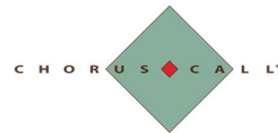




**“Fusion MicroFinance Limited
4Q and FY '24 Earnings Conference Call”
May 07, 2024**



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RELATIONS– FUSION MICRO FINANCE LIMITED**

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

Moderator:

Ladies and gentlemen, good day, and welcome to Q4 FY '24 Earnings Conference Call of Fusion Micro Finance Limited hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Sameer Bhise:

Thank you, Muskaan. Good morning, everyone, and welcome to the 4Q FY '24 and FY '24 Earnings Conference Call of Fusion Micro Finance. First of all, we would like to thank the management of Fusion Micro Finance for giving us the opportunity to host the call.

From the management today, we have Mr. Devesh Sachdev, MD and CEO; and Mr. Gaurav Maheshwari, Chief Financial Officer; Mr. Tarun Mehndiratta, COO of the MFI Business; and Mr. Deepak Madaan, Company Secretary and Chief Compliance Officer of the company. As usual, we will have opening remarks from the management team, post which we will open the floor for Q&A.

With that, I would now like to hand over the call to Mr. Devesh Sachdev for his opening comments. Thank you, and over to you, sir.

Devesh Sachdev:

Thank you, Sameer and JM Financial for hosting us. Good morning, everyone, and thank you for joining Fusion's Q4 Financial Year '24 Results Earnings Call. As mentioned by Sameer, I'm here along with my colleagues, Tarun, our MFI COO; Gaurav, CFO; Deepak Madaan, Chief Compliance Officer and IR.

I would like to take you through the key highlights of our performance in financial year '24, in which we delivered strongly on all key parameters in spite of challenges we faced in Punjab. Request you to keep the presentation handy. If you refer to Slide number 5, we had a very strong close to the financial year '23-'24 with the disbursements of INR2,953 crores in quarter 4 and overall disbursement of INR10,294 crores, translating to an AUM growth of 23.45% over financial year '23. This is in line with our guidance of AUM growth in mid-20s for financial year '24.

We delivered our highest ever PAT of INR505.29 crores, a growth of 30.52% over financial year '23. In line with our customer acquisition led growth strategy, we added 5.15 lakh new customers during the year, a growth of around 14% over financial year '23. If you remember, this is above our guidance of 10% to 12% of new customer addition. Our active borrower count as of March '24 rose to 38.6 million, one of the highest in the sector.

Our NIM expanded by 107 bps to 11.22% in spite of a tight liquidity environment, as we were able to keep our cost of borrowing in check through focused liability management. This was also aided by our rating upgrade to A+ in October 2023.

Our healthy income growth led to cost-to-income ratio moderating by 184 bps to 36.60%. We delivered healthy ROA and ROE of 4.78% and 19.55%, respectively, in spite of slightly elevated credit costs.

Now I would like to talk about 3, 4 items before we dive into the performance of Q4, first, on Punjab. In financial year '24, our portfolio in Punjab was impacted for the reasons already covered in the previous calls. The share of Punjab in our overall AUM has come down to just 2.8%. The on-ground situation in Punjab has stabilized with the collection efficiency of 75% in Q4 financial year '24. We now hold sufficient provisions of Punjab portfolio and don't expect any further hit, subject to collection efficiency holding up. As highlighted in previous calls, we had stopped disbursement since December '23.

In terms of our efforts on ground, we have increased customer touch points with entire hierarchy mandated to meet customers in both impacted and non-impacted areas. We added to field collection force and tele-calling backup. We are keeping a close eye on the situation on the ground, and we'll take a call on fresh business post-election. Details on Punjab are covered in Slide 9 of our investor presentation.

The second point I will talk about the credit cost. Our net credit cost for financial year '24 of 3.49% is in line with our guidance given in Q3 financial year '24. As mentioned, we do not expect any further hits from Punjab in financial year '25, subject to collection efficiency holding up. In financial year '25, we do not expect our net credit cost to exceed 3%. We are quite confident of delivering ROAs in a guided range of 4.25% to 4.5%, and ROE of 18% to 20% over longterm.

Now a few points on the regulatory landscape. Since the implementation of the liberalized pricing guidelines, we have been very thoughtful and measured in our pricing discussions. Also from the time of our IPO, we have been highlighting that we are very cognizant of the cost to customers. Currently, we are one of the lowest cost lenders to our borrowers. We have a very well-established risk-based pricing framework in line with RBI guidelines of March '22, and are very transparent in terms of our pricing disclosures.

Now I would like to go to Slide number 6, which covers the executive summary of our Q4 performance. Our disbursement grew 24.45% year-on-year to INR2,953 crores. Our AUM grew 7.32% on quarter-on-quarter basis to INR11,476 crores. We added close to 1 lakh customer in this quarter. Our yields remain steady adjusted for 1 day less in Q4 in February, with a drop in our average cost of fund and NIM expanded quarter-on-quarter by 5 bps to 11.59%, which was in line with our guidance.

