"Fusion Micro Finance Limited

Q1 FY '24 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Fusion MicroFinance Limited Q1 FY '24 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 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, Aman. Good evening, everyone, and welcome to the Q1 FY '24 Earnings Conference Call of Fusion MicroFinance. First of all, I would like to thank the management of Fusion MicroFinance for giving us the opportunity to host this call. From the management team, we have Mr. Devesh Sachdev, MD and CEO of Fusion MicroFinance; Mr. Gaurav Maheshwari, CFO; Mr. Tarun Mehndiratta, Chief Operating Officer of the MFI business; and Mr. Deepak Madaan, Company Secretary and Compliance Officer. As always, we will first begin with opening comments from Mr. Devesh Sachdev and then open the floor for Q&A. Over to you, sir. Thank you.

Devesh Sachdev: Thank you very much, Sameer, and JM Financial for hosting us. Good evening, everyone, and we are thankful for joining Fusion's Q1 financial year '24 Results Conference Call. I am here along with my colleague, Tarun, who is the COO for MFI business, Gaurav Maheshwari, my CFO, Deepak Madaan, who handles Investor Relations and also Chief Compliance Officer.

I would request all of you to please keep the presentation handy because I may refer to some of the slides. So I will straightaway go to the Slide number 18, please. We are off to a very good start in this quarter where disbursements were more or less similar to Q4 disbursements. The AUM at the end of Q1 stands at INR 9,711 crores, which is 31.4% growth year-on-year from Q1 of financial year '23.

We continue to remain focused on our business composure across states, maintaining positive traction in all our large state is evident from the Q1 disbursement numbers. If I take you to the Slide number 32. As for our gear guidance, NIM expansion continues, and it is 10.89% as on Q1 2024. We have guided in the past that there is still some scope of increase in NIM before it stabilizes.

Our profit after tax grew 60.40% year-on-year to INR120.46 crores, up from INR75 crores in Q1 of financial year 2023. The ROA stands at 4.99%, ROE is at 20.21%. As for our guidance, we are confident of delivering ROA of around 4.25% to 4.5% and ROE of 18% to 20% on a sustainable basis. We were the first company in the sector, which came out with a strategy to create extra provisions under management overlay.

We want to build extra buffer for uncertainty. Management overlay now stands at INR57.68 crores. In good quarters, we'll keep on adding to this buffer as we have done in this quarter. Our credit cost has very marginally inched up in this quarter because of two-three reasons. We have increased our coverage from 96% to 118% year-on-year and from 107% to 118% quarter-on-quarter. This time, you all know, we have witnessed floods in some parts of North India after many years.

This is not a normal luck. Let me assure you that, we are hopeful that the credit costs will normalize in next two quarters to three quarters as we deal with these issues in a very organic manner. Our top five states today, Bihar, UP, Orrisa, MP and Tamil Nadu have a concentration of 69.8% as of June versus 69% as of March and 74% as of financial year 2017.

We are confident of maintaining prudent composition as other geographies will start contributing more to our business volumes. If I take you to Slide 20, which highlights our mantra for success, which is maintaining consistent growth, we focus on fundamental prudence. If I summarize the same for you, it will very pertinent to talk about our consistency, adding new clients.

We continue to maintain our focus on orienting our field teams in alignment with our overarching strategy of diversification, organic growth by adding new clients to the portfolio, we have a total number of 3.64 million borrowers as of Q1 of this financial year, registering a year-on-year growth of 25.7% and a quarter-on-quarter increase of 3% versus the last quarter, where the number of clients was 3.53 million.

Staying on the same slide. Within our portfolio, we continue to have a healthy mix of new and existing customers as reflected in our average ticket size, which is Rs. 42,400 as of Q1 versus Rs. 41,200 as of Q4, up only 3% outstanding per borrower, which is 25,800 versus 25,600, more or less it is at a similar level. We had mentioned in the last call also that, we slightly increased our first cycle ticket size because we had not done it in the last three years.

Let me tell you that, as we are becoming a more mature company, we are in mature markets, we are recalibrating our ticket size. We are looking at some of the geographies, which are more mature, and especially for our mature customers. But I must assure you that any such thing, any such change, which will be done on keeping in mind our risk, our prudence, and it will be very, very organic.

The strong validation of our focus on borrower addition is that customers as of March 23 was 33% as per data of the Credit Bureau on our portfolio. Our goal always has been to maintain a long-term view of building our business, our consistent approach, prudently, balancing growth and risk, adding on our network. We are continuously strengthening our processes, human capital, digital capabilities and this shall help us to deliver sustainable growth subject to market conditions. Thanks you very much.

