Fusion Finance

Operator: Ladies and gentlemen, good day and welcome to Fusion Finance Ltd. Q1 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Ms. Hanishi Shah from Adfactors PR Investor Relations. Thank you, and over to you, ma'am.

Hanishi Shah – Adfactors PR: Hi, thank you so much. Good evening, everyone, and thank you for joining us on the Q1 FY27 earnings conference call of Fusion Finance Ltd. 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 Q1 FY27 investor presentation, which has been uploaded on the stock exchanges and the company website. I now hand over the call to Mr. Devesh Sachdev, MD and CEO of Fusion Finance Ltd., to begin the proceedings. Thank you, and over to you, sir.

Devesh Sachdev – MD & CEO: Good evening, everyone, and thank you for joining us on Fusion's Q1 FY27 earnings call. Over the last 18 months, a significant change has happened in the microfinance industry. The bottom segment, which consisted of heavily leveraged customers or customers who did not have a steady income stream, moved out of the formal MFI sector. The customers who remain are, in our view, better placed to service their obligations and navigate the external headwinds than they were at the start of the previous cycle.

Fusion has used the same period to reshape its portfolio, becoming more selective in customer acquisition, more granular about where we grow, and more technology-led in how we manage the business. Q1 gives us increasing confidence that this strategy is working. Business momentum strengthened, with disbursements growing 88% year-on-year to 1,783 crores, while AUM grew approximately 4% sequentially to 7,702 crore. On the quality front, approximately 85% of the customers disbursed to in Q1 had just one other lender besides Fusion, and 37% were new to Fusion, a figure that moved closer to 40% in June, with a similar trend into July. This is in line with what we have been saying about the 40/60 ratio between new and existing customers.

Last quarter, we described the methodology we use to categorize MFI branches by credit quality, operating performance, and growth behavior. That framework is delivering the outcomes we expected, helping us decide with more precision where to grow, where to calibrate, and where management attention is needed. The result is visible in portfolio quality. Collection efficiency remains above 99.75%. Risk and growth decisions are increasingly embedded at the branch level, allowing us to intervene early when portfolio behavior shifts.

We are also evolving how we manage harder-bucket collections. Until last quarter, external agencies handled roughly 30% of hard-bucket recoveries. We have now moved that capability fully in-house, combining AI with our own collections and branch teams. We thus run 2 models for hard-bucket collections: first, a dedicated collections team engaging early; and second, a central team for digital identification and contact before the branch teams take over. This transition has not

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affected our recovery performance. In fact, we continued to deliver upwards of 35 crores quarterly from the 60-plus DPD book, of which 21 crores came from the written-off portfolio. That gives us greater control over customer engagement, less dependence on external agencies, and a more stable, scalable recovery model.

The same discipline is shaping our network. In FY27, between now and Q3, we expect to open around 50 new MFI branches while rationalizing about 100 existing ones. The goal is not just branch count; it is having the right branches in the right markets serving the right customers.

Turning to how we are extracting more value from the distribution franchise we have already built, starting with MSME, MSME collection efficiency remains above 99.3%, giving us confidence to move into calibrated expansion. Disbursements moderated in April, typically a seasonally soft month for mortgages, but May and June returned to Q4's average monthly levels.

We continue to deliver on our right to win, with no deviations on cash flows. In early Q1, we had identified 200 existing MFI branches in attractive MSME catchments where we would want to source secured business. The customer segment stayed distinct, but we will leverage existing real estate for MSME sourcing. We are starting with around 50 of these locations in this quarter and will expand progressively based on our performance. We are also entering Tamil Nadu for MSME for the first time, using our existing MFI retail infrastructure but with a separate MSME team and independent underwriting and credit processes.

Within MFI, our PQM model is delivering encouraging value across roughly 250 branches. In parallel, we are also launching an individual loan product across these branches for a select, more engaged segment of MFI customers who have lower leverage, higher business vintage, and an established repayment track record with Fusion. This is not simply a larger-ticket MFI loan. The initial assessment originates with MFI, but the credit evaluation has close oversight from the MSME credit team. We will scale this gradually based on portfolio behavior, with the potential for individual loans to reach around 10% of MFI disbursements over time. Together, these initiatives allow us to extract more value from an existing distribution franchise while keeping customer segments and credit architecture clearly differentiated.

We have also identified specific MFI customer segments where we can increase share of wallet, and we are developing differentiated products for them. Most of these products would either be launched while we are speaking or would be launched in the next fortnight.

Technology is another area where the conversation at Fusion is changing. In Q1, our AI-enabled platforms handled over 6 million customer interactions, reaching more than 1.1 million customers. Inbound calls are now quality-monitored using Gen AI, improving consistency while lowering calling costs. This is translating into earlier risk identification, more consistent customer engagement, and higher productivity. Our new LOS and LMS platforms should strengthen these outcomes further.