Our marginal cost of funds continued to trend lower with Q4 marginal cost at 10.24%, which is a drop of over 20 bps over Q3. This gives us the visibility of further expansion in NIM in the near term. Our PAT for the quarter came in at INR132.69 crores, which is Q-on-Q growth of 4.93%. We are now present across 453 districts, which is one of the highest in the industry.

Moving to Slide number 9 on collection efficiency. Our Q4 collection efficiency, ex Punjab, remained steady at around 98.3%. If you go to the Slide number 20, we opened 211 branches in

financial year '24 across our MFI and MSME verticals to take our total branch count to 1,297, which is a growth of approximately 19% over financial year '23. 73% of the new MFI branches added are outside our top 5 states. We will maintain similar growth rate of branches in the coming year with approximately 66% of branches planned to be opened outside of our top 5 states. This, in our view, will aid in our diversification journey over the coming years.

This year also marked our entry into AP and Telangana, which, along with our presence in Karnataka and Tamil Nadu, which is already among our top 5 states, will help us expand our presence in South India.

Coming to Slide number 21 which captures our key productivity metrics, our GLP per branch has been following a consistent trajectory and stands at INR9.1 crores per branch as of financial year '24 versus INR8.8 crores as of financial year '23. Clients per branch of 3,204 remains one of the best in the sector. AUM per RO is again hovering around INR1.3 crores to INR1.4 crores. We are also calibrating our average customers handled by our field officer by around 15%, looking at the dynamics in the field.

Slide number 22 captures our ATS, average ticket size, and average outstanding per borrower. Our Q4 '24 average ticket size has increased by 6% over Q4 financial year '23. In line with our guided strategy, we intend to maintain a healthy mix of growth between customer addition and average ticket size increase over the next year. We expect a 10% to 12% growth both in ATS and customer base in 2025. Our average outstanding per customer has grown by 11% year-on-year to 28,500, which still remains lowest among our comparable peers. Customers unique to Fusion are 31%, not much changed from the last numbers which we shared in September '23.

Moving on to Slide number 23 on branch vintage. We have a very good mix of seasoned and new branches, which provides a good visibility for future growth. If you see in the slide, 41% of branches are less than 3 years old, which contributes just 26% to our AUM. This will improve as these branches scale up.

Moving on to Slide number 36 and number 37 on key ratios. Our cost to income is steady on quarter-on-quarter basis at 36.8%. Our Q4 opex has slightly moved up. It is because of the network extension done in the last 2-3 quarters, along with calibration of customers per RO, investment in technology. Out of this, 53bps of the opex is contributed by MSME business, which is currently in a scale-up stage with planned investments in line. With our growth targets across both MFI and MSME, we will see some impact on the opex. However, over a period of time, we are certain that the same will stabilize. Cost-to-income ratio is a more consistent metric to track our operational efficiency. We expect it to range between 36% to 38%.

Now in 2 successive years, we have delivered ROA in the range of 4.5% to 5% and ROE in range of 19% to 22%. Coming to our MSME business on Slide number 38. As of March '24, our MSME vertical has an AUM of INR531 crores across 97 branches. Average outstanding per client is approximately 4 lakhs. It continues to scale up as planned. Huge focus on secured loans. We will give a more detailed update on this business in the investor meet, which is scheduled on 17th May 2024.

We continue to maintain a healthy balance sheet with a capital adequacy of 27.53%, ECL coverage of 2.44% of our loan book, diversified liability mix with more than 50 lenders, ample liquidity and sanctions in hand. This gives us a strong foundation for future growth. On the back of a good growth in financial year '24, despite some challenges in Punjab, we remain confident of growing in the mid-20s in financial year '25 with healthy return ratio. I would like to reiterate that we remain steadfast in our efforts in building our business review on the long term to create sustainable shareholder value.

Thank you very much. Over to Gaurav.

Gaurav Maheshwari:

Thank you, Devesh. Good morning, everyone. I would like to speak about some of the key highlights of Q4 FY '24. The core interest income of the company grew by 6.67% on quarter-on-quarter basis and 27.80% on year-on-year basis. The total income has also increased by 10.09% on quarter-on-quarter basis and 29.66% on year-on-year basis.

As mentioned by Devesh, our marginal cost of fund has further reduced by 20 bps on quarter-on-quarter basis and 44 bps on year-on-year basis, aided by our focused approach on optimizing the cost of fund. We will continue to work on optimizing our cost of fund in going future also.