Gaurav Maheshwari: Thanks, Devesh. Good evening, everyone. Interest income has increased by 6.27% on a Q-on-Q basis and 45.43% on a year-on-year basis. As far as the total income is concerned, so it has increased to 6.16% on a Q-on-Q basis and 53.36% on a year-on-year basis. The fee and commission income has increased by 109% due to increase in cross-sell INR7.69 crores in Q4 FY '23 to INR16.10 crores in Q1 FY '24.

Our annual cost of fund has increased by 16 bps against Q1 FY 2023, whereas our marginal cost of funds increased by 7 bps on a Q-on-Q basis. The annual cost increase has been passed on to the customer. For FY '23-24, our efforts would be to maintaining the same level of cost of borrowing. As of now, interest rate environment still remain uncertain. The operating cost has increased marginally by 5 bps on a Q-on-Q basis.

In this quarter, we have opened 17 branches pan-India. Cost to income has marginally increased by 9 bps from 36.18% Q4 FY '23 to 36.26% in Q1 FY '24. It would largely be the same for FY '23- '24. The pre-provision operating profit is INR 235.39 crores as on June 30, 2023, which had increased of 96% compared to last financial year.

It has increased by 6% from Q4 FY 22-23 to Q1 FY 23-24. The company has provided impairment of INR75.08 crores in Q1 FY '24. We have done a write-off of INR59.36 crores in Q1, which is 0.61% on closing AUM. Due to this write-off, we have derecognized the interest income amounting to INR19.38 crores in this quarter. The ECL as on June ‘23 is INR328.38 crores, which includes INR57.68 crores in management overlay.

We have provided additionally INR6.43 crores as management overlay in this quarter. Credit costs on closing AUM is 0.86%, but if we consider without management overlay, it stands at 0.79%. Restructured portfolio as on 30, June is INR7.35 crores, which is 0.08% of the portfolio. The company has done direct assignment amounting to INR343.11 crores in Q1 FY '24. The outstanding as on June 30, 2023, is 10.40% on the closing AUM. We would like to continue the same subject to market conditions. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi, sir. Good evening and thank you for giving the opportunity. Sir, my first question was pertaining to the collection efficiency. So if you look at that, that is still at 97%, excluding prepayment, which is still lower than where we are seeing most of the peers also operating. What explains this?

Tarun Mehndiratta: Hello, everyone. Hi, Shreepal, this is Tarun. So, see, our collection efficiency, obviously, is a huge leading indicator for how the portfolio performance is design anticipated. And when you compare it with the previous two quarters, so this has become better at 97.3% for the overall portfolio. But what we also take confidence out of from is that, when we look at our top five states, so, states like Bihar and Uttar Pradesh for us are at levels of about 99%.

And we had always discussed that at sector level also, there were states like Madhya Pradesh, Tamil Nadu and Odisha. But in our case, we have seen significant improvement in collection efficiencies in all these three states. So for example, for us, Odisha today, from a level of about 93% is at about 97%. And so is Madhya Pradesh, from a level of about 93.8% to about 97.2%, and Tamil Nadu has also shown substantial improvement from 93% to about 97%.

So we are very hopeful that going forward, all these states, which has shown improving trends will also add to the overall collection efficiency performance. And we will see this gap actually being nullified and probably being as far as to what you just kind of mentioned as your observation about the sector level efficiency.

Shreepal Doshi: So sir, then what would -- even on provisioning front, our provision like credit cost during this quarter was 3.2%, I understand there is a management overlay that we have as a cushion. But, what is the guidance for this year? And what is it towards? Because during this quarter also, we've taken a write-off of close to INR60 crores. So is this the end of the COVID related or is this towards the new book that we have created over the last couple of years? From that, is this pool coming from? So, if you could explain this…

Tarun Mehndiratta: So largely if you see that in the collection efficiency slide, there is a breakup of the pre-April book and the post-April '21 book. So still there is a INR 68 crores of portfolio which is left behind. And as Devesh has mentioned in his opening remarks, the normalized credit cost would be seen post two quarters, three quarters.

From December onwards, you will see that the older portfolio will go out from the portfolio. And you will see the normalized credit cost. This credit cost, as you are extrapolating for 3%, but it is largely what Devesh has given in his opening remarks that this was abroad two three reasons. So largely, if you see that from the collection side, there is still an old portfolio, which is INR68 crores, which is 0.7% is left behind, which is going to take another quarter or so, you will see a normalized credit cost on the new portfolio from December onwards.

As Devesh has mentioned in his opening remarks, that the credit cost is slightly elevated, because of two, three reasons. But you will see that the guidance for credit costs will come in the next quarter. We are reviewing internally that how it is going to be. But the guidance for the older portfolio is like that, that in December quarter, post-December quarter, you will see the normalized credit cost.