I am very happy to share with you that the initial pilot on migration has been very encouraging and has received a thumbs-up from the field teams.

Now to the financial outcomes. GNPA improved from 3.21% in Q4 FY26 to 2.51% in Q1 FY27. Credit cost further declined to 40 crore, in line with the 2% annualized expectation, marking the seventh

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consecutive quarter of reduction. Reported PAT for Q1 was 62 crore, and ROA was nearly 3%, again in line with the 4% year-end ROA that we plan to achieve. On a like-to-like basis, PBT rose from 37 crore in Q4 FY26 to 62 crore in Q1 FY27, up approximately 67% sequentially and marking our third straight quarter of improving core profitability.

The improvement is beyond just numbers and is becoming the focus of our turnaround recovery. It was driven largely by normalizing credit costs. Future gains should increasingly be driven by margin growth and operating leverage. We remain focused on reaching 10,000 crore of AUM in FY27, calibrated around portfolio quality and the broader operating environment. FY26 was about rebuilding Fusion; FY27 is about showing what the rebuilt Fusion can deliver. Q1 is an encouraging start, and our focus now is consistent execution through the rest of the year. With that, I will hand over to our CFO, Mr. Tarun Sablok, for the financial performance in greater detail.

Tarun Sablok – CFO: Thank you, Devesh, and good evening, everyone. I am pleased to present our quarter-one financial performance. This quarter reflects strengthening across profitability, margins, asset quality, and capital, with disciplined and well-capitalized growth.

The improvement in our book is clearly evident in our strong asset quality metrics. Asset quality continued to improve during the quarter. Our Gross NPA stood at 2.51% as of June 30, 2026, compared with 3.21% in the previous quarter, while Net NPA stood at 0.47%. This improvement was driven by strong collection efficiency, healthy recoveries, and seasoning of a higher-quality portfolio. Credit cost declined from 56 crore in Q4 FY26 to 40 crore in Q1 FY27, marking our seventh consecutive quarter of credit cost reduction.

The company has also significantly strengthened its balance sheet over the last few quarters. Our focus has been on 3 key priorities: maintaining a strong liquidity buffer, reducing the cost of funds, and diversifying our funding franchise. These initiatives are now clearly visible in our funding metrics, ALM position, and margin profile, creating a stronger platform for sustainable growth.

As of June 30, 2026, we maintained 1,880 crore of liquidity in addition to our own balance sheet liquidity. We have approximately 2,300 crore of undrawn sanctioned facilities available for utilization. Further, we have a strong funding pipeline of approximately 2,000 crore. Together, this provides us with enhanced funding flexibility and positions us well to meet our obligations.

Our capital adequacy ratio stood at 36.95%, comfortably above the regulatory requirement. This strong capital position provides us with sufficient headroom to support our future growth while maintaining a prudent capital structure. I am pleased to report that there was no financial covenant breach as of this quarter-end.

Our marginal cost of borrowing reduced from 12.6% in Q1 FY26 to 10.1% in Q1 FY27, representing an improvement of approximately 250 basis points year-on-year. On a sequential basis as well, the marginal cost reduced by 20 bps, from 10.3% in Q4 FY26 to 10.1% in Q1 FY27.

While the reported average cost of borrowing stood at 10.6%, the underlying cost trajectory is more encouraging. After adjusting for the 4 crore MTM impact, or to avoid that 4 crore impact, our normalized average borrowing cost was approximately 10.3% in Q1 FY27, which is the current quarter, compared to 10.4% in Q4 FY26.

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Management: Just the previous quarter. This MTM impact is expected not to be there from next quarter onwards. Our external credit rating remains strong, with A- stable from CRISIL, A stable from CARE, and A- stable from ICRA. Our PTC program carries ratings of up to AA+ SO.

Our funding franchise is also well diversified across private-sector banks, public-sector banks, foreign banks, NBFCs, DFIs, and foreign portfolio investors, and across multiple instruments, including term loans, PTCs, direct assignments, ECBs, and NCDs.

We have received sanctions of approximately 480 crore under the Credit Guarantee Scheme of MFI 2 from both private- and public-sector banks, with a further 520 crore currently in the pipeline, primarily from private-sector banks. These sanctions under the CGS scheme are at attractive pricing, which is considerably lower than our current marginal cost of borrowing. We believe we can create significant value through this, with disbursements to identified segments where credit cost is expected to be around 100 bps lower than the median credit cost. These sanctions under the CGS scheme will further strengthen our funding diversification and increase the share of public-sector banks in our overall borrowing profile.

Coming to our margins, NIM for Q1 FY27 was 236 crore, or 11.93%, compared with 10.29% in Q1 FY26, representing an improvement of approximately 160 bps year-on-year. On a sequential basis, NIM improved by approximately 49 bps from Q4 FY26.

Our pre-provisioning operating profit stood at 102 crore in Q1 FY27, compared with 87 crore in Q1 FY26. This demonstrates the underlying earning strength of the franchise and reflects the tangible benefits of the operating efficiencies we have systematically built over the last year.

