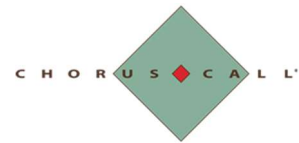




“Fusion Microfinance Limited
Q4 FY '23 Earnings Conference Call”
May 23, 2023



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MR. TARUN MEHNDIRATTA – HEAD-MFI BUSINESS AND CHIEF OPERATING OFFICER – FUSION MICRO FINANCE LIMITED
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MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL LIMITED**

Moderator:

Good morning, Ladies and gentlemen, good day, and welcome to Fusion Microfinance Limited Q4 and FY '23 Earnings Conference Call hosted by JM Financial. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing Star then Zero on your touchtone phone. Please note, that this conference is being recorded.

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

Sameer Bhise:

Thank you, Nirav. Good morning, everyone, and welcome to the 4Q FY '23 Earnings Conference Call of Fusion Microfinance Limited. First of all, I would like to thank the management of Fusion Microfinance for giving us the opportunity to host this call. From Fusion Microfinance, we have with us Mr. Devesh Sachdev, MD and CEO; Mr. Gaurav Maheshwari, Chief Financial Officer; Mr. Tarun Mehndiratta, Head of MFI business and Chief Operating Officer; and Mr. Deepak Madaan, Company Secretary and Compliance Officer.

We'll take the opening comments from Mr. Devesh Sachdev, post which we will open the floor for Q&A. Thank you, and over to you, sir.

Devesh Sachdev:

Thank you, Sameer and JM Financial for hosting us. Good morning, everyone, and we are very thankful for joining this Fusion's financial year '23 and Q4 results earnings call. I am here along with my colleagues, Tarun, who is the Chief Operating Officer of MFI; Gaurav Maheshwari, my CFO; Deepak Madaan, my Compliance Officer; and he also handles Investor Relations. Please keep the presentation, which we have uploaded, handy.

You would recollect that in the last two earnings calls, I had mentioned that we are on track to end the financial year 2023 on a very strong note. Now the AUM at the end of financial year '23 stands at INR9,296 crores, which is 37% growth from financial year 2022. The growth in client base is 29% and stands at 3.5 million with addition of around 0.8 million new clients in financial year 2023.

It would also be pertinent to mention here that we were the first company in the sector which came out with a strategy to create extra provisions under management overlay. And also mentioned that whenever in a good quarter, there is a room available, we will add to this provision.

We want to share with you that we have added another INR26 crores to the management overlay, taking the overall provision under this head to INR51 crores. In the last quarter of 2023, we have backed our conviction and maintained our trajectory on the path of consistent growth and delivering strong profitability, return ratios, operating metrics and stable asset quality.

Given our strong ALM management and diversified fund sources, we have effectively and successfully tided through the rising interest rate cycle. And as a result, our marginal cost of funds in Q4 has reduced by 48 bps. And overall, if you see from the last financial year, there's a drop of 13 bps in cost of funds.

We are confident of the long-term sustainable growth subject to market conditions. We have been very steadfast on our key pillars and our strategy of being an organically diversified company, expanding our network, investing in human capital, and strengthening our processes, digitization and building for future is helping us solidify our platform even further as we go along.

Now I will take you through our full year and Q4 performance, which amply states our continued focus on Fusion's building blocks, which have been our key strengths across the years. Please refer to Slide number 18 in the presentation, which has been uploaded.

Diversification, as mentioned by me earlier, has been one of our key strength for growth since inception. From operating in 12 states in 2017, now we are present in 20 states as of March 2023. We continue to remain focused on our business composition across states and have seen good increase in our disbursement levels on other large states like Odisha, MP, Gujarat, Rajasthan, Tamilnadu.

In addition, we have our top 2 states of Bihar and UP. We have also recently launched our business in Karnataka, and also now looking at entering Andhra Pradesh and Telangana post the favourable Telangana High Court order. Also, given that there is still a lot of headroom available for growth in leading states like UP and Bihar. In UP, the MFI concentrated penetration is only around 20%, 22%, and with a very balanced credit culture, supported by strong overall economic push and our solid domain experience and well entrenched team, we are confident that we'll be able to maintain a prudent composition of all our large states in our portfolio mix as we go along.

Our top 5 states today, Bihar, UP, Odisha, MP, and Tamilnadu have a concentration of 69% as of March '23 versus 74% as of March '17. Fusion has always been rural focused and composition of rural portfolio has been 93% over the last few years. Staying on the same slide, let me also share with you our journey of building a solid distribution network of branches across 20 states.

We have added 152 branches in financial year '23. Our branch strength now stands at 1,086 versus 934 in the financial year 2022, which is a growth of around 16%. Karnataka has been the latest addition. We have opened 11 branches to start with. As I had mentioned in the last call that we follow a very calibrated approach whenever we enter a new state and the same strategy will be followed even in case of Karnataka or Andhra and Telangana. We will continue to mine deeper in our existing states.

Slide 19 mentions our AUM, which as of 2023 stands at INR9,296 crores, registering a year-on-year growth of 37%. You will also notice that we have maintained a very consistent disbursement level across all 4 quarters. If you look at even the last quarter, we have followed a similar approach, and this is because of the fact that we have been able to implement the new harmonized guidelines and there was a pent-up demand, and we have a very diversified and extensive network.

We continue to prioritize our focus on a very calibrated approach of balancing processes, risks and portfolio quality, all targeted towards building a long-term sustainable business model.

