gopal:**

That's correct, Viral. As I said, we will revisit these situations every year-end. So, we'll do that.

**Moderator:**

Our next question comes from the line of Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:**

Yes. Hi, good morning. Congrats on very good numbers. So most of my questions are answered, but just quick 2, 3 things. One is with regard to this bad debt recovery. So, if you can just quantify the pool from which we are recovering and whether this accelerated INR 15 crores, INR 20 odd crores per income per quarter income, can that continue and what is your estimate then for the whole year for bad debt recovery? Would it entail any incremental opex or within the same opex that the recoveries will come?

Second is on the MSME strategy, it is 10% of the book roughly now. But if you can just kind of take us through granularly what is the strategy for growing the MSME book? Because right now, it's being done from selected branches, the ticket size INR 4 lakhs, INR 5 lakhs, but I think initially you spoke about targeting INR 8 lakhs to INR 15 lakhs of ticket size. So, what is the scale-up plan? If you can just elaborate on that?

Second is we also spoke about migrating to advanced LMS by August for better productivity and quality. But would it kind of hamper impact the business in the near term? Yes, these are the 3 questions. Thanks.

**Sanjay Garyali:**

Okay. Thanks, Rajiv. Rajiv, to answer your first question, the total -write-back or the income that we've received this year is about INR 110 crores. We are targeting between INR 150 crores to INR 160 crores, which means additional about INR 40 crores.

We have explained the cost of collection in this hard bucket is between 25% to 30%. You can assume that INR 40 crores incrementally net of cost will be INR 30 crores, INR 40 crores at 25%, so knock off INR 10 crores, so INR 30 crores incremental.

And for all hard bucket collections, we can assume 25% to 30% of our collection costs. So net, whatever we recover, 75% to 70% goes straight away into the bottom line.

We have over INR2,000 crores, and our recent book has almost no write-offs. The technology and strategy we use for collection will result in higher performance, not simply because a larger pool is available. That is how we view the situation. Just to give you a number, today, we are able to reach out to over 1 lakh 90-plus borrowers through the bot calling that we have started. You understand bot calling is not something that gets by design upfront. It takes time to set in and all. But this this is not like coming at a very high opex. This is like the opex is compressed by about 1/10 or 1/15.

Second, on the MSME strategy. Now the MSME strategy that we are working on, you understand our product is income assessment. We are in Tier 3 and Tier 4 towns. There are 2 additional things that we are doing that we are moving are creating more right to win in the ticket size between INR 8 lakhs to INR 15 lakhs and we are saying, okay, we don't want to play in cash flows.

We don't want to deviate from cash flows. We will not deviate on FOIR, but we want to see how a better cash flow customer we can do with, let's say, a different collateral. So, if you have to ask me, the risk that we are taking is on the collateral and not on the cash flow of the customer and that confidence is coming from 6 to 9 months of experimentation that we have done where the current bucket collection efficiency is 99.5%, 99.4%.

There are 2 channels that we are adopting. We also introduced the connector channel a few months back, and we're seeing good upside from there. So, that's about 25% to 30% volume in a steady state will come from the connector channel.

On the advanced LMS, the way the advanced LMS will be institutionalized or set up is that there are 10 branches that we will first be piloting, then we will be going to about 200 branches once we are confident and there's a back testing. This model already operates in 2 to 3 MFIs. So, it is not something that is completely foreign to the MFI sector. It is just a little bit of customization, Rajiv.

And we are quite confident that, after this pilot of 10 and 200 branches, the remaining 1,200 and 1,300 branches will be straightforward to execute. So we don't expect, and that is why we did not keep it until the end of the financial year. We have kept it somewhere. The UAT started about a week ago. May and June are typically not very accelerated times. And hence, we have scheduled it for a time when we will have plenty of time to check for any issues or transition challenges.

**Rajiv Mehta:** Yes. Thank you so much and best of luck.

**Moderator:** Thank you. Our next question comes from the line of Kaushik Agarwal from Haitong Securities.

**Kaushik Agarwal:** Yes. Hi, sir. Thank you for the opportunity. Sir, a couple of questions. So firstly, on the other income line item, I can see there has been a sharp jump on Q-on-Q and Y-o-Y basis. Can you give some reason like what really explains this?

Number 2 is on the ECL coverage. I have been noticing that your coverage across the buckets have been coming down on a sequential basis. So, should one expect that we have broadly touched the trough or there is some more scope for ECL coverage to come down?

Lastly, if you can give some color around demand trend as we are already like almost 50-odd days into this quarter. How is the broader demand trend you are seeing in any sort of any particular customer category or geographical segment where you are noticing some kind of a stress or where you have tightened your underwriting filters?

**Sanjay Garyali:** I'll take the third question, and I'll let Krishan answer the question on other income and ECL coverage. So, in the first 45 days, there was no stress on the portfolio and no impact on demand, although, and this is 2 months back, we did make 2 changes.

On the MSME side, there are certain sectors or FOIRs that we generally went a little slow on. So, about 10% to 15%, we specifically reduced the fringe customers or the customers who were on the borderline. And second, we said that about 5% to 6% of our business came from Fusion+2 lenders when we were acquiring new customers. So, this we have stopped. We have not been doing microfinance Fusion+2 lenders for the last 2 months while we have been acquiring new customers.

