"Fusion Finance Limited

Q1 FY '25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Fusion Finance Limited Q1 FY '25 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: Good evening, everyone, and welcome to the 1Q FY '25 Earnings Conference Call of Fusion Finance Limited. From the management today, we have Mr. Devesh Sachdev M.D and CEO; Mr. Gaurav Maheshwari, CFO Mr. Tarun Mehndiratta, COO of the MFI business; and Mr. Deepak Madaan, Company Secretary and Chief Compliance Officer. As always, we will have opening comments from the management team, post which we will open the call for Q&A. With that, I'll now transfer to Mr. Devesh Sachdev for his opening comments. Over to you, sir.

Devesh Sachdev: Thank you, Sameer, and JM Financial for hosting us. Good evening, everyone, and thank you for joining Fusion Finance Q1 Financial Year 2024-25 Results Conference Call. As Sameer mentioned, I'm here with my colleagues, Tarun, Gaurav and Deepak Madaan. I would like to cover key business highlights for the quarter, followed by some of the challenges we are recently seeing on the ground and actions we are taking to address the same.

Also, in line with our conservative approach, we have increased our provisions with early recognition of some of the risk. I would also cover this in detail. I would request you to keep the presentation handy. Our disbursements in Q1 have remained steady at INR2,987 crores compared to Q4. Our active borrower count has increased by 8.44% annually to reach around 39.5 lakhs. Our ticket size over the last year, as we have guided has grown by around 9.5%. And still, we have one of the lowest outstanding per customer at the sector level.

We front-loaded our branch openings in financial year '25 with 101 branches opened in Q1, which takes the total count to 1,398 branches. 50% out of these branches were split branches. Our NIM remained stable at 11.6%. We saw 19 bps reduction in marginal cost of borrowing. Opex for Q1 saw an increase on account of new branch openings and annual increments. This should normalize in the latter half of the year.

Our PPOP was healthy at INR297.75 crores. Now I would like to talk about some of the challenges we saw on the ground. Since last 2-3 months, we saw a slight moderation in collections with a concerning trend in some pockets, consequent to which -- we did a deep dive into our customer data that pointed towards an increasing customer level leverage and corresponding impact on the repayment behavior, JLG discipline, etc.

During the same time, MFI practitioners deliberated on the situation with MFIN, and post consultation among it's members, MFIN came out with a set of guardrails targeted towards calibrating customer leverage and bringing lending discipline among the MFI. And this was then adopted by all the members. In our opinion, this would balance out the growth in the sector and we're hopeful of a positive impact over a period of next 2 to 3 quarters. Given the trend we had detailed discussions with our business and Risk team on the potential flows from the impacted clients. Basis this, the management took a call to recognize early the potential impact of rising flows in the financials, which you will notice is reflected in our Q1 credit cost.

To explain some of the trends, in more detail, I would like to draw your attention to Slide #8 on our customer leverage. As you can see, our outstanding per customer is mostly below INR40,000. But 33% of these customers have outstanding greater than 1 lakh across micro finance loans. This increased from 23% in March to 32% March '24. Also, the number of customers which are having more than 4 relationships have increased significantly. This is primarily due to the fact that many of our on-boarded customers have gone ahead and taken 2 or more loans and consequently, leverage levels have gone up, and in some cases, to levels beyond their repayment capacity.

We saw the impact of this on our portfolio as some of our leveraged clients were unable to service the instalments even after multiple follow-ups. As I mentioned, in view of the rising customer leverage and its impact on collections, MFIN came out with a set of guardrails to control the over lending to customers. It has restricted sourcing of customers already having 4 lenders and also those having microfinance loan outstanding of more than INR2 lakh.

Fusion's existing policies already had both exposure and lender cap, but this step will help it in maintaining the same at industry level, which will benefit all the players. Another important sense, which we highlighted in our investor meeting in May is that post-COVID the center meeting attendance has been impacted. This is leading to higher cases of door-to-door collection and dip in collection efficiency. We have also seen customer migration in last 2 months in some of these pockets. As we mentioned in our earlier calls for sustained improvement in center discipline, we have rolled out a customer loyalty program across more than 100 branches, and we intend to scale it up over the medium term. This initiative is already showing some early signs of success.

We have also seen because of the tough working conditions in the last 2 months and door-to-door collection, the attrition in some of the geographies has been higher. In our investor meet in May, we had spoken about a K-shaped recovery and we are witnessing the same with some segment doing well, and some still struggling. As the on-field dynamics are evolving, we as an agile organization with a seasoned team on ground are confident of navigating this dynamic situation. Slide #11 captures some of the steps we have taken in this period.

We are calibrating our disbursement in line with our portfolio risk assessment. We have stopped, disbursements in 104 branches. We are further tightening our customer on-boarding criteria. Our incentive structures have been rebalanced in more alignment with collections. Over the last year, we have been guiding that the load of the field officer has been rationalized. So, now clients per RO are around 450, and I think this should start reflecting in better collections. Dedicated collection team and tele-calling Infra has been strengthened to take care of the flows into the harder buckets.