Given that our portfolio is 93% rural, our retail overlap, we have taken a portfolio scrub as of March from one of the credit bureaus. The retail overlap is only 15%.

If you remember, in the first call, we have mentioned that it is around 12%, 12.5%. So it has only moved by 2.5% as against a semi-urban or urban overlap observed in sector, which is hovering now around 35% to 40%. Because of the new harmonized guidelines, we had mentioned that there has been impact on our approval rate of 8% to 10%. Let me share with you, it is hovering in the same range even now.

Now please refer to Slide number 21 in the pitch, highlights our mantra for success, which is maintaining very focused view on the fundamental of prudence, our consistency in adding new clients, our focus on orienting our field teams in alignment with our overarching strategy of diversification, organic growth, execution capabilities focused on broad basing our coverage and leveraging the diverse network by adding new customers to the portfolio.

We have now a total 3.5 million borrowers as of financial year 2023, registering a year-on-year increase of 29% and quarter-on-quarter increase of 4%, we added 0.8 million customers in the last financial year versus 0.6 million, which we added in financial year 2021 to 2022.

In all the last 2 years, we've added 1.4 million customers. Within our portfolio, we continue to have a healthy mix of new and existing customers as reflected in our ATS, average ticket size, which is hovering around INR37,900 as of financial year '23 versus INR35,700 as of financial year '22, up by only 6%. And outstanding per borrower is hovering around INR25,600 versus INR24,500 as of financial year '22, which is up by around 4%.

A strong validation of our focus on borrower addition customers unique to Fusion today stands at 33% as per the latest data, as I mentioned, which was taken in March. If you will remember, this number, as I mentioned in the last call was around 35%. So the number has now reduced just by 2 percentage points to 33%. And this is because of the growth in disbursement at the sector level in this financial year.

Slide 20 highlights our performance on key productivity metrics, leveraging skill and constantly working diligently improving operational efficiency. Our GLP per branch has consistently grown and now stands at INR8.8 crores per branch as of financial year 2023 versus INR7.4 crores as of financial year 2022, increase of 19%.

Gross loan portfolio per field officer, we call it relationship officer, has also been tracking strongly across the year. In the financial year 2023, it stands at INR1.4 crores per field officer versus INR1.1 crores per field officer as of financial year 2022, which is an increase of 27%.

We continue to focus on optimizing reach and customer coverage. Our borrowers per branch for our Microfinance business stands at INR3,452 per branch as of financial year 2023 versus INR3,020 as of financial year '22, up by 14%. Our borrowers per field officer for MFI business stands at around 528 as of financial year 2023 versus 488 in Q3 of financial year 2022, which is up by around 15%.

Another important factor I would like to add here is that as of March 2023, 58% of the branches have vintage of more than 3 years and their contribution to portfolio is 71%. So you can see the branches where the vintage is less than 3 years, there's still headroom to grow in those branches.

Coming to Slide number 8, which talks about our collections, composition of portfolio between one sourced before April 2021 and sourced post April 2021. So the portfolio which has been sourced post April '21 is INR8,872 crores, which is 98.6% of total Microfinance book and pre-April portfolio is INR123 crores, which is 1.4% of the total MFI book. The stand-alone collection efficiency in the portfolio sourced post April 21 is 98%, including over-dues, but without prepayment.

Now if we move to Slide number 9, our GNPA as of March 2023 stands at 3.46% and a net NPA at 0.87%. Total management overlay stands at INR51.2 crores. As mentioned in our last call, we want to build extra buffer for uncertainties, and whenever there is any pressure on the profitability because of credit cost, this buffer will help.

Our goal always is to maintain a long-term view on building our business, setting a strong growth platform. We are in the process of implementing some very key strategic initiatives across various verticals of the organization, which hopefully will further strengthen our business, customer engagement, operational effectiveness, risk management, credit assessment capability, and will create long-term sustainability. Thank you very much.

I would now request my colleague, Gaurav, to give his commentary.

Gaurav Maheshwari:

Thank you, Devesh, and good morning all. I would like to give some key highlights for Q4 and FY '23. As mentioned in our last commentary of Q3, our average cost of fund is stable on a Q-on-Q basis, and there is a drop of 13 bps on a financial year comparison. Being RBI increasing the rate by 250 bps, our marginal cost of funds has dropped by 48 bps on a Q-on-Q basis. Interest income has increased by 46.73% on a Y-on-Y basis and 50.34% on year-on-year basis.

Total income has increased 39.76% on Y-on-Y basis, and 49.83% on a year-on-year basis. As far as NIM is concerned, so NIM has increased by 26 bps to 10.57% on a quarter-on-quarter basis. It has increased by 176 bps on a financial year basis. The company has provided impairment of INR199.51 crores in FY '23 out of which INR51.25 crores is the management overlay. In Q4, we have provided additional INR26 crores as a management overlay.

Credit costs, including management overlay, is 2.73%. It is 2.03%, excluding the management overlay. The company has done write-off of INR45.78 crores in Q4, which is 0.49% of the closing AUM. INR11.95 crores was derecognized as interest income in Q4 FY '23. For financial year, we have written off INR247.20 crores, which is 2.66% on the closing AUM, and near about INR69 crores was derecognized as interest income in FY '23.