Shreepal Doshi: Got it, sir. Sir, last question on the portfolio yield. So, what is our incremental portfolio -- what is the incremental disbursement yield? And what percentage of our portfolio could get repriced in the next, say, six months as part of the renewal?

Tarun Mehndiratta: Yes. So we have mentioned in the past also that, the new price under the new pricing guideline, the rates were changed in May 2022. We also mentioned that, you will see the NIM actually expanding in the next two quarters also before it stabilizes. So is it that traction only. So you can see more or less the overall, it is a 17-month kind of the asset, which stays on the book.

So if you take it from May, so you can just -- you can see, I think, the next two quarters, three quarters, the whole churning will be done by that time, and most of the portfolio will be at the new price. Recently also some price change, which Gaurav mentioned, that is what I'm just talking about the major change, which happened in May 2022.

Shreepal Doshi: Okay, sir. Thank you so much and good luck for the next quarter, sir.

Tarun Mehndiratta: Thank you.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Thanks for taking my question and congrats on the quarter. I just wanted to understand now there's a few corporates have called out higher level of indebtedness in rural unsecured loans.

Just wanted to get a sense of how you all are seeing it. And if you could share some data points, for example, what percentage of your customers have more than iNR1 lakh outstanding at a system level, not just with you all. Something like that would help.

And my second question is just conceptually, it may not be applicable today, but maybe three quarter, four quarters later. When cost of funds starts going down due to repo-rate cuts, will you pass it on to borrowers or do we see spread expansion then?

Devesh Sachdev: Yes. So Piran, thank you. I'll first take your -- first question. You said on the unsecured loan, especially in the rural areas, there is a level of old debtness or a high level of debtness, which is happening, which has been called out by some corporate. So I'll first give you data. So the customers, which are our customers, the last portfolio cut, which we took from the credit bureau.

Having a loan which is more than INR1 lakh across current balance, it is hovering around 20%. 20% of customers have loans, which are more than INR1 lakh. And then the second point was that customers having more loans than not. I think that the unique customers around 33%, 34%, with one loan other than us is around 30%, two loans other than us is again, 20%. So customers having more than five loans is four, five loans is just 2%, 2.5%.

We have not seen retail overlap is still 15%, 16% in our customer base because we're being a rule of MFI. But yes, that's why Piran, we mentioned that we are very calibrated. Today, if you see or even for a mature customer, we do not -- the highest loan which we give is around INR85,000, INR90,000, we have not even crossed INR1,00,000. If you look at the sector, I think everyone does more loans than that.

But we are also looking at it that how we can -- so especially for our mature customers. Other thing is that, if you remember, last time also we mentioned that customers which are maturing need a larger loan, those customers will be serviced by our MSME team, which where the branches are now getting open to similar location where we are present.

Because that team has a better understanding of cash flow and they will do it with a certain kind of quasi, some level of security. Right now, we do not see any such thing in any area. Broadly, there are some disruptions because of the floods. But yes, we are continuously will look at this, and we will continuously monitor all this thing. And we'll be sharing some of these cuts with you every quarter.

Piran Engineer: Got it. Thank you. And on the question.

Devesh Sachdev: And on the question of, if the interest rates go down. And yes, look, we mentioned we have -- I have mentioned this many times that when we look at NIM or we look at ROA and ROE, we keep two, three things in mind. One is definitely what kind of ROA and ROE we want to give to the shareholders. When you look at the customer also and look at the state of the regulation from the regulator point of view.

So if we will be very measured, wherever we think that, if we are the kind of NIM we want to maintain and kind of ROA we are able to keep then definitely we would like that, if anything more than that, yield goes more on that, we will definitely like to pass on to our customer. So that's the spirit because customers definitely we have to keep in center, and the regulator is also very, very cognizant of some of these things. So we are, as a responsible organization, would like to maintain a balance between all the three stakeholders.

Piran Engineer: Got it. And just one last clarification. Your pre 2021 portfolio of 0.7%, 0.8%. So is this the entire portfolio? Is there some already in Stage 3 and not part of the 0.7?

Gaurav Maheshwari: So this is already a part of Stage 3.

Piran Engineer: The 0.7% is in stage 3. So basically, 2.5% of Stage 3 is basically from the post-2021 portfolio.

Gaurav Maheshwari: So Piran, we need to slightly dig deeper. We have to compare with what is my PAR90 plus number because gross NPA includes your accrued interest on Stage 3. But if we are talking about INR68 crores as a portfolio, it doesn't include the interest on that. So we need to have an apple-to-apple comparison against INR68 crores, what is my PAR90 portfolio number. So if we carve out that, it goes below 2%.