On ECL provisions, we recorded provisions of 40 crore during the quarter under the ECL model. We also had a 74 crore reversal on account of write-offs. This translates into a provision coverage ratio of 81.5% on Stage 3 assets and 64.5% on Stage 2 assets, supported by a management overlay of 19.5 crore. This quarter, we did not release any amount from the management overlay. Last quarter, we released 10 crore from the management overlay.

As a result of improving asset quality and better operating efficiency, profit before tax for the quarter stood at 62.4 crore, up 67% sequentially. Return on assets on PBT improved to approximately 3% annualized, while return on equity stood at approximately 10% annualized, reflecting gradual normalization of business performance and improving earnings quality.

Overall, with the strengthened leadership team, robust capital backing, a new book that is performing well, and 7 consecutive quarters of improving asset quality, we begin FY27 with confidence and discipline. As we enter FY27, our focus will remain on maintaining financial discipline, enhancing operational efficiency, and further strengthening our funding franchise to support our long-term sustainable growth ambitions.

We will continue to pursue growth in a calibrated manner, ensuring that our provisioning and capital buffers remain aligned with the evolving risk environment. With improving asset quality, robust capital adequacy, strong liquidity, and a diversified borrowing profile, we are confident of delivering sustainable and responsible value creation over the long term. Thank you. With that, I would like to open the floor for the Q&A session.

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Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, in order to ensure that the management is able to address questions from the participants in this conference, please restrict your questions to 2 per participant. Should you have a follow-up question, please rejoin the queue. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shree Ram from CLSA. Please proceed with your question.

Shree Ram – CLSA: Hi, team. Congratulations on the strong numbers. Before my questions, I just have a couple of clarifications because I did not hear some things correctly. Firstly, you mentioned that you reduced management overlay provisions by 10 crore. That was last quarter, correct, or did we do it again in Q1?

Management: Can you ask all your questions together? Then we will answer.

Shree Ram – CLSA: Yes. That was one question. Secondly, I did not catch your comments on branch openings. You said you would close some branches but also open some. Could you reiterate that? We have actually been shutting branches in the last 2 or 3 quarters. That is one question.

Secondly, where does NIM really settle over the next 3 or 4 quarters, given our cost-of-funds trajectory and the yield hikes we took?

Lastly, you mentioned that we have changed hard-bucket collections. Until last quarter, 30% was handled by external agencies; now it is being handled by our own team. Is it the sales team that is doing this, or do you have a separate collections team for this purpose?

Management: I suggest we take only your first 2 questions because you have asked 4 questions. First, Krishan will clarify the management overlay question.

Krishan: We have not released any amount from the management overlay in Q1 this quarter. Therefore, in the 62 crore profit, there is no management overlay release. Coming to the last quarter, we released 10 crore of management overlay in the P&L. That is the factual position.

Management: On the branch openings and closures, we have clarified in the past that a certain number of branches are present in markets where there is no headroom to grow. These are branches that are performing below par and have limited headroom. As I said, there are close to 100 branches that we will shut down between now and Q3, and there are about 50 to 60 new branches that we will open. Therefore, net, we would be down by about 40 to 50 branches.

If you also look at it from an AUM perspective, we have given an AUM target of 10,000 crore this year, and we are saying that we will grow at about 20-25% CAGR. For 12,000 crore of AUM between MFI and MSME, technically we do not require more than 1,350-1,400 branches. There is no point in having more than that right now because both MFI and MSME branches take relatively little time to set up. MSME branches take about 1 month to set up, while MFI branches take about 15 days to set up.

Shree Ram – CLSA: Understood. If you could also indicate the answer to the NIM question?

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Management: That is one of the other questions, so please come back in the queue.

Shree Ram – CLSA: Okay, sure. I will come back. Thanks.

Operator: Thank you. The next question is from the line of Rajiv Mehta from Yes Securities. Please proceed with your question.

Rajiv Mehta – Yes Securities: Hi, good evening, and congratulations on the very good numbers. My first question is on the AUM growth target of 10,000 crore. In the context of the approval rates, when you look at MFI, the approval rates have in fact come down in this quarter. It could be seasonal, and it could also be a function of some leverage building up again in the industry.

In that sense, a lot of the heavy lifting for growth will have to be done by MFI this year because MSME will scale up slowly and individual loans will be launched later. To accomplish this heavy lifting of growth in the current year through MFI with the current level of approval rates, how would that be possible? Would you do more sourcing, or do you think the approval rates will themselves move up from where they are?

Management: Any other question, Rajiv, or is this all?

Rajiv Mehta – Yes Securities: You also spoke about offering more differentiated products and additional products to select, identified MFI customers. You said that a few of them have already been launched and some will be launched in the next fortnight. Could you elaborate on that slightly?