So, these are the 2 changes that we have done on, ensuring that and this is not just the West Asia crisis or the global issues. Every quarter, the intention is that how do we keep cutting the bottom 2 deciles or the bottom 1 decile, and this is also a part of that. We are on target for, let's say, INR 10,000 crores. We don't see any major headwinds. Austerity measures will continue to happen. For the other 2, other income, increase in ECL coverage, I'll let Krishan answer.

- Krishan Gopal:** On the other income front, the increase is mainly due to the increase in the write-off recovery. Coming to the ECL, the ECL coverage for the Stage 2 and Stage 3 and for Stage 2, it has increased. For Stage 3, it is broadly similar. Stage 1, yes, it has come down from 1.1% to 0.9% basically reflecting the better flows over last 2, 3 quarters. This is purely coming from the ECL model. We are confident on that front. So, this is the reason. I mean, when asset flows are improving, it can't be constant. But I think it should remain around these levels now.
- Kaushik Agarwal:** Okay. Thank you so much, sir. Best of luck.
- Sanjay Garyali:** Thank you.
- Moderator:** Thank you. Our next question comes from the line of Bunty Chawla from ASK Investment Managers Limited. Please go ahead.
- Bunty Chawla:** Thank you for giving me the opportunity. Congrats on a good set of numbers. Just a few queries on the Bihar portfolio, we are growing strongly, but there has been announcement from the Bihar on the Act, which is similar to Karnataka Act they have done. So, are we seeing any impact on our portfolio or in terms of customer behavior on that or is it just a start they have announced, there is no official. So that's where there is no impact as such. How should one see this portfolio going ahead?
- Sanjay Garyali:** Any other question other than that?
- Bunty Chawla:** Yes. Secondly, as you said, in terms of Stage 1 and Stage 2 and Stage 3 ECL provisioning, just one clarification. Are we increasing or any coverage percentage due to the geopolitical provisioning, which we have seen in one of the MFI NBFC have done higher provisioning due to this geopolitical. Any changes in terms of that on ECL?
- Sanjay Garyali:** Okay. So, your first question is on Bihar. We were the first ones to come out in the market. This is about 1.5 months back where we said that Bihar for regulated entities is welcome. and it is a time that we need to inform the customers and be able to disseminate information.
- Bihar continues to be performed extremely well, and this is not just for us, for everybody, but for our peers elsewhere. While I'm talking the collection efficiency of Bihar continues to be 99.83%, this is March. And April and May, it is 99.85%. Bihar continues to be very strong in terms of collection efficiency.
- I think we should equate Bihar to Tamil Nadu because a similar legislation came in Tamil Nadu, the way the microfinance industry handled it with the administration, especially the MFIN or the SRO, I think that was commendable. I think same effort has gone in Bihar. If you see Tamil Nadu, again, close to everybody is at a collection efficiency of 99.5%. Our collection efficiency in Tamil Nadu in March was 99.82%. Right now, it is 99.85%.
- I think Bihar is like what TN is and I think we welcome anything that encourages the regulated entities or tightens around, let's say, the unregulated entities. I think there is nothing negative that we see in Bihar. On the stage provisioning, I'll leave it to Krishan to Stage 1, 2, 3?

- Krishan Gopal:** Stage 1, as we have discussed, I mean, 2, it has gone up from 66% to 71%. Stage 3, is broadly similar. As I explained on Stage 1, this has come down, but this is purely a reflection of the better collection efficiency we are clocking month-on-month, quarter-on-quarter.
- Sanjay Garyali:** Sir, you are saying the provisions that one of the large lenders has taken additional provisions. So, are there any additional provisions that we have taken on the ECL model?
- Krishan Gopal:** On that front, what we have done is, as I mentioned, we had in Q4 the best collection efficiencies and the lowest flows, but there's no impact on the ground. However, last quarter, we drew about INR15 crores -- released INR15 crores from the management overlay. Due to this, to be conservative, we have drawn less at INR10 crores. So INR5 crores less, we have drawn down. So that's the measure we have taken.
- Sanjay Garyali:** You should look at it from an overall perspective. I think our coverage anyway in the higher stage is between 75% to 76%, which the market is at about 65%. We are anyway provisioned 10% more than the market or the industry. And we don't see a need to do that, neither in April and May figures nor in the quarter 4 figures. We are already at a provision level of 10% more than the market.
- Bunty Chawla:** Thank you. That was very helpful, sir.
- Moderator:** Thank you. Ladies and gentlemen, due to the time constraint, that was the last question for today. Also, if you have more question, you can call company directly after this call. I now hand the conference over to the management for the closing remarks. Thank you, and over to you, team.
- Sanjay Garyali:** Yes. So thank you so much for being patient and supporting us during the tough times. My assurance, along with the entire Fusion team's and senior management's, is that you will see PAT performance coming in. Most of this performance is due to the credit cost reduction. Some of it is happening because of AUM growth; you're not seeing the average AUM so far.
- However, from Q1 onwards, you will see AUM coming in, which will lead to higher income growth for your PPOP. And then Q2 onwards is where the real kicker or the acceleration will happen. So that we are fairly confident and supremely committed to that as an overall objective. At the same time, despite global headwinds, we are fairly confident the portfolio can manage them. So thank you so much. Thanks for patiently backing us for the entire year.
- Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of Fusion Finance Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.