As a diversification strategy, we will tap ECBs and debt capital market in this year. Our NIM has increased by 5 bps to 11.59% from Q3 FY '24 of 11.54%, and increased by 102 bps on year-on-year basis. It is as per our guidance. We will continue to expect some more uptick in NIM in coming quarters before it gets stabilized. We will try to utilize this NIM expansion for creating overlays, keeping in mind consistent ROA and ROE. In Q4, the pre-provision operating profit was INR290.68 crores, increase of 31.46% on year-on-year basis and 11.69% on quarter-on-quarter basis.

Cost-to-income ratio remained steady at 36.84% in quarter 4 in comparison to quarter 3 of FY '24 at 36.80%. The operating cost increased by 27 bps on quarter-on-quarter basis. We have added approx. 1000 employees in the last quarter, which is on account of addition of branches. Apart from that, there are certain other reasons, which are rationalization of our client per RO metrics, change in incentive structures, IT spend and implementation of some welfare measures at various levels. Operating cost of MFI business is 5.59%. MSME business contributed 0.53% for Q4.

Coming to Slide 9 on Punjab impact. As it can be seen, with the uptick in Par 60, the slippage in Punjab portfolio in Q4 are within our expected range, which we have provided already in Q3 and rest of the pain has been provided in Q4. The collection remains at 75%. The delinquencies in early buckets in Punjab has come down, and we expect minimum slippage from here on, subject to the collection efficiency. We are holding 25% of the provision of the INR317 crores of book of Punjab as on 31st March 2024. In Q4, we have increased our management overlay by INR18 crores to INR59.5 crores for future unforeseen events. Our efforts are to keep increasing the same as mentioned earlier.

Please refer to Slide number 11. Company has provided impairment of INR117.80 crores in Q4, which includes INR18 crores of management overlay. The credit cost for the quarter is 0.93%.

This is inclusive of 8 to 10 bps impact of Punjab in Q4. The net credit cost for FY '24, excluding management overlay, stands at 3.49%, which is within our guidance. We have done a write-off of INR75.11 crores in Q4, which is 0.73% on the closing portfolio. We have derecognized the interest amounting to INR15.22 crores. The ECL as on 31st March stands at INR354.54 crores, which includes INR59.50 crores as management overlay. Majorly, it is sitting in Stage 3. The overall coverage for Stage 3 assets stands at 119%.

Historically, our write-off recovery is about 5% to 7%. In this financial year, we have received INR26.81 crores against the write-off. We are anticipating similar recovery patterns in the coming quarters. In this quarter, we have done direct assignment to the tune of INR509 crores. Sanction in hand as of 31st March 2024 is INR2,736 crores. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Gaurav Kochar from Mirae Assets.

Gaurav Kochar: A few questions, sir. You alluded to that incrementally you don't expect higher slippages in Punjab, subject to collections holding up. So just in that context, you've disclosed total Punjab portfolio of INR317 crores. If you can quantify in terms of the troubled districts where the problem lies, what would be the size of the AUM out of this INR317 crores. And if you can give that overall Punjab is at 75% in these trouble districts, what would be the collection efficiency?

Tarun Mehndiratta: Yes. Yes. So in Punjab, totally 35 branches are impacted, and they stand in about 16 districts for us. So yes, so this largely started from the area around Amritsar, Gurdaspur, spread on to the lower districts. But what we've seen potentially has been that this has held up over the last 3, 4 months. We've not seen this impact spreading over to more branches. We have total 55 branches in the state. So it is confined in mentioned span of districts and branches.

Gaurav Kochar: Sure. Sure. And out of this INR317 crores, if you can quantify how much AUM or ballpark, whether it is half of the AUM, which is in these trouble districts? Or what would be the total size? And I'm just asking this because the collection of 75% may not be consistent across. There may be some.

Tarun Mehndiratta: Yes. Out of total 55 as I mentioned to you, 35 branches are impacted. So close to 20 are non-impacted branches, right? And so on the AUM front, out of INR317 crores, the breakup is largely around 65:35 because bulk of the branches have been under this particular impact.

Gaurav Kochar: Got it. Got it. That's helpful. And secondly, sir, total 60-plus that you've disclosed as on March is 35.7%. I just wanted to understand how things have moved in April. Is it similar, stable, improved?

Devesh Sachdev: Its similar. Right now, that's what we're seeing. Otherwise, if you remember when the last call happened, because we saw some trends in the month of January we changed our stance on Punjab in the last call. But now when we speak, overall, this collection efficiency is holding up. So, we have not seen any further deterioration in collection efficiency.

Gaurav Kochar: Got it. Got it. And sir, with respect to total net slippages, that's a calculated number of around INR80 crores, which is total your gross slippage minus the recoveries and upgrades. That was

INR80 crores. So out of that, roughly what was the contribution from Punjab roughly during the quarter? Or you can give gross slippages from Punjab out of total slippages.