The company has done direct assignment amounting to INR387 crores in Q4 in comparison to Q3, which is INR347 crores. The outstanding as of March 31 is 10.53% of the closing AUM, and we would like to continue this subject to market conditions. On year-on-year basis, our operating cost has increased very marginally by 6 bps. In FY '23, we have added 154 branches, out of which 120 branches belong to MFI and 34 from our MSME. On a quarter-on-quarter

basis, it has increased for 10 bps because we have done some expansion into branches, investment in human capital, and IT infra and technology expenses.

The cost-to-income ratio has reduced by 583 bps from 44.27% in FY '22 to 38.44% in FY '23, and by 225 bps on a Q-on-Q basis. The pre-provision operating PAT is INR712 crores as on March 31, 2023, which has increased by 81% in comparison to the last financial year. It has increased by 20% on a Q-on-Q basis. As far as the liability is concerned, we have a sanction in hand of INR1,858 crores and pipeline of INR5,225 crores. The borrowing mix largely would remain the same. That's from the financial side.

Moderator: The first question is from the line of Nikhil Rungta from Nippon India Mutual Fund.

Nikhil Rungta: Congratulations on a great set of numbers. A couple of questions from my side. First is on marginal cost of funds, you have already indicated that on a Q-o-Q basis, we got a benefit of 48 basis points. But if I have to talk about portfolio yield, where do you think you will stabilize? I mean for full year, it was 20.5%, and for Q4, it was 21%. So what type of marginal yield are we getting on the portfolio?

Gaurav Maheshwari: So as far as the yield is concerned, so as we have commented in the last commentary also, that the impact of the new regulation, which is going to come and reflect from Q1 financial year '24 onwards, so as it is visible in NIMs for that matter, and if you see from a yield perspective also, it is increasing on a quarter-on-quarter basis. So the full impact is going to come from -- you will see in Q1 and Q2 of the coming financial year.

Nikhil Rungta: Okay. So can we assume that this 21% can reach to 22%, 22.5%, or what it would be approximately.

Devesh Sachdev: Yes, you can assume, Nikhil, that this would be around -- it will move to around 22%.

Nikhil Rungta: Perfect. Sir, secondly, if I have to look at our average ticket size, so on a Q-o-Q basis, it has increased from around INR37,900 to INR41,200. So anything to read into that or it's an annual phenomenon?

Devesh Sachdev: So 2, 3 things, Nikhil. If you remember, because of the COVID, last 3 years, we have not tinkered with our average ticket size. So now because the COVID pangs are over, there was a requirement, and looking at the competition, inflation and everything, we have moved our first ticket size loan slightly upward, which is as per our guidance that we reset around 10% to 12% every year. So that is 1 factor.

The second factor is, between our new and existing -- so our existing customer base, which was, in terms of renewal, if I talk about in Q4 of '21, '22, 65% were new and existing was 35%. Then it started moving 58%:42%. In the last quarter, Nikhil, 52% were new and existing were 48%, because customers are coming for renewal.

And definitely, the second or third or fourth loan cycles are slightly higher. That also has impacted. But let me assure you that we are very calibrated. If you look at even the sector, sector has already -- average is around 41,000, 42,000. And we have done it looking at many aspects.

Also, whatever increase we have done, it is only at the first loan cycle. But we have not changed anything on our subsequent cycles.

Nikhil Rungta: Okay. So on the average ticket size, can we assume it'll move to around INR43,000, INR44,000 or 10% on an average annual basis.

Devesh Sachdev: 10%. Yes, average.

Nikhil Rungta: Sir, coming to asset quality, we have taken a write-off around INR45-odd crores during the quarter. And if I look at our gross NPA numbers or Stage III number, that number has also remained stable or stagnant at INR290-odd crores. So first, there is slippage of approximately INR45 crores, INR46-odd crores during the quarter. And second, we still have this high amount of slippage and why to create management overlay provision, why not to clear out the earlier ones.

Tarun Mehndiratta: So Nikhil, this is Tarun. I would like to cover this in 2 parts. Let me first address your particular point. See, when you look at our own portfolio largely. So total POS for 90-plus is around INR234 crores.

Now out of this, as we mentioned earlier, our pre-April 21 book is now only about INR123 crores. Largely, let's assume that all of that is 90-plus, bulk of it. And we also have remaining residual restructured pool during the COVID years of about INR14-odd crores. So if I remove both INR123 crores and about 14 crores, my remaining pool, which is out of my total post-April cost of about INR8,880 odd crores, is only about INR97 crores, which is approximately 1%, right?

Having said that, now I'll also want to articulate the second part, is that what we have witnessed is a very strong focus on collection efficiency month-on-month, quarter-on-quarter across every state. And let me just give you a flavour on not only my top 5 states, but also how we are doing in other states as well. So in my top 5 states, so Bihar, my collection efficiency largely for the last quarter with OD is around 99.3%. In UP, it is around 98.6%. In even states like Odisha and MP, it is closer to 96%. And even Tamilnadu is now around 96%. So all of these have significantly moved the cheese quarter-by-quarter.

And we have seen this traction build in every state. So if 17 of 20 of my states have shown a positive traction towards better collection efficiency and better OD collection, that really gives us comfort that our strategies of managing our customer relationships organically, and also, at the same time, putting around the 90-plus number, like I mentioned, it is on the new portfolio, only about 1% residual, about INR97-odd crores.

I think that will give us a good sense as to how we are placed today. And having said that, we wish to continue on the same path, and we will manage our numbers very prudently.