Slide #9 captures the detailed break up of credit cost. The higher than usual slippage in our portfolio quality towards latter part of June, led to increase our steady state credit cost to around 1.28%. Also, as highlighted by me, in view of the continued slippages, we have proactively moved INR221 crores of our portfolio pertaining to 55,000 customers from Stage 1 and Stage 2 to Stage 3, using filters, which include collections received in recent months, centre meeting attendance, leverage levels, performance with other lenders, et cetera.

This early recognition of risk and consequent provision has increased our credit cost by INR141 crores in quarter 1. Here, I would like to add that this portfolio is across geographies with higher impact from Tamil Nadu, Rajasthan, Odisha, MP and Jharkhand. Also post our annual review of ECL model, we have tightened the coverage. This is updated through our recent flow and recovery data. This has added INR66 crores to our credit cost in Q1. Moving to a quick update on our MSME book.

Our MSME book grew by approximately 8% quarter-on-quarter to reach INR570 crores. The focus continues to be growing the secured MSME book over the medium term. And we are very happy with the way it is developing. Our balance sheet remains robust with diversified liability profile, healthy ALM and capital adequacy of 25.6%. To sum up, we remain watchful of the situation on ground and remain hopeful for improvement of performance in Q2. We expect to bounce back to normal business performance expected from us from Q3 of financial year '23-'24 with both our initiatives and industry-level steps start showing results.

We continue to remain focused on our path to create long-term value for all our stakeholders. With this, I hand over the call to my colleague, Gaurav. Thank you.

Gaurav Maheshwari: Thank you, Devesh. Good evening, everyone. We would like to speak about some of the key highlights for Q1 FY '25. The core interest income of the company grew by 7.85% on a quarter-on-quarter basis and 29.70% on a year-on-year basis. The total income has also increased by 4.67% quarter-on-quarter, and 27.84% on a year-on-year basis. Our marginal cost has further reduced by 19 bps on a quarter-on-quarter basis and 69 bps on a year-on-year basis. We will continue to work on optimizing our cost of funds. We expect to maintain the cost of fund and marginal cost of funds at similar levels.

Average cost of funds has decreased by 48 bps on a year-on-year basis, and 9 bps in comparison to Q4 FY '24. Net interest margin has also increased by 5 bps to 11.64% in Q1 from Q4 FY '24, and 75 bps on a year-on-year basis. The operating cost has also increased by 15 bps, but that is largely contributed by opening of 101 branches, strengthening of collection team and also rationalization of client per relationship officer metrics. Operating cost of MFI business is 5.90% and MSME business contributed 0.38% for Q1 FY '25.

Cost to income stands at 38.39% in Q1 FY '25. The pre-provision operating profit is INR297.75 crores, increased by 26.49% on a year-on-year basis and 2.43% on a quarter-on-quarter basis. The profitability in the quarter was impacted by early recognition of risk in the portfolio and strengthening of ECL methodology. Would request all of you to refer slide number 9 for detailed working of elevated credit costs.

The net credit cost for Q1 FY '25 is 1.28%, excluding the impact of stage movement and ECL strengthening. As per company's early recognition and conservative provisioning policy, we have moved these customers from Stage 1 to Stage 3 and some customers from Stage 2 to Stage 3. These customers are having an exposure at default of INR221 crores. This stage movement has a credit cost impact of INR141.5 crores. Apart from the above, basis of our annual review of ECL model, we have also strengthened our ECL methodology. It has an additional impact of INR66.03 crores.

The ECL as on June is INR644.06 crores, which includes INR59.50 crores as management overlay. The overall coverage for Stage 3 without stage movement is 134%. We have done write-off in this quarter of INR58.40 crores, which is 0.54% of the closing portfolio. We have derecognized interest of INR11.85 crores in this quarter. The gross NPA stands at 5.46% and net NPA at 1.25%.

Without stage movement, the gross NPA stands at 3.44% and net NPA of 0.48%. We have done direct assignment amounting to INR479.49 crores in quarter 1 FY '25. The DA outstanding as on 30th June is 10.48% of the AUM. We would like to continue the same subject to market conditions. In this quarter, we have also closed $25 million facility from DFC which is in sync with our strategy of having various source of funds, and diversify our liability mix.

CRISIL has also assigned commercial paper rating of A1+. And as of 30th June, we have sanctions in hand of approximately INR2,400 crores. Thanks. Now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors.

Pranav Gupta: And just a few questions on this credit cost policy change. First being, you mentioned that there has been some tightening on the ECL model. Is this just in line with the annual review that is done? Or has this done specifically based on the conditions that we have seen in this quarter? And what is the PD LGD assumption changes that have been made that has led to this additional INR66 crores of impact? That's the first question.