Piran Engineer: So you're saying your PAR 90 of your post-2021 portfolio sub-2%?

Gaurav Maheshwari: Yes, absolutely.

Piran Engineer: Got it. Okay. Make sense. Thank you and all the best.

Gaurav Maheshwari: Thank you.

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

Renish: Yes. Hi, Devesh, and team and congrats on a great set of numbers. Sir, just two questions. One on the fee and commission line item. So this particular line item has been growing steadily on a sequential basis. So can you please throw some light on what is driving that growth on the fees and commission line item?

Devesh Sachdev: So Renish, this is largely because on the cross-sell in this quarter, we have increased. We have sold certain of our existing products to our existing customers, which is largely on the requirement on the monsoon, like a trampoline or mobile phone, we have slightly more focused on. So you will not -- because there is a seasonality to it.

Because now this year, we have seen a lot of monsoon across India and being pan-India, we have to use our network. Apart from that, if you want to see in this quarter also, you will see might an attraction into this quarter. But for a whole year, this is not going to be an exceptional scenario. This is going to be as normal as it was.

Renish: Got it. And so whenever we do this cross-sell, it is being funded by us only or this is, let's say, the cash-driven by the customer?

Devesh Sachdev: So it is a combination. There are also cases where the amount of the -- like for example, you're doing some inverter bulb or something, where the amount is too low, customer pays also. But yes, wherever the amount goes beyond INR1,000, definitely, it is getting funded. We are not bundling it up. We are not very aggressive on this thing. We are very calibrated and looking at whatever the customers require. So that's how, we look at it.

Renish: Got it. So, I like to assume that, this is not basically a strategic focus, but this is more to retain the customers?

Devesh Sachdev: Absolutely.

Renish: Got it. And sir, secondly, again, circling back to the credit cost line item. So when we look at the credit cost, remaining step it around 3%. At the same time, we are also creating a management overlay, of course, given the strong operating performance. But then why not writing off the portfolio and clean up the balance sheet instead of creating eminent overlay?

Devesh Sachdev: So there are two things. One, we are doing it very consistently. I remember last time also this question came from Rajiv Mehta. And we mentioned that our current write-off policy allows us to write off only after 365 days. I also mentioned that, this was discussed in the last Board meeting, which was post our March numbers Board meeting. In this Board meeting, which happened yesterday, we have the policy to write off after 270 days has been approved. So going forward, yes, we will be looking at it.

Renish: Got it. I think this is very, very helpful, sir. And just last question. On the growth side, of course, the growth has been monitoring on Y-o-Y basis, but it's still strong at 30%. So any growth guidance would you like to share, sir, for this year?

Devesh Sachdev: No. Renish, we mentioned it last time that will be calibrated, but wherever the sector is growing, we will be at least equal or more than that. you can read it that even in a quarter, which is normally a very null quarter, our numbers are more than even what we did in Q3. So yes, I will stick to the similar stand in which I have taken. But overall, we are looking at a good momentum, and we are very confident of that. Whatever the industry average, we'll be either equal or slightly more than the industry average.

Renish: Got it, sir. Thank you and best of luck for coming quarter, sir.

Devesh Sachdev: Thank you.

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

Rajiv Mehta: Yes, sir. Hi, and congrats on very good numbers. So sir, the first question is on the slippages in the quarter. So, if you can quantify the gross addition in the NPA bucket. And you spoke about the flood impact. So what percentage of slippages came because of floods and whether we see more slippages coming from such situation?

Tarun Mehndiratta: So yes. So Rajiv, look, what we look at is that, when we look at the overall -- in the previous question from Piran, Gaurav mentioned that the 90-plus is less than 2%. If I do a breakup of that, what we look at it is that 40% is coming from some of these states where there is a -- two, three states where it has been a flood. So also, let me share with you slowly, but that's what we said that this quarter because the impact is still continuing.

And Rajiv, we handle these things very organically because in these situations, we have to be with the customer. You cannot be pressurizing the customer. You don't want to create a pressure cooker situation. We work with the customer. So we are working with the customer. We activate our CSR program. Let me tell you, huge relief work we have done. Whenever we meet or speak separately, we can share with you.

Huge relief work is happening in some of these geographies. And as we mentioned, we would like to wait for next one months or two months. And after September, we'll have a more clarity, how this is spanning out. We are also reorienting our strategy in some of these geographies, not doing in some of the branches, not doing fresh customers, only looking at the existing customers. So we are -- because we are used to having a floods in Bihar and all parts of Odisha for last many years.

And the teams are also oriented to handle some of these things. But this is the first time, these geographies have faced this situation. But overall, things look to be in control. So as I mentioned earlier, we are very confident of normalizing it, and we'll give some guidance around it in the next quarter.