Management: I will take your first question. For 10,000 crore of AUM, technically about 44–45% of the required disbursements happen in H1 and about 55% happen in H2, if we divide it like this.

If you recall, there was a guardrail that we built during the West Asia crisis, when all the fuel concerns were present. We introduced a guardrail called Fusion Plus Two, under which, for customers new to Fusion, we would not lend to customers who had 2 lenders other than Fusion. Because of that guardrail, there was essentially a drop of about 3–4% in the approval rate. These were customers that we specifically wanted to avoid because there was no clarity on how the West Asia crisis would phase out.

However, our collection efficiencies have been exceptional. We looked at how the Fusion Plus Two customers that we acquired over the last 6 to 9 months performed and whether there had been any deviation during the last 4 months while this crisis was ongoing. Their performance has been pristine and impeccable.

Therefore, in all our Category A branches, which account for about 80% of the branches, we have gone back to Fusion Plus Two. Only in the lower-category branches are we continuing to maintain this guardrail. That is why you saw the approval rates decline slightly.

However, there is a pre-approved base that we have been examining. Over the last 15 days, we have been experimenting to understand the propensity of these customers to onboard. The first week of August has been very encouraging.

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Our problem was less with new customers. As you can see, over the last 2 quarters, the proportion of new-to-Fusion customers has been progressively increasing. Three quarters ago, we were at about 25%, and we reached 37%. To give you a number, if we segregate June from Q1, June was close to 39%, while July was at 42%.

New customers are progressively increasing. What we were experimenting with was whether there was anything else we needed to do in the existing customer segment. Over the last 15-20 days, this has been partly related to the new products and differentiation that you mentioned.

The differentiation is based on the categorization of branches. Second, it is based on the size we were offering to customers and whether there is a credit person in that branch. I told you that there are about 250 branches where we have credit personnel, and these are all large branches.

Based on these 3 factors, we are already seeing run rates climb in the first 7 days of August among existing customers. We are therefore confident that, in terms of what we are expecting in H1, approximately 45% of the disbursements required to reach 10,000 crore will not require us to rely on the individual loan product.

You are absolutely right that the individual loan product will start giving us results only from Q3 onwards, and even then, we do not plan to do 100 crores in a month. We are fairly on track with the AOP for both Q1 and the 40 days that have elapsed in Q2 so far.

Rajiv Mehta – Yes Securities: Okay. Regarding collections, in these recent 2 months of July and August, is the collection efficiency that you disclosed for Q1 holding up for the current bucket? Is it also holding up for Buckets 1, 2, and 3 in terms of lower flows between those buckets?

Management: Absolutely, Rajiv. That is where the confidence is coming from. All the confidence I am giving you regarding scaling up among existing customers is because collection efficiency continues to hold very strongly. It continues to be upwards of 99.7%, and there is no state where we see any impact across any of our 5 or 6 large states where we have higher concentration.

Operator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from the participants in this conference, please restrict your questions to 2 questions per participant. Should you have a follow-up question, please rejoin the queue. Thank you. The next question is from the line of Kartik Srinivas from Unified Mutual Fund. Please proceed with your question.

Kartik Srinivas – Unified Mutual Fund: Hi, sir. Thank you for the opportunity, and congratulations on a good set of numbers. I just had 2 questions. I am referring to slide number 22. Credit cost is about 40 crores. It says credit cost on other financial assets. Could you please elaborate on what "other financial assets" means? That is one question.

I also had a question on bad-debt recovery. In FY23, we had about 54 crores for the entire year, and in Q1 we had a strong start of about 21 crores. Are we seeing this trajectory improve going forward, or how is that panning out? That was my first question.

I will also ask my other question. At an industry level, every player is moving toward targeting very high-quality borrowers because all the other MFIs are moving toward customers with borrowing

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from less than 2 or 3 MFIs. How are we able to reach new customers? Are we trying to reach a larger set of customers, or how do we expect growth to happen from there? Where does the growth come from? That was my second question.

Management: I will let Krishan take the question on credit cost, and then I will explain collection expectations and the customer segment we are targeting.

Krishan: Regarding credit cost and other financial instruments, there are certain receivables, such as insurance receivables in the case of death cases, for which we have strengthened the provision. That is a small line item apart from credit cost, which is included in other credit costs.

Management: On collections, as I explained, we have moved from external agencies to a completely in-house model, and we are seeing sustained recovery there.

There are 2 models that we are building. One is the warm-body model, in which personnel actually go and connect with customers. However, the challenge we were facing was how to reach the entire write-off book from which we are recovering. Having people on the ground for every customer or every branch is not viable.

At present, we have engaged 4 partners. These are all AI partners, and we understand that, because of linguistic issues, it was not easy to work with these partners and set up these voice bots. However, I can tell you that we now have 95% capability to manage this language scale.