Nikhil Rungta: Last question from my side. On the DNS allowance -- direct assignment side, we have done INR387 crores during the quarter, and it's now 10.53% of our total AUM. So till what level do we intend to go to and by when do we intend to go to that level. That's it.

- Gaurav Maheshwari:** So Nikhil, as we have said in our commentary also, we are going to continue the momentum, but it is all subject to your market conditions. Having said that, as of today, we are in the range of, as we have said earlier, also between 10% to 12%, but we will see the market conditions accordingly.
- Nikhil Rungta:** Okay. Okay. That's all from my side, and all the best for the future and expect to see similar type of growth going forward as well.
- Moderator:** Next question is from the line of Renish Bhuva from ICICI Securities.
- Renish Bhuva:** Congrats on a great set of numbers, sir. Sir, 2 questions. So 1 is on the liability side. So we have seen over the last 3 quarters, borrowing between 1 to 3 years has actually gone up to 92%. And when we look at the incremental disbursement side, I'm assuming it would be more than 2 years loan. So sir, how are we planning for ALM? Because now incrementally, more than 2 years loan will sort of outpace, but at the same time, when we see the borrowing tenure, 1 to 3 year is going up. So can you throw some light on this? I mean, what is happening there?
- Gaurav Maheshwari:** Yes. Renish. So if you see from a liability standpoint, if your banking mix is 85%, largely, your money would be in that same range where the bank is lending as a coterminous. Because from an RBI standpoint, as per PSL, it needs to be a co-terminus with your product. So as of today, we have a product which is highest of 2 years, and we don't have a product of less than 1 year.
- So as far as the ALM is concerned, so your question, 1 is on assets, that we don't have an asset of 3 years, so there won't be any ALM mismatch. Second, if you see from a public sector bank perspective, they usually don't give 2 years loan. They give either 30-month loan or a 36-month loan, but they have a moratorium of 6 months or 1 year, so that it comes into that bucket.
- Renish Bhuva:** Got it. Got it. So basically, the incremental disbursement ticket size, which is roughly INR40,000. So you are saying that product is also for 2 years?
- Devesh Sachdev:** Yes.
- Renish Bhuva:** Got it. And sir, secondly, I'm just referring to your collection slide, wherein our collection in the new book, which is disbursed between April '21 to March '23, the total collection efficiency, including prepayment, is as high as 112%, right? And when we look at the adjusted for prepayment, it is 98%. So roughly, what, 15% of the customers are prepaying loans?
- Tarun Mehndiratta:** This is constituent of 2 factors here. One is complete foreclosure and also prepayment leading to the next loan cycle. Because when you end the tenor, or when you are closer to the end of the tenor, the residual amount is also part of foreclosure, which comes in, right? So that is the difference which you will see, which is over and above what the OD we collect?
- So on a large book, at any given point in time, when you're looking at a INR9,000-odd crores book, when you have 2-year funding, you will see a lot of renewals coming up through any given year now? Also because of the fact that, like Devesh mentioned in the commentary that the last 2 years, we added 1.4 million new customers. So typically, customers funded in '21-'22, '22-'23,

by that time the '21-'22 customers will now be coming up for renewal. So as progressively we go along every month, that number will get cumulatively added here.

Renish Bhuv: So basically, renewal happens at the end of the loan tenure, right? So that actually happens a couple of months before the...

Tarun Mehndiratta: Yes. So there are 2 parts, as I mentioned, Renish. One is organic foreclosure? So because there are many customers who wish to foreclose their loan? And this also includes customers typically wherein we have been also engaging with them more from a standpoint of customers who were delinquent, and then we kind of motivate them and inspire them to get their records clean in the bureau, who come and then foreclose their loans.

So this also includes that, and it also includes a fair share of customers who come and take the next cycle loan. And as you know is a standard practice across the sector, customers typically do not wait till the end of the tenor. They come a few months before where the amount left is only very residual. So that is also baked in here.

Renish Bhuv: And just a clarification on the slippage number what you highlighted is INR97 crores. So this is for Q4 or this is for entire year?

Tarun Mehndiratta: No, this is what it stands as of today, at the end of Q4, Renish. So like I mentioned to you, out of my total 90-plus cost of INR234 crores, INR123 crores was the pre-March portfolio. If I take that out and I also take out INR14 crores, the residual of the restructured book which is left, I'm left with only about INR97 crores of 90-plus cost and this is as of end of Q4 number.

Renish Bhuv: Got it. Got it. So sir, what is the slippage number for this quarter? Total slippage?

Tarun Mehndiratta: Renish, that number, I will have to work out and get back to you. I don't have it readily available with me for incremental for the quarter.

Moderator: Next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Sir, just a couple of questions. Firstly, you mentioned you increased the first cycle loan ticket size. So by how much have you increased it?

Devesh Sachdev: So the loan ticket size has been now increased to INR40,000. But if you look at, we also maintain a loan ticket size of INR30,000 and INR35,000 in our books. So my average first loan ticket size is still at the range of about INR37,000, which was around INR30,000, INR31,000 earlier.

Piran Engineer: Got it. But this INR40,000 is across states, because earlier we used to have it like Bihar would be lower, but more industrialized states like Tamilnadu would be higher, the first loan itself.

Devesh Sachdev: We still have a differentiation, Piran. It is state wise. Yes.

Piran Engineer: So this INR40,000 is the minimum, like Bihar?