Rajiv Mehta: Sure, sir. And sir, when you talk about your PAR 90 number being 2% on the new portfolio, how does it stack up versus the industry PAR 90 number on this new portfolio? Are you better or are we at the same level?

Tarun Mehndiratta: So Rajiv, industry PAR 90 numbers, broadly, if you look at state-by-state, at the time that we're discussing is we do not get published updated data. Point number two, the leading indicator there is for the biggest states. So for every finance company, there is a set of states which are larger, which contribute to the portfolio in a significant manner.

We have been stepping up like we covered last time also much better than the industry from a leading indicator standpoint, we look at 60-plus numbers and we look at collection efficiency. So like we mentioned earlier, Bihar, Uttar Pradesh for us, now, there's been significant improvement in MP in Tamil Nadu, close to about 4% to 5% points.

In Odisha and Bihar continues to be at 99%, UP continues to be at 99%. So, definitely, we stack up equal or better in our significant states. And so really, that is how we would like to compare it in the absence of updated published data that we get in the public space.

Rajiv Mehta: Got it. Sir, just one last question. If you can give us your portfolio mix from a borrower a vintage perspective, you can get your AUM from a borrower vintage perspective? And what will be our borrower retention rate for the subsequent cycle, typically?

Tarun Mehndiratta: So see, let me give you kind of a top-level analysis here. So, let me just look at the branch vintage to start with. And typically, branch vintage will also be a good factor of a borrowed vintage. So, branch, which is greater than three years of existing with me, typically are, let's say, around 53% of my branches, 54% of my branches. And they contribute close to about 64% to 67% of my

POS. Now, if I look at this number, like we covered in the last call, that we have been very, very consistent in opening of branches even during COVID times, right?

So we have a very good mix of branches, which are greater than three years now and out of 1,100 branches, we also have a very good mix of branches, which have been opened over the last 1.5 to two years, which will now start kind of giving us the kind of productivity levels that we've seen from our vintage branches.

So just to answer your question, favourably greater than three-year branches, which means largely customers with us of greater than three-year branches contribute to about 53% in terms of numbers, and in terms of portfolio closer to about 65%, 66% level.

Devesh Sachdev: And the retention ratios are hovering between 70% to 72% for us, Rajiv.

Rajiv Mehta: Got it, sir. Thank you so much and best of luck.

Devesh Sachdev: Thank you.

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

Darpin Shah: Yes. Thanks for the opportunity. Sir, just first to clarify. So you mentioned that only 2%, 2.5% of your borrowers have loans from more than four or five lenders. Is that right, sir?

Devesh Sachdev: Yes.

Darpin Shah: Okay. Now so the three years, when we look at the industry data -- sorry.

Devesh Sachdev: 2.1%.

Darpin Shah: Okay. Thanks. So when I look at the industry data, I know a number of borrowers, which have more than four lenders in the state of Bihar has gone up from, say, some 4% in June '21 to almost 9% in March '23. So definitely, there has been increase in competition. So how are we trying to protect our turf in the core state there?

Devesh Sachdev: Yes. So I will partly answer it. I'll let Tarun answer the second part. The first, I'll tell you that, when this harmonized guidelines came in and the two MFI rule was removed. We still have a number of borrowers rule. We do not fund our existing customer where relationship are more than five.

So that is the reason that, we do not have borrowers which have -- but yes, still, if the borrower builds relationship after taking a loan from us, next time we don't redo that. So we have a clear guardrail as well as the number of lenders to a borrower is concerned. So we are more prudent in that context. But I'll let Tarun handle, how we are trying to protect the…

Tarun Mehndiratta: Also, yes, like just adding to what Devesh said, we are, of course, have been one of the better-performing states in the sector over the last few years. Now, think what really makes the difference for us is, a, a very well-entrenched network. So we are close to now about 142 branches in the state of Bihar. And we have covered it pretty well, but also the fact that, we have experience of cycles. In Bihar, we have a very well entrenched team there.

So typically, if you look at stability of the team, that really makes a lot of difference. And obviously, goes on to say here that the culture towards micro finance for the people of Bihar as demonstrated by them has also been a great enabler. This, coupled with what Devesh just mentioned as a guardrail that we've kind of built internally for us, which essentially is not necessarily there with others as well. We are today very confident of how our portfolio continues to behave in Bihar. And we have seen this very closely during the COVID time and even post-COVID. All our leading indicators are tracking very positively.

Darpin Shah: Okay. Thanks, sir. My next question is on the concentration of our portfolio. The top five states gradually has been increasing the last couple of quarters. When do we see the other states contributing meaningful in the business?

Devesh Sachdev: Yes. what we believe is that in the next two quarters, three quarters, after three quarters to at least by end of this year, you will see either it is stabilizing or going down. That's our effort.