We are using AI to reach out to customers and determine whether we can then use a warm body to complete the collection. We believe there is an opportunity of about 600 crores. If we take a rough settlement of even 30%, that amounts to about 180 crores to be collected. If we spread that over 15 to 18 months, we are talking about 10 crores every month.

At present, we are still averaging about 7 crore. I think there will be greater use of technology and data around this, and with the same set of people, you will continue to see higher delivery and sustained growth in write-backs from there.

Regarding the industry point you mentioned, there are 2 ways to look at it. First, even if demand is static, supply is shrinking. There are selective players in the market that are able to offer loans because they have the capital, have scaled up their operations, and have built the right infrastructure. It is not the case that everybody can go out and offer loans with the clear credit guardrails that are present right now.

Within the MFI segment also, there is significant demand. If you look at our bifurcation, the challenge is that we have been able to do a decent job on new-customer addition. This means that the proportion of new customers in our disbursements is continuously increasing. I gave you the number for June, which was close to 40%. In July, it was 42%. This is continuously increasing.

I think this is also because capital is scarce and is available with selected players. I think that also plays a role.

Regarding where we see the other growth coming from, within the MFI sector there are high-performing customers or customers with very low leverage. The challenge was that income

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assessment had been a problem for all these years. However, I think the confidence we have gained through the PQM team, which we are currently servicing across 250 branches, is giving us very healthy signals. We will continue to scale this up.

You will eventually see that we will have 2 businesses. One is MSME, which consists of shopkeepers and retailers in Tier 3 and Tier 4 markets. These are non-rural businesses in semi-urban Tier 3 and Tier 4 markets.

The other is MFI. While we are currently discussing MFI JLG and lower-leverage customers within MFI, we will subsequently also move into secured offerings for these customers. We have launched the individual loan product, and either toward the end of the year or early next year, we will also look at a secured offering for these customers.

As I am saying, the credit approach will be differentiated. Once the ticket size goes above 90,000, the credit assessment will become very strong. That will be a constant factor across all growth other than pure JLG.

Regarding the growth number we are discussing, we are talking about 20-25% CAGR growth. I do not think that is a challenge at all. While we have taken a slightly higher growth target for this year because of the lower base, there is confidence in our strategy and in how we are progressing. Growth of 20-25% CAGR is on the cards.

Kartik Srinivas – Unified Mutual Fund: Thank you, sir.

Operator: Ladies and gentlemen, anyone who wishes to ask a question, please press star and one at this time. I repeat, to ask a question, please press star and one now. The next question is from the line of Meet Songoi from PL Capital. Please proceed with your question.

Meet Songoi – PL Capital: Hi, thank you for the opportunity, and congratulations to the team for great execution across all the parameters. My first question is around liquidity. We have around 1,900 crores of liquidity, with capital adequacy upwards of 36-37%. When can we expect this excess liquidity drag to go away?

This is also important, especially given that we have seen the cycle bottoming out across the board. We have seen collection efficiencies improving, and now that we have a fair amount of clarity regarding the monsoon and the West Asia conflict, when can we expect this drag to normalize? That is one question.

The second question is on the MSME business. Broadly, how do we increase or improve the size of the MSME business, now that the MFI business has settled down? How do we see that over the next 3 to 4 years in comparison to the MFI business? What will be the total size of both businesses in FY29 or FY30?

Management: Krishan will take the first question on liquidity and excess liquidity, and then I will respond.

Krishan: On the liquidity front, you are right that we kept slightly higher liquidity during Q1. However, following the geopolitical developments and the positive developments thereafter, we have already

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addressed this. We did not broadly borrow anything in July, and we brought liquidity down from 1,880 crore to about 1,400 crore.

Management: Our total borrowing in July was less than 50 crores.

Krishan: Therefore, liquidity will automatically come down to around 1,400 crore. This is the level at which we want to close Q2, and it is in line with our internal policy of maintaining liquidity equivalent to 2 months of disbursements, which comes to 1,400–1,450 crore. This issue has already been addressed, and it was in response to the West Asia crisis.

Management: On the MSME business, we currently have about 800 crores of book and are doing roughly 50 crores a month. The ticket size is about 7.5 to 8 lakhs.

The important point is that, over the last 6 months, collection efficiency has been upwards of 99.25–99.3%. This gives us confidence that the credit strategy we have been using is working. As we have been saying, we do not want to take cash-flow calls; we are better off giving a slightly higher LTV. I think that approach has paid off, and we are gaining confidence from it.

There are 2 ways to look at this. First, within our existing 90 branches, there are about 25–30 branches where you will see productivity increase significantly. We have also introduced certain specific state-level differentiations.

The second point is that, as I explained in my call, there are 200 MFI branches where we will leverage MFI real estate to acquire MSME business. These branches are in MSME catchments, so we will not be going to rural markets. They will serve semi-urban Tier 3 and Tier 4 shopkeepers and retail outlets. The branches are located in MSME catchments, and they will operate as hubs and spokes connected to the main MSME branch.