- Tarun Mehndiratta:** For Bihar, like I mentioned, we've increased first cycle to go up to INR40,000, but there are also products of INR30,000 and INR35,000 available. So the field teams take a call, but they definitely cannot go beyond INR40,000 for the first cycle.
- Piran Engineer:** Okay. Okay. Got it. And secondly, sir, just our net new customers that we added was a bit weaker this quarter, about 1.3 lakhs last couple of quarters, we've done 2 to 3 lakhs. Is it because of lower gross addition or just a higher sort of rundown of the back book?
- Tarun Mehndiratta:** So Piran, we basically look at largely on an aggregate basis. So what happens is that, as you know, it's how your phased setup of branches comes in and also the fact that you also start to build your focus around when your renewals come up for existing customers.
- So like Devesh mentioned earlier, over the last 2 quarters, our proportion of existing customers to new customers breakup in fresh disbursements was higher than the first 2 quarters? So to that extent, there will be a little bit of tapering of the new customer addition there. But on an aggregated basis for the year, we added around 0.8 million customers compared this with 0.6 million that we added last year.
- Piran Engineer:** Got it. Okay. And we can assume this 0.8 million to grow further next year as we add more branches?
- Devesh Sachdev:** Yes, yes. So we will Piran -- our teams are oriented towards that only. We'll keep a very clear - - good balance between the new and existing and keep on adding new customers. We're adding new geographies, we're opening new branches. So yes, that will continue. But look at it more from the year-on-year basis rather than quarter-on-quarter, because there are quarters when, especially first quarter, if you see, the sector did not do much disbursement, but we were ahead of the sector and acquired good new customers in the first 2 quarters, as Tarun mentioned.
- Piran Engineer:** Okay. Okay. Noted. And just sir, lastly, now that you have data on the overall household level debt of your customers, can you just give us some sort of portfolio cuts, for example, what percentage of customers have a total household debt of more than, let's say, INR1 lakh or INR75,000. Some sort of idea of their indebtedness, but total level, not just yours.
- Tarun Mehndiratta:** So Piran, I want to qualify this that as you are aware that even as we speak, the bureaus are in the process of consolidating the sector level analysis of debt levels, because that really is very dependent on the submission done by every practitioner to the bureau? So while they are working that out, they are very close to finalizing how they represent that in the form of data that they share with all the practitioners.
- The point that we are trying to make here is that what we have seen on our portfolio is that, like Devesh mentioned to you that when we took a portfolio review as of March from the scrub that we took out from the bureaus, a bulk of our customers largely -- we do not have customers in our portfolio with a current balance of greater than INR100,000. There is no customer today with the current balance greater than INR100,000 in our entire book. This same number for the sector, which we have, and like I said, that while they are still compiling the numbers, this is closer to about north of 20%, 21%, 22% or maybe 23%. And this how it stands today.

- Piran Engineer:** Sir, how is it north of 22%?
- Gaurav Maheshwari:** For INR100,000 current balance of a borrower -- more than INR100,000, for the sector, in the sense that for my set of customers for the sector, financing done by other practitioners. So there are customers who have a current balance of greater than INR100,000. This is about 20%, 21%, 22% of our customers.
- However, when we talk about our own exposure to them, I have no customer with an exposure greater than INR100,000 given by me in my book. So my sweet spot of my exposure to my customers is anywhere between INR30,000 to INR50,000.
- Piran Engineer:** Got it, got. But his or her total indebtedness in total is more than INR1 lakh, that's for 22% of customers?
- Gaurav Maheshwari:** Yes, the current balance as of today for all the practitioners is INR100,000 and more for about 20%, 21%, 22% of the customers of my book by other practitioners.
- Moderator:** Next question is from the line of Aditya Bhandari from Incofin Investment Management.
- Aditya Bhandari:** Thank you, Devesh and team, for this wonderful performance. Really setting gold standards in the industry. I have just 1 question. Keeping in mind the general elections coming up in May 2024, what would be the management outlook on additional provisions that we need to budget for the running fiscal year?
- Because today, I think we have a gross NPA of 3.5% and net NPA of 0.9%. So there's little room available for any unforeseen shocks due to the elections and the risk around the Microfinance sector. So just wanted to pick your thoughts on that topic.
- Devesh Sachdev:** Yes. So thank you, Aditya, look, one, we have just seen Karnataka elections. So everything has been smooth. Yes, I mean, you cannot say that this risk is not there. But let me tell you, as in my own experience, this risk has drastically come down over the years because of the work which we have done at a sector level and MFIN level and the understanding of the sector at the state level now what we achieved in Assam, the recent Telangana High Court order ordinance overruled in Andhra Pradesh and Telangana. So in that sense, I just want to -- I know there are -- many people have these thoughts that oh, elections are around the corner, but let me tell you that we have seen so many elections, we've seen UP elections many times now since 2010.
- I still qualify my statement that you cannot say that there is no risk, but at a sector level, we are more prepared, or we see it at very different level now. Understanding of the sector is at a very different level. Prime Minister Modi mentioned about the role Microfinance is playing in the financial inclusion and women entrepreneurship.
- So that is 1 point. The second point on your additional provision. So as you would have noticed that last quarter, the Q4 of last year, we had the elbow room available, and that's why we moved INR26 crores in the management overlay. We are going to really move forward in the same spirit. Whenever we will have good quarters, we'll accelerate it. And definitely, you will see that,

hopefully, by end of this financial year, you will see that we have done much better in terms of building these buffers.