Darpin Shah: Yes, that's okay. And lastly, if you can quantify the 90-plus in our key states if possible? Bihar, UP, Tamil Nadu, five states, if you can quantify them.

Tarun Mehndiratta: Can I cover this for you in terms of percentage?

Darpin Shah: Yes, percentage will be fine, sir.

Tarun Mehndiratta: Yes. So in the state of Bihar as of June '23, our 90-plus is about 0.7%. And in the state of Uttar Pradesh, it is close to about 1%. In Odisha, it has significantly come down to about 2.8%. In the state of Tamil Nadu, which is also amongst our top five, it has again significantly come down to levels of about 3.5%, 3.6%. And the state of MP, again, it is closer to a 3% level.

Darpin Shah: Sir, if I can just spend one last question on this one. When I look at the industry numbers, which are for March, for the state of Tamil Nadu and MP, our numbers are significantly higher. If you can just explain this in detail, why is it so?

Tarun Mehndiratta: Sorry, I'm not having the industry's published numbers for Tamil Nadu and Madhya Pradesh with me on the 90-plus level.

Darpin Shah: As on March, Tamil Nadu was at 0.9% for 90-plus and MP was at around 1.4%?

Tarun Mehndiratta: I would be able to only give you an answer once I'm able to dissect the comparison.

Darpin Shah: Fair enough, sir. Thank you very much, sir, for this. All the best.

Tarun Mehndiratta: Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. So sir, I just had two questions on things that you already shared on this earnings call. Could you please explain your write-off policy. Once again, you talked about earlier having 365 days and in your Board meeting yesterday, it comes down to 275 days? Just explain that, one again.

Devesh Sachdev: The write of policy was that, when the days passed to be more than 365 days, then only we write off from the book, which has been now been changed to 270.

Abhijit Tibrewal: Got it. So essentially, sir, this INR68 crores of pre-April '21 portfolio, the March '21 portfolio that you have, with all people who have been paying and that's why they're still not cross 360 days, and that's why they have not been written off yet?

Gaurav Maheshwari: So Abhijit, what is happening, so there is a decency to the customer to the tune of, if we look at the range of INR500 to maybe INR3,000 in the last six months. So that's the way, it is being considered into write-off.

Abhijit Tibrewal: All right. And the other thing I wanted to understand is, you shared during this earnings call that, after you increased your lending yields back in May 2022, you've increased the yields once again. So if you could just explain, what was the quantum of that increase in, when was that done?

Gaurav Maheshwari: So as in the opening remarks, we have said that, we have passed on this increase to the ultimate customer. So as we see that there is an increase in the annual cost of funds. So we have passed on near about 40 bps to the customer. And as it is into -- it will be starting from July onwards, 7, July, I would rather be very precise. And it will have obviously incremental impact on the incremental portfolio which we are going to end.

Abhijit Tibrewal: Got it. So essentially from 7, July 2023, you have increased it by another 40 basis points?

Devesh Sachdev: Yes.

Abhijit Tibrewal: So the repricing benefit as -- even the loans originated between May 2022 and June 2022, even they will get that benefit, if and when they get repriced?

Devesh Sachdev: Yes.

Abhijit Tibrewal: Okay, sir. This is just one last question, sir. Thank you for patiently answering my question, sir. In addition to floods, you have already shared that maybe after the end of the second quarter, you will be in a better position to kind of guide for credit costs for this year. But in addition to the disruption that you are seeing or slippages that you are seeing because of the plot, are there any near-term risks that worry you?

Devesh Sachdev: No. I don't think any near-term risks are worrying us. The operating risk there is always there in this kind of business. You need a lot of human capital, keep on building human capital is one aspect. Otherwise, I do not see any risk. And we are strengthening -- as I mentioned, we are strengthening our risk management, looking at portfolio cuts, looking at customer behavior, orienting our team accordingly. So yes, I don't see any other big risk or anything which is bothering us.

Abhijit Tibrewal: Got it, sir. This is very…Congratulations and best wishes for Fusion.

Devesh Sachdev: Thank you**.**

Moderator: Thank you. The next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

Jignesh Shial: Yes, Hi, sir. Thanks for the opportunity. I had a couple of questions, but just quickly. Now, you say that, you are seeing an increase of the top states four or five states having a concentration of roughly around 69%. You're saying that, during the next couple of quarters, we'll see that gradually is easing off. So which are the new states, which you think or which you are exploring, which will be having relatively superior growth. Can you give some idea on that?