Gaurav Maheshwari: So, Pranav, this is an annual exercise, which we do with our auditors and the risk model which we have in place. And the adjustment which we have done in our PD and LGD, is earlier we used to take 5 years average. Now we have shifted to 3 years average. It has increased because it has a period of COVID. So slightly that elevation of LGD has come up in the picture.

Pranav Gupta: Okay. And going forward, obviously, this will be reviewed again on an annual basis?

Gaurav Maheshwari: Yes. Absolutely.

Pranav Gupta: Sure. So, the second question is on the recognition that we have done based on the impact that we have seen on the ground, this additional recognition of INR221 crores of the 55k borrowers. Could you sort of break them up into how many of them were in Stage 1 and how many were in Stage 2? And also additionally, this increase of borrowers having more than 3 or 4 loans in addition to Fusion. I would like to believe that this would be more of a gradual increase rather than happening only in 1 quarter, where Fusion plus four has gone from 4 to 9.6, Fusion plus five gone from 1.4 to 6.2. Why is this step so drastic in this quarter? And what have led to this decision-making apart from some of the additional stress that we saw on the ground?

Devesh Sachdev: So approximately 48,000 customers have moved from Stage 1 to Stage 3 and near about 6,500 customers has moved from Stage 2 to Stage 3. Now coming to the increase, so Pranav you're right. So, we have always been saying that it's a K-shaped recovery. We have also been highlighting that there are certain geographies where credit cost has been elevated, and we are watching it very closely. You are right that it is not that the customers suddenly are taking more loan. However, the flow which we have seen in the customers going to the next bucket is high.

That was -- and especially with some of these customers, we have seen is that their behaviour with others -- because there was no payment which came even in July. This could have got accentuated because of the macro environment we had in the first quarter.

So, we believe that it is too early for us to really tell you that whether this is transient, temporary. We are taking steps. But I think as a company, we always are very, very prudent and early in terms of recognizing risk. One more thing which we have seen is that some of these customers have taken loans, not from MFI but also from consumer lending, fintech lending, that also has happened, especially when we look at this cohort, that was a trigger point.

We had a discussion that this is a customer where the overall likelihood of default will be high. So that's why we said that, let's recognize it early. However, you're right. We have been seeing some of these trends, but they were not very concerning, though we have always been talking about it. But, this was something which we saw, which was slightly concerning. So that's why we took this step. We had a very detailed discussion on this even at our Board level. We are not saying that we will not follow up with this customer. We are strengthening our collection team. We have changed our model in terms of how many collection officers we need.

That is now -- we are actually re-looking -- as we looked at that number, and we are putting more people there. We are -- as I mentioned to you, we are very focused on tightening our sourcing. Earlier, as per our policy, suppose a customer, when we were on boarding has in the last 6-8 months, gone in up to 60 days DPD, but has come back, we could still consider that customer. But now we are saying that from 1st August, we have put up a policy where we say, okay, if a customer has gone beyond 30 DPD, we will not on board that customer.

So, we are doing a lot of calibration there. So yes, it is what it is. We are seeing the ground. We are seeing some data points. And I think we as a management decided that we should call out this thing early. And that's the approach we have taken.

Pranav Gupta: Just one more thing on this bit. You mentioned that 48,000 of the 55,000 customers are in Stage 1. It will effectively mean that they're probably missedonly their June EMI, right? Just to understand this better, I mean looking at one EMI -- or what has actually pushed these in addition to all these other leverage factors that you mentioned have prompted us to sort of put these guys into Stage 3 directly from Stage 1. Does this sort of not indicate that there is a low -- extremely low chance of these guys sort of paying back? Or what has actually pushed these customers to not pay at all?

Because if I look at some of these geographies, some of these geographies namely Tamil Nadu which has faced floods, Rajasthan which faced intense heat waves and Jharkhand where -- we saw the farm loan issue, they should come back again. Are these non-payments linked in any way to these factors as well? Or is it only over leverage?

Devesh Sachdev: Yes. So Pranav, if you just refer to Slide number 9, you are absolutely right that in Stage 1, they have missed June installment or partially they have paid in June and subsequently, they have missed their payment in July also. So it is written on the Slide number 9. And when we have checked the CB data also, they are quite leveraged and the number is 6, 7 lenders and beyond.

So apart from that, the center meeting attendance is also very low on that particular group. And they have another concerning thing, which we have seen is they have defaulted with some of the other existing players where they have exposure.

Moderator: Thank you. Next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Sir, just two things from my side. One on the clarification side. So when we are moving these customers from Stage 1 to Stage 3. How would ECL model gives that flexibility? Because if the any account is not passed a 90-day DPD, how does ECL model will allow us to classify in the Stage 3.

Devesh Sachdev: No. So, we have discussed with this thing with our auditors, and they have allowed us to move that customer because of the default coming into their credit bureau with the other players, which they have exposure with. Apart from that, the repayment which we have shown in June and July, that has also become 1 factor. Apart from that, the center meeting attendance. Largely, these are the customers who were second cycle and above. They have a credit history with us. So still, we were able to see that they were doing a payment but slightly with a lag.