To start with, 50 such branches have been taken up immediately. We will continue adding branches, but we have identified 200 branches across the North and Central regions where we will scale up MSME.

The way you should look at it is that we have 90 completely dedicated MSME branches and another 200 branches for which we do not require a high level of operating expenses because we will use our existing real estate and operate them as hubs and spokes. There will be 1 dedicated person in each of those 200 branches.

You will see this scaling up, and our view is that we eventually want to take MSME to 15% next year and then 20% over the next 2 years. We are doing multiple things in MSME, but the clear principle is that, whatever we do, there will be no deviation on cash flows. We are creating a right to win in each of these markets. You will see this scaling up in MSME.

Meet Songoi – PL Capital: Got it. Thank you, sir, and all the best.

Operator: Thank you. The next question is from the line of Akhilesh from North Star. Please proceed with your question.

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Akhilesh – North Star: Hi, thanks for the opportunity. Could you confirm the current value of deferred tax assets on our books and whether any recognition will happen only in Q4? My second question is regarding your view on credit guarantee schemes such as {? CGSMU ?}, and whether they will form part of your business plan going forward.

Management: Krishan, will you take the DTA question?

Krishan: On the DTA front, the unrecognized DTA amount is around 290 crore. The plan now is that, as and when profit accrues, we will utilize it, rather than utilizing it in one shot as we did in the last quarter. Technically, this amount is sufficient for the next 2 years of tax outflow. Therefore, we expect PBT to be equal to PAT for approximately the next 24–26 months.

Management: Regarding the credit guarantee scheme, I assume you are referring to the credit guarantee scheme for borrowers and not the credit guarantee scheme that has been introduced for banks.

Akhilesh – North Star: Correct, sir.

Management: Regarding the credit guarantee scheme for borrowers, we have not registered so far. We plan to register and have initiated all the documentation. There are some formalities that we need to complete, but we have identified 2 or 3 markets where we do not know whether this will be viable over the cycle. We also want to pilot and experiment, so we will initiate this in 2 or 3 markets, mostly by the end of this quarter.

Akhilesh – North Star: Could you quantify—

Akhilesh – North Star: For what percentage of your book might you pilot this? Is it going to be 5% or less than that?

Management: It will be less than 5% because this will be focused more on fresh disbursements.

Akhilesh – North Star: Understood. Thank you.

Operator: Thank you. The next question is from the line of Vishal, an individual investor. Please proceed with your question.

Vishal: Hello. Congratulations, sir, on your results. I have only 1 question. The monsoon is coming, and everyone is talking about El Niño. I think our customers are primarily farmers. Based on that, is your guidance for 10,000 crore of AUM still intact?

Management: Vishal, do you have any other question? Then we will answer.

Vishal: No, sir. I have only 1 question.

Management: Thank you. As we have been discussing, it is not that Bharat Finance is completely insulated from El Niño, the monsoon, or any of these issues. However, we strongly believe that every segment has a prime, sub-prime, and mid-prime category.

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The sub-prime segment is the one that is impacted whenever there is a headwind, whether it is El Niño, floods, or any other issue. Within the overall segment, the sub-prime segment is affected.

The same challenge exists in MFI. There is a prime segment and a mid segment within MFI as well. Not all customers are the same.

What happened during the de-leveraging cycle over the last year is that the sub-prime segment exited the formal MFI sector. We have also been more careful while onboarding customers. Our guardrails have been tightened, so while we will provide more to other customers, we will stay away from customers at the bottom.

I think this has helped us, which is why we have shown you state-level collection efficiencies. There have been states that are rain-fed and where there have been heat waves and delayed monsoons, yet collection efficiency has clearly continued to hold at 99.7-99.8%. Even in July and the first 7 days of August that have elapsed, collection efficiencies have remained very strong.

Therefore, we are very confident that, as long as customer assessment is done correctly, whether through PQMs or through the guardrails we have implemented, reaching 10,000 crore should not be a challenge at all. We are absolutely confident on this.

Vishal: Okay, sir. What is the GNPA guidance?

Management: We have given a guidance on credit cost, but I will not comment specifically on GNPA. You are already seeing the trend in GNPA.

From a credit-cost perspective, we have indicated that monthly flow forward is roughly 0.1%, which translates into credit cost of approximately 1.6-1.7%, even if you take 0.15%. We have also given guidance that, if there is some challenge in the market, 25 to 30 bps or 40 bps could be impacted in that quarter. That is how we have given overall guidance of 2.5%.

However, from a credit-cost perspective, based on how the first 4 or 4.5 months have been, we currently see it closer to 2% rather than 3%.

Vishal: Okay, thank you, sir, and all the best for the full year.

Management: Thank you.

Operator: Thank you. The next question is from the line of Shalin Kapadia from IIFL Capital. Please proceed with your question.