Moderator: Next question is from the line of Darpin Shah from Haitong India Securities.

Darpin Shah: Congratulations for the good set of numbers. Just 1 question on growth. One of our peers recently mentioned that the industry in a steady state can grow at a 20% CAGR over the next 5 years. So sir, what is your thoughts on that? And in that scenario, where do we see Fusion's growth rate over the next 3 to 5 years?

Devesh Sachdev: Yes. I also believe that the sector can grow anywhere between 18% to 20% because of the headroom available and new harmonized guidelines also helped by increasing the overall strike zone. We are very focused on the long-term growth, keeping in mind all other metrics.

Let's say we'll try that we are closer or at least slightly above the growth rate of the sector. That's what I can tell you. We are more focused on creating a long-term value, protecting our NIMs, giving a very consistent ROAs and ROEs.

Moderator: Next question is from the line of Shweta from Elara Capital.

Shweta: Congratulations on a good quarter. Sir, couple of questions. Sir, apologies first, I'm harping on the same question on ATS. Sir, did you mention no change in average ticket size for subsequent cycles? So which means it has remained secular for second and third cycle? And did you also mention repeat customer base is 35% or 48%? That is a little confusing.

Devesh Sachdev: So Shweta, as I mentioned, we have not changed the ticket size for our second, third or fourth or fifth cycle and above customers. We have only changed the first loan cycle amount because earlier it was capped at INR30,000. Now we are saying it is up to INR40,000.

That does not mean everything moves to INR40,000. It depends on geography. That's why what Tarun mentioned, for our new customers, the overall average is hovering around INR37,000. So that is I'm clarifying on your first point.

The second point, you are right. Our, the ratio between existing and new was 65%-35%, 65% new and 35% were existing in Q4 of '21-'22, and as of Q4 of '22-'23, it is 52% and 48%, 52% are new and 48% are existing, for that quarter, disbursement for the quarter. I hope it clarifies.

Shweta: Yes, yes, definitely. Sir, a follow-up question there. Sir, if I look at your strategy for the past 2 years, we have been focusing on diversifying geographies and adding borrowers. So where do you see this mix going forward? And secondly, correct me if I'm wrong, what was the math like, how much every borrower on annual basis added leads to how much of AUM addition.

Tarun Mehndiratta: So can I break your question into 2 parts, Shweta. So the first part which you asked about our strategy going forward. I think what we articulated earlier on the call was that we intend to maintain the same prudence in terms of our mix of new customers and existing customers.

So as you have seen in the past, last 2 years, even during the tough COVID years, we opened new branches and we added new customers. So just let me give you an example here, that over

the last 3 years, previous to FY '22-'23, we added close to 400 branches. And over the last 2 years, '21-'22, '22-'23, we've added 1.4 million new customers.

Now we are very, solid on our strategy going forward, we will maintain this prudent mix, and we will continue to have a similar traction on new customer addition as we go along. Now coming to your point on saying how much AUM does a customer add typically, now depending on which cycle we are talking about and how much loan does a customer avail, right? Like I mentioned to you, we don't have a loan product greater than 2 years, this will need to be worked out, and I will have to come back to you on a specific basis, Shweta.

Shweta: Sure. That's appreciated. Sir, 1 last question from my side. In your opening remarks, you mentioned that we add up the strategic approach while foraying into new states. Can you please elaborate there?

Devesh Sachdev: Yes. So Shweta, what we meant was that whenever we enter a new state, we are not very aggressive on opening a lot of branches, like we mentioned that we have just opened 11 branches in Karnataka. And what we do is that we wait for some time, look at the customer behaviour, make sure that our teams are settled, look at our product is right, understand the market, understand the risk. And then only, once we have some confidence, then we start moving ahead.

Similar approach we have followed in UP, Bihar, everywhere. If you see, again, we have mentioned in the first call, we entered UP in 2010, it was not the first state for us. We had 72 branches till 2017-'18, '20. So then, after that, we increased more branches. So that is what we meant that there are -- other approaches that some people take is that enter a state, open suddenly with a 50 branch or 100 branch, we don't follow that approach. That is what we meant.

Moderator: Next question is from the line of Pranav Gupta from Aionios Alpha. Pranav, we cannot hear you? Pranav, sorry to interrupt you, but your audio is not clear at all. I'll request you join the queue again after you come in a better reception area, please. Next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congratulations on very strong numbers. Sir, firstly, what we see is slightly higher amount of foreclosures happening in the last 2 quarters, which is why the collection efficiency with foreclosure has gone up. So typically, these foreclosing customers, what percentage of these foreclosing customers repeat the loan with us for the next cycle? And is there any cooling period between the foreclosing loan and the next loan?

Devesh Sachdev: So basically, Rajiv, so there are 2 parts to it. Look, if there is a customer who is current, everything is fine, and suppose the tenor of the loan is 18 months, and she has completed around 14 months. She comes -- as Tarun mentioned, the residual balance is very less, she comes and closes. So there is no problem. We foreclose the loan and she wants to move to the next cycle. So that is first part.

The second part what you are talking about is there are also cases where the customer has defaulted with us, but now she's applying for a loan from some other financier. She goes to that financier. The loan is declined because she had an outstanding with Fusion. So at that time, the

customer comes to us and says that, okay, please, I want to foreclose my loan because I'm not getting loan from others.