Tarun Mehndiratta: So I'll try and answer your question in two parts. So like I mentioned to you, we also have a list of what we call significantly sized state, right? So other than UP and Bihar. So we have Odisha, MP and Tamil Nadu. But other than that, so there is Rajasthan, Gujarat and so on and so forth. What we have seen is that, like you mentioned, so there has been a consistent momentum also built in other states other than not just the top two or three, but other states on a quarter-on-quarter basis.

And we have also mentioned like we covered in the last call, we have made into Karnataka. That's a new geography for us. And there was a favorable order passed for AP and Talengana and we are also kind of positively looking at that. So this year, with these three states, and these are like significant potential states in the entire scheme of things, contributing and the ones already existing also building momentum, not just Bihar and UP.

What Davesh mentioned, we should be able to kind of stabilize like we've always been saying and also look at the shift in terms of concentration maybe towards the end or the beginning of the next financial year, as I mentioned earlier.

Jignesh Shial: Understood. That's helpful. Secondly, though I agree that we haven't seen the ticket size rise last almost like three years. For last two quarters, we are seeing a bit of rice happening around that, obviously, customer additions, and that is what pulls coming up. So what is at this point of time, and ideal ticket size that you are looking at around INR42,000 of fees, correct. So up to what level you would be comfortable with. So that, it would be different from state to state and all. But what is an average ticket size that you will be comfortable with?

Devesh Sachdev: Yes. one, if you see, we are still below than the average ticket size in the sector. Also, we are not very aggressive what I'm saying as a strategy to not do multiple loans. So you have to -- if you look at both the factors, and we are in many geographies, we are maturing. Our highest ticket size, as I mentioned, is still less than 1 lakh. So coming very specific to this thing, I think we will see that at least 10% to 12% growth from where we are right now this year. And then we will take a call. So we are around 42,000 on average.

This may move to around 46,000 46,500, 47,000. I don't think this will go beyond this year. And then, we will take a call depending on the customer requirement, depending on the economy and depending on the paying capacity of the customer. So all those factors will be kept in mind, when we really give you any guidance around it. But right now, we would like to make sure that overall, not more than 10% to 12% growth from here in the next three quarters.

Jignesh Shial: Understood. And just lastly, so I understand that there has been a bit of a spike on the credit cost front, obviously existing for our management overlay as well. And we are seeing that next two quarters, we probably will see a bit of rise in the elevated levels only. But what is an ideal -- this is something that probably new for me, but is an ideal credit cost, we are looking for going forward once -- adjusting for this rise, but what will be an ideal credit cost that we should be assuming, say, for the full year, not FY '24, but over in general, what is your comfortable credit cost level?

Tarun Mehndiratta: Looking at, I have mentioned in the past also that yes, after the -- how the asset class has matured, there is a competition, customer has also -- ticket size have gone up and everything. And now with the pricing flexibility you have and keeping in mind, it's unsecured business, I think ideally, I would like that the credit costs remain anywhere between 1.5% to 2.25% up to 2% kind of thing because you have the now capacity to really -- because keeping in mind, it's unsecured. So that is what -- and if you're still able to protect your NIM, ROA around 4.25% to 4.5%. So this is a good business to me.

Jignesh Shial: Understood. And just as one data keeping point. Probably I missed it. Have you shared the slippage number for the quarter? Or What is the incremental?

Tarun Mehndiratta: We have not provided any incremental slippage data separately.

Jignesh Shial: Okay. Understood. That’s helpful and all the best. Thank you so much.

Tarun Mehndiratta: Thank you.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Yes, sir. Thank you for the opportunity. Sir, you said that there are these ticket size increases which have happened. So one, obviously, would have been in the vintage customers, but the geographies like Tamilnadu, Odisha, where we have seen relatively higher delinquencies for us. So are we increasing the ticket sizes over there as well? Or there as we are taking more of a cautious approach first to basically bring down NPAs and then only look at increasing ticket sizes?

Tarun Mehndiratta: So good question, Anand. So the point is, like Devesh mentioned earlier, as well. So last time, we increased actually ticket sizes was some time ago. And even when you look at our quarter one, which has just passed and even the previous quarter, you will see as compared with industry data, we maintain a very, very significant gap. Because that kind of a gap also matters a lot, when you're going with your offering to the customer.

But, what we have been able to balance it out with is a very, very consistent approach of diversifying our coverage strategy, which gives us very many unique to fusion and customers with, let's say, one trade and so on and so forth, where based on the customers' requirement and our understanding of the customer's household status, we are able to give them the right or the optimal level of ticket size.

Coming to evolve markets like Tamilnadu and Gujrat, you see Tamilnadu historically has been at a level where the sector has seen. Unfortunately, I think post-COVID Wave 2. And then after that, due to some of these natural events, Tamilnadu portfolio had a little bit of a challenge. But our strategy always has been to resolve our people's issues in terms of their ability livelihood, which is hit organically, and which is we still continue to do. So we have seen, like I mentioned to you earlier, significant improvement in our portfolio collections in Tamilnadu, and so also in Odisha.