So, we could just assess that, and discuss with the auditors to pass from Stage 1 to Stage 3. Similarly, if you see in the last year, when we have done this movement in Stage 3, also in December quarter. Yes. That was when we called out the Punjab.

Renish Bhuva: So I mean then the ECL model does allow the subjectivity? Is that a fair assumption? Because, let's say, in 1 quarter, if you are recognizing this customer under Stage 3, despite bouncing only 1 EMI -- and in next quarter, this another customer just bouncing 1 EMI and if you continue to show on the Stage 1. Does that flexibility ECL allows?

Gaurav Maheshwari: ECL is an accounting model and it gives a provisioning on that particular loan. As far as the customer CB record is concerned, they will still be classified as Stage 1 or Stage 2 where they are. So it is only a provisioning for which we have shifted, nothing beyond that. So ECL model gives you a flexibility to create more provision while moving from Stage 1, Stage 2 to Stage 3 or even if a customer, who was in Stage 3 and he has given me 4 payments. Subsequently, we can move that customer to Stage 1 also to get an upgradation.

Renish Bhuva: I will take this offline. My next question, again, on Slide number 8, where we have given the customer base position. So Fusion plus 4, 5 and more than 5 is almost 20-odd percent, as on March. And as on Q1, if you can tell us what proportion of this customer base has already been recognized because when we look at the gross unit, it is at 5%. So even if I assume let's say, the entire 100% is coming from this Fusion plus 4 category who, in a sense, could be termed as over leverage. So what part of that is still left on the book as of June, '24?

Devesh Sachdev: Yes. because Renish, the Credit Bureau has still not given the data for Jun'24. Once the data comes in, we can share with you. However, I think what you are assuming is that, okay, if there are customers which have more lending institutions other than Fusion, all of them will be like this. I don't think that is the right supposition. It is basically, we have looked at geographies and certain pockets, certain customers, their behavior and their credit history and their behavior with others. That is where this has come out.

Renish Bhuva: No, no. Of course, I mean not everyone will default sir, but I'm just trying to get a sense that if one has to assume that Fusion plus 4 and more than 4 lenders, will you be having some sort of leverage. So then the incremental stress in Q1, ideally stood flow from that pool. So I'm just trying to get a better sense.

Anyway, my last question is on the credit cost part. Of course, we have been guiding at around 3% of steady credit cost plus the overlay. Does that guidance still holds to -- I mean, if I just have to strike of the Q1 numbers?

Devesh Sachdev: Right now, we do not want to say anything on this. -- what would be the credit cost? We have to just see how the Q2 pans out, then only we will be able to say anything. The situation is slightly dynamic and fluid. So, we would not like to say anything. I think we would like to see the situation, handle this thing and let's see how this stands out.

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

Abhijit Tibrewal: Thank you, and good evening, everyone. Sir, again, kind of circling back on asset quality only, first of all, thank you for always guiding us well ahead of others, I would say. I mean, you've been guiding for something like this for the last few quarters. And probably you are among those few who are suggesting that what you're seeing today in the sector is because of higher customer leverage, and you've also shared data to that end.

Sir, what I wanted to understand is, I mean, while there are other players in the sector who during the quarter attributed some of it to, I would say, elections and heat waves and maybe even attrition. But while you acknowledge that overleveraging is the main problem, I mean, don't you think that going ahead even in 2Q, things are not going to improve.

Because today, we are talking about 55,000 customers who moved and whose payment behavior is circumspect. Given the kind of leveraging that has happened in the sector, and again referring to the earlier participant's question, given that almost 24% of our borrower base are having five and more loans, don't you think going ahead, we will continue to see more forward flows?

Devesh Sachdev: Yes. So, I will first like to mention, thank you. I think everyone has to appreciate that MFIN has brought these guardrails and everyone has signed it because people felt that overleverage is happening. So that, I think is one effect one has to accept. Second is, you're right. So we have mentioned that some kind of these macro environments you mentioned in Q1, they may have accentuated. But all this is -- we have seen it's more because of the overleverage and any small disruption in customer's life and if the customer is overleveraged, this kind of situation happens where the customer's livelihood gets impacted, and she starts defaulting.

So we have seen that. But as I mentioned to you, situation is slightly more transient and we are watching it. We right now are not in the position to tell you. We are taking steps, and we are hopeful that it will improve. Also, overall, I think everyone is calibrating the growth once these guardrails are implemented everyone starts doing that, you will see some kind of sense coming back and customer leverage going down. But also, we believe that we are an old player. We have the team. We have the systems, risk management and everything. We are taking steps. As I mentioned to you in 104 branches, we have stopped disbursement. So we are calibrating our hand growth also in some of these geographies.

We are not growing very fast. I can give you some sense here that our 25%, 30% branch expansion has happened over the last six to eight months. Also, the field officer load rationalizaion has helped in reducing the burden by around 20%. So, I think these are steps we have taken, and then we are also increasing our collection team, tele-calling infra. I believe that this should -- this will start showing results.