So now the third point, where suppose a customer has not defaulted, our own customer, and see wants to come and she says, "I want to make a foreclosure and want to move to a next cycle. Then we have our own credit underwriting policy. We look at how many days she was overdue, whether the customer is an old customer and she had real difficulty. So depending on the situation, depending on her cycle, this was a first cycle customer, second or a fourth cycle customer, we take it. So these are the 3 aspects to it.

Rajiv Mehta: Got it. And sir, can I get the PAR 1 to 30 bucket as of March and as of December in absolute number?

Devesh Sachdev: We can share that with you separately, but we have a 60-plus number because those are more relevant, that we can tell you what is 60...

Rajiv Mehta: Okay. And sir, just your comment while answering the collection efficiency question on the new portfolio. There was a comment made that Odisha, MP and Tamilnadu is having 96% collection efficiency, including ODs, it is still slightly lower than the industry. How will you explain this?

Tarun Mehndiratta: Yes. No. So what I was explaining was that how we have moved across quarters in terms of improving our collection efficiency in all our states, including Tamilnadu and Odisha. So what I was mentioning was that most of our top states now are registering efficiencies closer to about 97%, 98%. Our total new book portfolio, which we also mentioned in the presentation, which is like 99% of my book, the collection efficiency with OD is at 98%. So that is representative of largely all my top states. I was just mentioning to you how this has improved over the last 4 quarters.

Rajiv Mehta: Okay. It's almost similar across states. Got it.

Devesh Sachdev: Yes.

Rajiv Mehta: And just lastly on the write-off policy. I believe we have a write-off policy of 365 days. Would that be right?

Devesh Sachdev: Yes, yes.

Rajiv Mehta: So any thoughts of accelerating the write-off policy? The reason why I'm asking is because we have still -- I mean, the kind of flows we are getting from the -- because of 98.5% collection efficiency, 98% collection efficiency, even the flow from the new portfolio is continuously there, which is business as usual show. And it keeps on accumulating in the loss NPL bucket, and our write-off policy is 365 days, so even the write -- then the gross NPL number looks slightly elevated. Any thoughts about accelerating the write-off policy since you are holding almost 100% provision on the Stage III, including the management overlap.

- Devesh Sachdev:** Yes. So Rajiv, good point. We had a Board meeting yesterday and this was a point which was also raised. So we will consider this. And this was a point which was discussed in Board meeting also. So we are going to ponder over this point.
- Moderator:** Next question is from the line of Pranav Gupta from Aionios Alpha Investments.
- Pranav Gupta:** I hope I'm audible now.
- Devesh Sachdev:** Yes, Pranav, you are.
- Pranav Gupta:** Congratulations on a good sort of numbers. Just 1 question and 1 clarification. So on the management overlay, if I understood correctly, and you can correct me if I'm wrong, as per regulation, I think we're not allowed to hold management overlay for more than 1 year. And if it's not utilized, you'll have to sort of release it. Is my understanding correct? And how are we looking at sort of creating that buffer that we want to make for any unforeseen events in the industry? That's question number one.
- Gaurav Maheshwari:** Okay. So as far as management overlay is concerned, under IFRS, you are right that you have to release that after 1 year. But as we have mentioned and clarified in the last commentary also, because this was a window which is being given by our regulator to create management overlay, so that we are going to continue, and there is no restriction as of today, which is being conveyed by or set by the regulator.
- Once this comes back into the normal regulation, so we are going to slightly tinker our ECL model, slightly more detailing which we are going to do, that how to put a management overlay within that ECL model. So management overlay will get adjusted in Stage I, Stage II, Stage III that we have already spoken to our auditors.
- Pranav Gupta:** Okay. Okay. So basically, once the regulatory easing is taken off, we'll adjust it through the earlier buckets.
- Gaurav Maheshwari:** Yes, yes.
- Pranav Gupta:** Okay. Sure, sure. And just the response that you gave to Piran, I just want to clarify if I understood it correctly. You said that within your borrower base, you have no borrower who has a total outstanding, including all other lenders, of more than INR100,000. Is that right?
- Tarun Mehndiratta:** I will clarify that. What I mentioned was that in my borrower base, the total exposure from my side to them, none exceeds greater than INR100,000? But however, when I look at their trades with other financiers, there are cases where they have a current balance of greater than INR100,000, which means it is all off me, it is not on me. So that is about 21%, 22% of my borrower base.
- Devesh Sachdev:** And if we really dissect it further, what we could see is that as we have forayed into Tamilnadu and Karnataka, and that is why earlier this figure was around 8% to 10%. It has moved to 20% because of the fact that we have added borrowers in some of these mature markets where the customers have larger loans from other financiers.