Shalin Kapadia – IIFL Capital: Hi, sir. Thank you for the opportunity, and congratulations on a great quarter. I have 1 question on NIMs. Where do you expect them to settle over the year?

Management: Do you want to take that? NIMs.

Management: What do you think they will settle at by year-end?

Management: There is slightly more scope in NIM. It is definitely about 15-20 bps higher from here, and that will gradually come through. By year-end, we can see an addition of at least 15 to 20 bps.

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This takes care of any glitches in the cost of funds and so on that we may see.

Management: This assumes that there is no rate cut. There is no rate cut. If there is a minor rate increase, as we have already explained, we do not see any impact because of that. However, if there is a rate cut, NIM can improve further.

Management: What will start coming through now is the impact of the increase in customer yields. NIMs are based on the book, and we have increased customer yields by approximately 55 basis points. At present, the impact of that increase on the book is only 12 bps because, as you understand, it takes time for disbursements to move into the book.

By year-end, if the 55 bps is fully reflected in the book, the impact itself would be 55 bps. So 55 bps minus 12 bps is approximately 25-30 bps. We have not done the exact math, but you can assume the impact on a full book of disbursements by the end of the year.

Shalin Kapadia – IIFL Capital: Is it fair to assume that the 15-20 bps increase is a conservative number from here?

Management: Yes, sir. That is the bare minimum, and the range is approximately, as Sanjay mentioned, 30 bps.

Management: I think 15 bps can go up to 25-30 bps.

Shalin Kapadia – IIFL Capital: Got it. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Srijan Sinha from GCLI. Please proceed with your question.

Srijan Sinha – GCLI: Hi, sir. Thank you. Could you help me quantify the one-time impact on finance cost? If you were carrying about 500 crores of excess liquidity on the balance sheet, the quarterly impact of that would be closer to 10 crores. In addition, Krishan spoke about a mark-to-market impact of about 4 crores included in finance cost. Is it fair to assume that this 14 crore impact we see in finance cost this quarter will not recur in Q2?

Management: The MTM impact will not be there. How much was the MTM impact?

Management: The MTM impact was about 3.93 crores.

Management: So, Srijan, you will not see that 4 crore impact from Q2 onwards. Regarding excess liquidity, what is the net impact after considering what we earned on the investments and so on?

Management: The net impact, after considering what we earned on investments and so on, is about 3.5 to 4 crore. If we normalize for that and do not maintain excess liquidity, that should also not be there.

Srijan Sinha – GCLI: So the delta over Q1 is broadly 8 crores?

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Srijan Sinha – GCLI: Okay. My final question is on ECL coverage. How do you see that developing over the next few years, given the improvement in overall asset quality?

Management: Given the improvement in overall asset quality, if you look at overall ECL coverage, it has declined. We have MSME and MFI separately. In MFI, there has actually been no reduction; there has been a slight increase.

However, the composition has changed. As we mentioned on the credit-cost slide, the contribution of MFI Stage 2 and Stage 3 has declined. In MSME, LGDs and related parameters are lower because the loans are secured. That is why, on the face of it, coverage appears to be declining. However, coverage continues to hold up very well for both MSME and MFI separately. The apparent change is only because of the change in composition.

Srijan Sinha – GCLI: What is the conversation with the rating agencies? Is there any benchmark they are looking at for a credit-rating upgrade?

Management: In our last discussion, Srijan, they were quite satisfied with our performance. Their concern was the external environment. I think most rating agencies have now assumed that the external environment, particularly the West Asia crisis, has had a limited impact on the MFI book.

Therefore, we are very hopeful that they will look at it positively because, from a pure entity perspective, they were extremely positive in our last 2 conversations.

Srijan Sinha – GCLI: Okay, sure. Thank you, sir.

Management: Thanks, Srijan.

Operator: Thank you. The next question is from the line of Shripal Doshi from Equirus. Please proceed with your question.

Shripal Doshi – Equirus: Hi, sir. Thank you for giving me the opportunity. My question is on the product portfolio. While we are entering the MSME segment, do we also have plans to launch individual loans as a product? Industry players are transitioning primarily into individual loans and are also launching products such as micro-mortgages. Do we have plans to include individual loans as a category within our product portfolio?

Management: Shripal, I just explained in my call that we have received board approval to launch the individual loan product. We are now developing the system. Hopefully, by the first week of September, we will have completed the first individual loan disbursement.

The important point is that this is not a microfinance loan converted from a JLG loan to an individual loan. We will carry out serious credit assessment, and we understand credit assessment. We are not doing banking credit. The MSME credit that we conduct involves 100% assessment, and that will provide oversight for the MFI credit assessment.

We already have about 250 branches where we have a PQM, who is a credit person and reports separately into the credit vertical. These personnel will start working immediately on individual loans. At present, they are conducting credit assessments for MFI. The individual loan portfolio will

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have a specific credit person who will evaluate each loan.