So now we, next time when we take a call, we will definitely take it to convergence pockets as to how they are behaving, how they're behaved, and typically what were the contributing factors to that behavior. Wherever we see it was a factor which was more internalized to the community or the pocket or the district, we will take a call accordingly. But it's when we will come -- we'll cross the bridge really when we come to it. Like Devesh mentioned, we are at that level of about INR42,000 and it's been consistent with how our strategy has been over the past few quarters.

Devesh Sachdev: So I would just like to add here, when we talk about ticket size, for example, I'll come to the first cycle. If you remember last two earning calls, we had mentioned that, we increased our first loan cycle from INR30,000 to up to INR40,000. But if I can give you data of June, my average ticket size for the first cycle is still INR37,500. What we are trying to drive there is that, it is up to INR40,000.

So depending on the geography, people will still do INR30,000 loans, INR35,000 loan. Similarly, when I talk about ticket size that if I say okay, for a particular cycle, you can give up to this. It does not mean that you have to give that only. The teams there make their own judgment, okay. Looking at the geography, looking at the customer behavior, looking at the trade credit overall quality, the teams then say, okay, even though we can go up to x, but let's still remain x minus 5% or x minus 10%. Right.

Anand Dama: And sir, secondly, you said that, you have a 90 DPD somewhere about 3.5% Tamil Nadu. But when we're actually comparing with industry because industry has a different write-off standards. If I'm not wrong, some of the peers have 270 write-off standards, whereas you were somewhere at about 365, right? So I think comparing the number directly with the other place doesn't make sense, right? Because if you had also written off earlier on, then possibly 90 DPD number for you would've been lower. Is it correct?

Devesh Sachdev: Yes, this could be one factor, but we have to still look at the data, but you are right. Look, there are two factors. One is accelerated write-offs, second is that, if you want to handle the situation more organically. These are, in my view, are the two reasons that we handle it more organically. But yes, we have to look at the data. But we are improving. Let me tell you, it went as high as 5.30%.

If I talk about last year and then now, it has come to something like 3.6%. So organically, it is improving. And we will, hopefully, I can tell you, especially in some of these geographies that -- and we'll talk about September. So this number will look better as far as the Tamilnadu is concerned.

Moderator: Thank you. Next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Sir, my question was that, do we have the collection efficiency number for July?

Devesh Sachdev: No, sorry, we will not like to share that.

Sanket Chheda: Okay. And then the second question was, we alluded that have a 99% collection efficiency in the state of Bihar and UP, which are our biggest states. And then in Tamilnadu, MP and Odisha, we have reached closer to 97%, and our total collection efficiency is also 97%. So, which are, say, a couple of states where in the collection efficiency is below 95% or the lowest collection efficiency?

Tarun Mehndiratta : So you see, like we mentioned earlier, so there were some states, which were registering a lower efficiency. But typically, in all our states, we have seen significant improvement. However, to your specific point, so let me tell you that in Haryana, where we saw prolonged challenges right from farmer education to parts of Wave 2 COVID, and then looking at recent unexpected rain in the month of June and so on and so forth. So that state for us is typically at a level of close to about 93.9%, close to about 94%.

And similarly, there are some other states where we have seen improvement, but have lower like Punjab. So Punjab again, with Haryana was one of the states, which borne the burnt of farmer agitation and then some of the other challenges, including now, again, rains and in the last weeks of June. So we have seen improvement in these two, three states as well. But we think that, even what we are seeing a traction on a regular basis, we are confident that, even they will start contributing better to the overall collection efficiency number. And so Bihar and UP continue to be at levels of 99%. So typically, there has been no let-up really in that. So they continue to drive the overall efficiency.

Sanket Chheda: Okay. Sure, sir.

Devesh Sachdev: On this elevated credit cost and our comment on the floods. So I can understand that, some people may think that the floods came in July, or June and how is this impacting the June number. But primarily, what is happening is there are customers who are in the 60 to 90 bucket and they were paying because this kind of customer cannot pay the full amount. Those customers also have flown. So I just wanted to -- 32, 60 customer or a 60 to 90 customer has flown to the next bucket. So that is what I wanted to clarify.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Sameer Bhise, for closing comments. Thank you, and over to you.

Sameer Bhise: Thank you, everyone, for joining this call today evening. And thanks to the management of Fusion Micro Finance for giving us the opportunity to host the call. You may now disconnect your lines. Thanks a lot.

Management: Thank you everyone. Thank, Sameer.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of JM Financial, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.