- Pranav Gupta:** Okay. Just again, I'm sorry to harp on this, just to close the loop. These will be borrowers who have some outstanding with you, which is less than INR1 lakh, but these borrowers would have outstanding of over INR1 lakh with other lenders?
- Tarun Mehndiratta:** It's their overall borrowing.
- Pranav Gupta:** Overall outstanding.
- Tarun Mehndiratta:** Yes, yes. Yes, you're right.
- Pranav Gupta:** And that number has increased from 8% to 10% to about 21%, 22%, given that we've increased our exposure to more mature states.
- Tarun Mehndiratta:** Yes, yes.
- Moderator:** Next question is from the line of Nidhesh from Investec.
- Nidhesh:** Firstly, can you share the state-wise breakup of AUM, at least for the top 5 states, how much of AUM is coming from each individual state?
- Tarun Mehndiratta:** Yes. So would you want a breakup in terms of percentage or absolute numbers?
- Nidhesh:** A percentage of AUM is fine.
- Tarun Mehndiratta:** Yes. So I'll tell you about my top 5 states. So Bihar is about 20.5%. Uttar Pradesh is about 21%. Odisha is about 11.67%. MP is about 9%. And Tamilnadu is about 7%. These are my top 5 states.
- Nidhesh:** And we noticed that the share of top 5 states has gone up in this year consistently every quarter. So what is the reason behind that? And how should we see that trend playing out in coming years?
- Tarun Mehndiratta:** So like we had mentioned earlier as well, and even in the opening commentary by Devesh, so today, my top 5 states comprise about 69% of our portfolio. This in about 2017 was close to about 73%, 74%. However, what we've seen that post COVID, there has been kind of a little bit of change in composition of how the states have played out in terms of the demand and how typically the credit fabric has been a little bit kind of shaken there.
- We have seen that over the last 2 years, all our states have seen progressive increase in disbursement levels. So typically for me, even states outside of top 5 states have registered strong year-on-year disbursement numbers, growth numbers.
- But then we also look at the sector, we also look at top states like Bihar and UP, where there is still a lot of headroom available from a potential MFI penetration standpoint. So given all that, there will obviously still be -- because we are amongst the earliest, we have a very strong network in both these states, we have a very well-entrenched team, and our credit quality -- now let me just kind of mention to you that typically in state of Bihar, for me, my 0 plus number is

around 1.3%, 1.4%. But for the sector, when we talk about the disbursement levels there, year-on-year have grown by about 65%. So we continue to maintain our network there.

We have kind of well entrenched ourselves there. So this prudent mix will carry on, and all other states will also come up. And typically, we wish to kind of stabilize this as we go forward, but we'll take a little bit of time, like I mentioned, that because of the last 2 years, the composition at state level have been a little impacted by the previous 2 COVID years.

Nidhesh: Sure, sir. And can you also speak about customer retention rate? How many customers we are able to retain every year. Especially for, let's say, FY '23 and FY '22, what percentage of customers we have been able to retain?

Devesh Sachdev: Yes. So our retention rates have hovered around 70% over the last 2 years, around that. And we want to kind of maintain and improve upon the same.

Nidhesh: And lastly, how do we plan to take care of the customers who are graduating, who the ticket size is going up to more than INR1 lakh, they are probably moving to other institutions, but they are good quality customers. Do we have plans to continue to engage with them and offer high ticket loans to them?

Devesh Sachdev: Yes. So Nidhesh, that's why we started this MSME vertical with one of these motives in mind that, one, we wanted to create a separate vertical. But also, as you rightly said, the customers are graduating, they have the cash flows, they have overall businesses which can support higher EMIs and they need more credit. So those customers actually are now getting referred to our MSME team.

Our MSME branches are also in areas that are very strong as Microfinance. If you remember my opening comments, I mentioned some of the strategic initiatives. This is one of the initiatives. But we are very clear. We do not want to do very large loans through our Microfinance field team, because they do not have the wherewithal to do a real credit and cash flow assessment.

These customers will be assessed by our MSME team and that kind of servicing has started, though it is too small for me to right now talk about it. So by the end of this financial year or early next year, I will talk about it. But by that time, I hope we will have some substantial number to show.

Moderator: Next question is from the line of Sagar from Anand Rathi.

Sagar: Yes, sir, 1 question was if you could give out the percentage of customers who are unique to Fusion. I think you've done that? And also customers who have, say, 1 other lender, or 2 other lenders, or 3 other lenders? And second is, in the opening commentary, Mr. Devesh mentioned about some key strategies in process going forward. If you could throw some more light on that? That's all from my side.

Devesh Sachdev: So as I mentioned, our customers which are unique to us is hovering around 33%. That is one. Customers having 1 more loan other than us is around 50%. And customers who have 2 loans

other than us is around 20%. And then there are 10% customers which have 3 loans other than us. And then more than 4 is hovering around 4%, 5%. That is the breakup.

So on your second point, yes, I have briefly -- I talked about. So we are looking at -- as I mentioned that we are more focused on building for future. One of the very strategic things is the fact that we are building this MSME vertical in a very different manner, separate vertical, separate branches, and overall calibration towards secure.

Other thing which I talked about is the fact that the customers who are graduating in Microfinance and need larger loans. But because of our capability or actual capital of the Microfinance team, we want these customers not to leave our fold, but however, how do we service them, that will be through our MSME team. We are building a technology bridge to move the leads there. So that is the other point.

The third is that the whole credit underwriting, we are working on automating the credit underwriting by triangulating data from credit bureau. We are working with a very large credit bureau on building this thing and the pilot is already going on.

Similarly, we are working on robotic process automation, next level of technology. So whenever we meet in person, we will share more. But briefly, all these initiatives will cut across various verticals, whether it is client engagement, productivity, efficiency, better asset quality. That is our focus. And primarily, we are focused on building for future.

Moderator: I now hand the conference over to Mr. Akshay Jain for closing comments.

Akshay Jain: Thank you to the management of Fusion for giving us this opportunity to host this earnings conference call and thank you all for joining this call. You may now disconnect the call.

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