Also, I think in this case, we have been slightly more prudent so that we could see some kind of trends, and we thought this is something where we should call out early. But I think we will be able to tell you more -- in more clarity how things are moving in the next quarter. We would like to watch the situation in the next two months to really see what kind of improvement, which is happening and what is happening with the customer, how the flow rates are.

So you will have to wait for one more quarter to -- and door-to-door collection has also been a problem with this sector. We are doing a lot of work on working with the clients on center meeting. So all that -- if you remember, we have mentioned about it in the May analyst meet also. We believe that some of these steps will start showing results.

And coming back to some of the customers who are -- where we are seeing more relationships have increased to a level where it is becoming concerning. We are taking steps there. We are engaging with those customers, separate tele-calling is happening and -- so a lot of steps are being taken to make sure that those are -- these things are arrested.

We are still hopeful that though we have earmarked these customers in Stage 3, we will be doing all efforts to make sure that we start recovery from these customers in the next two to three months. But we will give more clarity in Q2.

Abhijit Tibrewal: Okay. Sir, just a small follow up on what you just responded. So there are two things that happened. One is, I mean, you over-lever a customer and then that customer is not able to repay. The other thing that also happens is maybe the income of the customer goes down, the income of the customer is impacted. Have you had a chance to do some analysis around was there -- is there also an impact on the income of the customer?

Devesh Sachdev: Yes. In some of these geographies, because of the situation which happened in Q1, this could be a reason. But again, I'm saying we have seen in the past, now monsoon should be good, there will be more money -- elections are over, there will be more money in the hands of the customers. There were seasonal migrations. They should start coming back. So I think all this will play out. We have to really be watchful and we will do these kind of analysis more, and we can share with you in the next quarter.

Abhijit Tibrewal: Got it, sir. And sir, just one last question that I had, these steps that we have elaborated on Slide number 11, actions taken by Fusion. Since when have they been incorporated? These actions that you've taken much steps that you've taken?

Devesh Sachdev: If you see the disbursement calibration has already happened in July. We have -- we stopped disbursement in around 50, 60 branches last month. We have stopped another 40 branches this month from 1st August. New customer sourcing criteria has been tightened from 1st August. The rationalization of customer handling at RO level has been going on, incentive structure has also been aligned from 1st August and collection team is strengthening, has already happened. We have added last month, 50 more people in the collection team. If you remember in the Analyst Meet, we mentioned that a very senior guy we have hired. He's also joining on 20th of August.

And then more than 100 people will be added in the collection team in this month, August only. So, this is where we are in terms of the steps we have taken.

Abhijit Tibrewal: Why I asked you this is -- if you look at other peers, they have already calibrated their disbursements in the last quarter itself, April to June. And to that extent, you should see the portfolios have not grown, they were flat to a minor decline. Why is it that despite being so prudent and early recognition, you choose to wait, let's say until July or August to take these steps?

Devesh Sachdev: So Abhijit one, if you see our disbursement trends, they are very consistent. So, as I mentioned to you that still the demand is very robust. We have actually calibrated our growth because I can give you -- if you look at the sense here -- that the last 6 to 8 months, we have added close to 25% to 30% to our branch network. Even in the first quarter, we have added 100 branches -- out of which 47 branches are split. Our calibration of the ROs has been happening over the last 6 -- 4, 5, 6 months.

If I can tell you in terms of number of applications which we are disbursing, the average is still hovering between 200,000 to 215,000 applications per month, keeping in mind that in the last 6, 8 months, the infra has gone up by 25% to 30%. But in spite of that, the number of applications have not gone up. Abhijit it's not that. You have seen we have not changed in terms of ticket size, it's only 9%, 10% here and there. So that is already happening. So, now what we are trying to do is now we are looking at more branches where the calibration can happen.

But overall, I think in terms of our capacity, we can do even 25% to 30% more than what we are doing for the last 2 quarters. And we have been consistent. I would not like to say anything about others, but I think we have calibrated already you can look at the number of applications.

Moderator: Next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: I have a few questions. One is the total net slippage seems to be about INR360 crores for the quarter. What part of this came from Bihar and U.P.?

Devesh Sachdev: Yes. We do not have a state-wise split. But I can tell you, Bihar and U.P. are behaving very well. There is a slight elevation here and there. But otherwise, we do not have any such concern from Bihar and U.P. but Raghav the INR350 crores of slippage is inclusive of INR220 crores of shifting from Stage 1 or Stage 2 to Stage 3.

Raghav Garg: Right. So what I -- my only purpose was to understand whether Bihar and U.P. How much are they contributing to the overall stress formation? That was the only point.

Devesh Sachdev: So these customers, 55,000 customers Raghav, which we have moved, about 95% customers are from these states which were highlighted.