Initially, we are looking at an average ticket size of roughly 1.5 lakh. The customers will have some shop or outlet; they will not be operating from home. They will have 3 years of business vintage.

All of us understand that our background is entirely in credit. We understand credit, and we have developed a very robust individual loan product, which we launched today. This will initially be offered to existing customers, and then, depending on performance, we will offer it to new customers.

The micro-loans you are referring to on the mortgage side would be level 2 of this offering. Eventually, the credit model we want to build is that MSME and MFI will operate as 2 different businesses. They can share each other's real estate, but within MFI we may also have secured lending for those customers.

However, we will not do anything without credit assessment. Anything outside JLG will have very strong credit assessment around it. We understand what kind of credit is needed, and that is the assurance I want to give you. We see good growth eventually, but we will obviously proceed slowly and test the market before expanding fully.

Shripal Doshi – Equirus: What pricing are we looking at for individual loans, as well as for the micro-mortgages you referred to, although you highlighted that they would be level 2?

Management: The pricing will be roughly the same. It could be about 100 bps lower, but it will be broadly the same. You can assume pricing ranging from the same level to 100 bps lower.

Shripal Doshi – Equirus: Got it. My second question was on the capital raise. I am sorry, I joined the call a little late. What is the timeline for the capital raise now that growth in the loan book has returned? What broader timeline are we looking at for raising capital?

Management: Even after maintaining additional liquidity, our leverage is 2.32 times and capital adequacy is approximately 36%. We are very well capitalized, and this capital is sufficient for the growth plans we have mentioned, which cover broadly 2 years.

However, we should be in the market at least 6 to 7 months in advance. Therefore, by the middle of the next financial year, we should be in the market discussing the capital raise with investors. Until the next 1.5 years, which is the middle of FY27-28, we are fine. After that, we will come to the market to discuss the capital raise.

Shripal Doshi – Equirus: Just a follow-up: what Tier 1 ratio are we keeping in mind?

Management: I think I will just come back—

Operator: Ladies and gentlemen, in the interest of time, that was the last question. I would now like to—

Sanjay Agarwal: If that was the last question, please let Shripal continue with that question. We will just let Shripal finish it.

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Operator: He left the queue, sir.

Sanjay Agarwal: Yes. In any case, I think the question was about the Tier 1 level. The first point is that, of our 36% capital adequacy, it is broadly all Tier 1. On the lower side, what level can we go to? I think the regulatory requirement is 15%. However, our internal risk-management practices have graded indicators, and we wish to maintain a bare minimum of about 23-25%. There are then graded indicators under which we need to work on the capital raise.

I think that is it. That is what we understood from the question, and that was the response. My request is that we can take 1 last question if there is anybody in the queue; otherwise, we can end.

Operator: The next question is from the line of Rajiv Mehta from Yes Securities. Please proceed with your question.

Rajiv Mehta - Yes Securities: Thank you. My question is about how you see absolute OPEX moving this year in light of branch rationalization, adding some branches, rolling out new loan products, and rolling out MSME through existing branches. Considering everything together, how do you see absolute OPEX moving in the current year? What kind of growth should one assume for next year's absolute OPEX?

Sanjay Agarwal: Last year, our OPEX was approximately 830 crores. This year, the first quarter was about 204-205 crores. Under the AOP, we had assumed and shared with all of you that we expected a 4-5% increase in OPEX. However, that was without taking branch rationalization and other measures into account.

We are quite confident that we will be able to save at least some OPEX against the AOP we shared with you. Through branch rationalization or other means, our effort is to achieve at least a 2-3% reduction in the OPEX we shared with you.

The new product launches will not require separate real estate; they will mostly involve rationalization of resources. Therefore, you will not see resources increasing significantly in absolute terms anywhere. Even if MFI requires 200-300 people and MSME requires about 100 people, adding 300-400 or even 500 people would have hardly any impact on overall OPEX.

That is why we are deliberately saying that we are utilizing the existing real estate of both MFI and MSME.

Going forward, rather than giving you only a 1-year perspective, eventually we expect to be at roughly 6-7% OPEX for both businesses put together.

Rajiv Mehta - Yes Securities: This is OPEX as a percentage of average AUM, correct?

Sanjay Agarwal: Absolutely.

Rajiv Mehta - Yes Securities: Got it. Thank you. That is all from my side.

Operator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question for today. I would now like to hand the conference to Mr. Sanjay Agarwal for closing remarks. Over to you, sir.

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Sanjay Agarwal: Thank you so much. Thank you, everybody, for attending the call. The most important thing is how each one of you has supported us during our difficult times.

The most important thing we have realized over the last 12 to 18 months is that you will see continuous progress, and we would want to deliver ahead of whatever we are explaining to you.

We see growth opportunities, and our commitment is that we will not take unnecessary risks. However, we see good growth opportunities and good momentum over the next 6 to 9 months from here. With that, I would like to thank all of you for taking the time to join the call.

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

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