Raghav Garg: Understood. The second question is more from a clarification perspective, that in terms of your funding arrangements, given that you've done a loss for the quarter and where your NPA has reached. You don't anticipate breaching any of the covenants to the extent that there is a substantial increase in cost of funds, any particular funding line stock? Is that understanding correct?

Gaurav Maheshwari: So Raghav, there is a breach of covenant on gross NPA. But on the 90 plus, there is no breach. But having said that, the kind of a relationship which we are having, we don't think so that there would be any funding issue for going quarter. And if you talk about like we are carrying some INR 1,600 crores of liquidity with the sanctions in had of approx.INR2500 crores. So I think that its a good position. And we are not anticipating anything from the lenders. There are very few lenders that we have this covenant and we are on top of the situation.

Raghav Garg: Understood. Just my last question. Why have you increased your ticket size in this quarter despite seeing a higher stress formation. Ideally what we understand is that given the controls that you would have put in place ideally the ticket size should not increase or probably it should go down?

Devesh Sachdev: Raghav, we have not increased the ticket size, ticket size was increased previous quarter. This quarter, disbursement has happened more to our mature customer. That's why you see that happening. So we have not increased any ticket size this quarter.

Raghav Garg: Fair enough. Thank you.

Devesh Sachdev: The breakup between the new and the existing there tilt is more towards the existing. That's why you see that it's looking like 46000. That is the reason. We have not changed anything.

Raghav Garg: Just one last question. You've done a fair bit of provisioning in this quarter and there is about almost INR600 crores of the NPA, which is outstanding. Assuming a steady state ECL cover of 3%, 3.5%. Do you anticipate that you will may end up looking a loss in this year? Or do you think you'll be much better than that?

Devesh Sachdev: We'll be much better on that, really much better than that. You will see the improvement happening in the next quarter and then normalizing from Q3. We'll be much better than that.

Moderator: Next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have two questions. Sir, the Slide number 9, I think it gives a lot of data particularly about those 55,000 customers. So some of the states that you have mentioned, like Tamil Nadu and all. And do you think that the overlap or the over leveraging is only happening because the customer has multiple more MFI lenders?

Or are there more of these other lenders who are lending to the husbands of these women and those are the bigger concern than the same women going to 5 or 6 lenders? That's my first question. And second, on the branch addition. Are we going to pause right now what's going to be the plan for that? Any color you can give around that?

Devesh Sachdev: Yes. First, on the branch addition, you are right? We have added 101 branches. We have some more in the pipeline. Mostly, Shreya it is basically, the split branches as we have been mentioning that the branch reaches more than INR15 crores portfolio, we spilt that. That will continue to happen. I think we already have 1398 branches.40 -50 branches, which are going to open. Otherwise, we are done for this year.

Coming to your first point, look, right now, we have also seen that the retail overlap has gone up in these micro finance customers, especially if I look at the south, it's around 61% -- north is still at 20% -- 15% to 20%, 20%. I'm talking about overlap on our customer base. But you're right. There could be a situation where these households have got indebted. We look at the overall indebtedness as per the FOIR. But it is early to say. Right now, as a sector, we can only control the variable which we have a control, which is as MFI and the banks and the small finance banks, which are which are members of MFIN -- everyone has agreed to for this guardrail. So I think I will -- we have to still wait for next 1 or 2 months to see where, how this is panning out.

And I'm hopeful that overall situation may improve because although here, unsecured loans to the household overall, all the players are not MFIs and talking about other lenders, there is already RBI regulation on the risk weightage for unsecured. And all these other players which are not under the regulatory landscape, RBI is also trying to control some of these factors. So I think, that should help in making sure that the customer does not get -- or the household does not get overleveraged.

Shreya Shivani: Okay. So just a follow-up on that. So why -- these are all probably just focused on RBI making these commentaries on the lending rate of MFI, for which I know Fusion as the company is probably one of the lowest rates out there. But maybe there could be some actions from the regulator on this matter that are raising today? Or has there been any discussion that you've had with the regulator on not just over leveraging with the multiple MFI lenders but also due to those retail lenders out there. Is that a risk going ahead? Or have you had any discussion with the regulator right now?

Devesh Sachdev: Sorry. Can you repeat the question, please? Sorry.

Shreya Shivani: Okay. So what I'm saying is that most of us are probably concerned with RBI looking at lending rates of the MFI sector, right? But this over leveraging of the issue, particularly with the retail overlap that you're talking about. Has RBI had any communication with any of you all? Or do you expect that this risk or regulatory risk because of this factor is increasing for the overall ecosystem as such?

Devesh Sachdev: No, no, we did not have -- we have been highlighting to through our MFIN association that to control some of these entities, which are not part of the regulatory landscape. But otherwise, there's no such discussion. I think for the industry, we need to, everyone has to improve their risk management and onboarding. And if we -- all the players come together, will definitely make a lot of difference.

Moderator: Next question is from the line of Nidhesh from Investec.

Nidhesh: How are the trends in the collection efficiency on a month-on-month basis? So is it reasonable to expect that the trends have deteriorated through the quarter and July was month of the worst months in terms of time? Or how that trend is -- specifically, if you can talk about current bucket collection efficiency, how the trends on that?

Tarun Mehndiratta: Yes. So just referring to the trends, if you remember that where we exited March in the previous quarter. After that, as has been discussed on the call already the challenges that we have been looking at, so there has been moderation in the efficiency. So like April, levels were of 96.6%, 96.7%.

May was few notches down at about 96.2%, 96.3%, then June was at about 96%. So with our exit, Q1 average like we mentioned was at 96 3%, July has been seeing almost like a similar trend, looking at June exit numbers. So there has been a moderation in the trend. Yes to answer your question.

Nidhesh: Okay. So in July also, it is broadly similar to what we are seeing?

Tarun Mehndiratta: Yes.

Nidhesh: Secondly, what is the share of AUM coming from each of these geographies Tamil Nadu Rajasthan, Odisha, Jharkhand and M. P. for us?

Tarun Mehndiratta: Yes. So in terms of -- when we look at contribution to our overall GLP. So Tamil Nadu contributes close to about -- these typically would be like around Tamil Nadu contribute was 6% Total close to about 36% to 40%.

Nidhesh: Okay.. 36% to 40%

Tarun Mehndiratta: Yes.

Nidhesh: And sir, lastly, when we did our Analyst Meet, at the point in time also, we disclosed customer leverage. And in that Fusion plus more than equal to 5 was 6.4% plus 4 was 10.5%. The numbers this time that we have disclosed are quite different from Fusion plus 5 and more than equal to 5 is almost 14.5% now versus 6.4% in the last PPT. So why is there difference in these numbers?

Devesh Sachdev: For which slide are you referring to?

Nidhesh Jain: In Slide 8 in the current PPT and Slide 25 in the Analyst Presentation PPT, which you did in May.

Devesh Sachdev: We will just check.

Management: We'll get back. We have similar -- same slide, same numbers we have used. We will just check Nidhesh.We will come back to you.

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

Ashlesh Sonje: Firstly, thank you for the disclosures on Slide 8. One question on that slide. Can you share -- you have given this breakup of customers who are Fusion plus 3, 4, 5, etcetera. Let's say, out of the Fusion plus 4 set of 9.6%, how many of them have already turned into NPA and so on for Fusion plus 5?

Devesh Sachdev: No. We need to come back on this that how many have turned back to NPA. We do not have data right now handy. We will come back.

Ashlesh Sonje: The other way to ask the same question, what is in your analysis, what has been a defining characteristic of the defaulting customer? What would have been a good early warning indicator to identify these customers?

Devesh Sachdev: So one, the customer has consecutively not made two payments. The second - in spite of regular follow-ups twice, thrice, four times, if you're not able to collect money, because sometimes we have seen many customers, they make partial payment. So if there's no partial payment also coming in. Then customer is also not coming to center meeting.

Then when you look at the credit bureau, how is the customer behaving often, whether the customer is paying to others, then that definitely there's a problem at our end, that means our follow-up or whatever. So if the customer is also defaulting with others, all these becomes a trigger point and that's what we -- because when we look at customers who have not paid for even in July, that is where it became the trigger point and then we started diving deep into the -- saw these trends and looked at whether the customer has paid even some partial payment and we looked at how is the credit bureau, what is the debt?

And broadly, we saw that these are all for our existing customers. It's not that there's a problem sourcing where the customers are first cycle customer. 94% customers of these 55,000 customers are second cycle and above customers. So we looked at some of these data points. Again, I'm saying that it does not mean that we believe that all the customer will not pay or anything. This could be a temporary. But we thought that these are the trends we should call out early. But we will -- we are going whole hog to make sure that we collect from these customers. So we will give you more status when we talk next time after our Q2 results.

Ashlesh Sonje: Okay. but any rough sense you would have or how many of these customers would have slipped any ballpark? 20%, 40%, 50%.

Devesh Sachdev: No, I don't not have any ball park. I don't want to give any.

Ashlesh Sonje: Sir, secondly, on the attrition side, how is the trend there? And is it lower collection, which results in attrition? Or would you say it is the other way around?

Devesh Sachdev: Yes. I think sometimes it happens that when customer -- the boy has to go again and again, door-to-door. He has to spend more time in the field. A customer is refusing and that's where that also we have seen that becomes a trigger point that the customer says the boy will say, okay, I will rather do something else. Because he's going to the field not able to collect payment or customer is not meeting or that becomes thing. So yes, that also -- that plays the role because the customer, we have seen, where the boy is going is able to do collections and also that is able to sort customer.

But when some of these things become tougher, so -- but that's where the company, we come in picture as a management, we understand all this. And then we put more seasoned people there. That's what we're doing some of these branches we have sent our seasoned field officers, seasoned branch managers who are ideal for all these situations. So I think these are things I don't think this is something which we can't control. We are taking a lot of steps.

So I don't think that is where we are worried. So we are doing everything to make sure that we engage with people more. I don't think that is something we can't control. In the August, we have seen -- sorry, in the July, we have seen later half of July, we have seen that at least that part is getting registered.

Ashlesh Sonje: Sir, and just a clarification again on Slide number 8. The data that you mentioned here includes retail exposure as well or only MFI exposures?

Devesh Sachdev: No, this is only MFI.

Moderator: Next question is from the line of Anurag Mantry from Oxbow.

Anurag Mantry: A couple of questions on my side. One, if you can send the data point, if you can let us know your PAR numbers, as of March and as of June. So like basically par 1 to 30, maybe 31 to 90 and 90 plus is already there in the PPT but if you can help with the earlier buckets that would be useful.

Secondly, just want to understand, I mean, basically, when this is this over leveraging that we sort of highlighted as an issue when you shared the data. mean largely what has been the path of this increase for March '23 to March '24. Has it kind of suddenly gone off or has being a kind of a gradual increase over the year basically?

I'm just trying to ask the context that, you could maybe -- the proactive steps, could they be taken slightly earlier? Or is this case increases happened again very suddenly your line, and that's what this. And a related question to the overheads point is, I think with the new RBI Rule as to how lending should happen, in the sector that came up, I think about a couple of years back, regarding the household income based lending.

In that setup, I mean, do the buying this become a problem? Because, I mean, isn't that framework supposed to make lending a lot more household income and the leverage-based, basically? Isn't it supposed to be a lot more focused rather than the earlier setup where it is a lot more disciplined to mediate certain household incomes?

Devesh Sachdev: So, I will first start with your first question. Look, you said that whether we could have done something proactively. You see, one, we have been calling out even when in the Q2 last year, when Q3, when we talked about, we said there is, in Q2, we mentioned about floods. We mentioned about that there are certain areas, there could be a temporary pain. So, we have been saying this. Second, when it comes to the steps, we have already over the last six, eight months, we have been rationalizing our field officer.

If you look at our March 23 or Q1 24 numbers, our per field officer was managing around 555 customers. That has today, if you look at today, it has come down to 404. We want to maintain around 450 because we have in the last quarter, we have added new ROs there under training, and they will be put up in the new branches or the existing branches. So, coming to, and then we mentioned that we are revamping our collection team six months back, and then we hired somebody who is joining on August. So, that was -- that we have been saying for even during the analyst week. Similarly, since the RBI new norms came in March 2022, we were the only company which kept caps.

We had a cap today. When the sector will bring caps it will not have any impact on our disbursements, because we had caps from the day one whether it is amount or whether it is number of lenders. So, that is what I am saying. So, it is not that we have always been proactive. We have been taking all these steps. We have even you look at the diversification, if you look at the state-wise concentration we have district-wise concentration. So, we have always been very proactive to make sure that we manage all these risks. But this is something, and coming to your point, I think, again, I am saying this could be a temporary phenomenon. We do not know.

We have to wait for another two months to really see that. But it got accentuated in this quarter, and that is why we are coming and we are calling out these 55,000 customers. That is about your first your point. Now, come to the you are asking for the PAR numbers. So, yes. So, if you talk about PAR 60 this is with the adjustment, I am talking about PAR 60 plus. It is inclusive of the adjustment, which we have moved from stage one to stage three, 5.61% as on June 24. As on March, it was 3.10%. As far as PAR 30 is concerned, so June 24, it is 6.37%, including that adjustment. And PAR 30, as of March, is 3.44%.

Anurag Mantry: Do you also happen to have the PAR 1 to 30 data that can be shared?

Devesh Sachdev: So we share only PAR 30 numbers. So, always because it is more of a transitory number customers. So, we always give PAR 30 numbers.

Anurag Mantry: And Devesh, just what I asked earlier regarding the context of over leveraging the new lending norms of RBI. Any thoughts about?

Devesh Sachdev: So coming look, you are absolutely right that the new norms were actually meant for making sure that people do not do over leverage. However, and this whole strike rate, which was increased because earlier, you see it was INR2 lakh in urban areas and INR1.6 lakh for rural areas household income, which now -- which became a INR3 lakh and -- But I think that is where there was a number of lenders capped.

And then we are also seeing the same customer being given loans under the non-qualifying criteria. That also has increased the overall leverage. There was a lot of liquidity last year. But I think now as a sector, we all are coming together and for these guardrails, which I have been propagating since day 1 in -- when the new guidelines came in March 2022. But I hope now everyone will follow that and everyone will come together for the long-term sustainability of the sector.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to Mr. Shreyas Pimple from JM Financial for the closing comments.

Sameer Bhise: The time out in joining this call. Thank you so much.

Devesh Sachdev: Thank you, everyone.

Moderator: Thank you. On behalf of JM Financial that concludes this conference. Thank you all for joining us and you may now disconnect your lines.