Gaurav Maheshwari: So, the gross slippages from Punjab is between INR18 crores to INR20 crores in Q4. The rest is as business as usual from the rest of the states.

Gaurav Kochar: Sure. Sure. Got it. That's helpful. And sir, the guidance that you've given of 3% credit cost for next year, does that include.

Devesh Sachdev: Clarification, its Less than 3%.

Gaurav Kochar: Sure. Sure. And that includes the overlay that you'll be creating incrementally also?

Devesh Sachdev: This is we're talking about net-net.

Gaurav Maheshwari: So, as mentioned in our commentary, there is a NIM uptick, we are looking at, in coming quarters. We are going to utilize that NIM uptick or maybe opex rationalization in the later half of the year that is in H2 of FY25 to create buffers in coming quarters.

Gaurav Kochar: Understood. So, this includes buffer, the 3% that you're guiding?

Devesh Sachdev: No. This is basically net we're talking about.

Gaurav Kochar: Sorry, you're saying total credit cost?

Devesh Sachdev: Net credit cost we're talking about.

Gaurav Kochar: Okay. Okay. Total. All right.

Devesh Sachdev: Buffers will be over and above this. Net credit cost, we are saying that it should come down to sub 3% it should not exceed 3%. However, in H2, we'll give an update basis how the trends are panning out, we'll further talk about it. But right now, looking at things, we are very confident that the credit cost will come down in the next few quarters.

Gaurav Kochar: Sure, sure, sure. And sir, any incremental state or where the stress has elevated? Or is it just one state that is troubling for now?

Devesh Sachdev: No, no. There's no other state we are facing any issues. Most of the states are doing business as usual.

Gaurav Kochar: Sure. Great. And just last question, if I can squeeze in. This is with regards to the cost of fund. So if I look at the slide, cost of fund, both on stock and marginal, the gap is hardly 6 basis points. Just wanted to understand, with the rating upgradethat we got a couple of quarters back, whether the funding cost will start coming down now because most of your book is fixed or there is a reset period? So when do you start expecting the incremental cost of fund to trend lower from here?

- Gaurav Maheshwari:** So, you will start looking at this coming in the first quarter onwards because whatever repricing which we needed to do, we have already done that in the incremental sanctions. As mentioned, that in a year, we had, 2 rating upgrades, and our marginal cost has decreased by 44 bps in last year. Now it will show some impact in Q1, Q2 going forward.
- Moderator:** The next question is from the line of Pranav Gupta from Aionios Alpha Investment Managers.
- Pranav Gupta:** Congratulations on a good set of numbers. So just a clarification from one of the previous comments. You mentioned net credit costs would be less than 3% for FY '25, which is obviously lesser than what we reported this year. I sort of missed some part of that commentary. Did you mention that overlays will be over and above this guidance? Or is that included in this guidance? That's the first clarification.
- Management:** Overlays will be over and above. We are talking about net credit costs.
- Pranav Gupta:** Okay. Okay. Sure. So the next question is, if I look at some of the metrics that you keep reporting on a quarter-on-quarter basis, if I look at number of customers per branch, customers per RO, the disbursement ticket size on a Q-o-Q basis, all of these have sort of gone down. Is it just because some of the branch openings were back-ended? Or is this something which you are consciously doing on a structural basis and it's going to continue going forward? How should one think about this?
- Devesh Sachdev:** So look, we have added 55 branches in this quarter, Q4. Otherwise, only structural change, Pranav, which we are doing is the rationalization in the number of customers handled by the field officer by around 15% looking at the field dynamics. We have done extensive study in the field and looked at all the other dynamics. Other than that, everything is because we added people. Also, if you see today, the number of customers per branch, we are one of the best. We are hovering around 3,200. This will be around that range only.
- If you look at the outstanding per branch, again, has moved up. So, I don't think there will be any structural change in any of these metrics. This is all business as usual. Even in Q1, you will see some movement because we are front-loading a lot of branches in the first 2 quarters. But there is no structural change even if you look at our contribution of branches as per the vintage more than 3 years, which we provide.
- So you see all those 60% of branches contribute to 74% of portfolio. All those metrics remain the same. Otherwise, we do not see any other change. Even the AUM handled by per RO, I think this is more or less similar. So there's no structural change here.
- Pranav Gupta:** Right, right. No, sir. And just one last question on your cost and branch expansion. You mentioned that the branch expansion pace would remain similar in this year going ahead as well and a cost-to-income guidance of 36% to 38%. Is it fair to assume that most of the branches that we open would probably be in newer states like AP and Telangana? Or do we still see some headroom for expansion in top 5 states? I know you mentioned that 60% to 70% of incremental branches will come from newer geographies, but just trying to understand on AP and Telangana specifically.

- Management:** So top 5 states, branch openings will be only 17%. last year, if you see, out of 181 branches, 32 branches came in top 5 state, which is around 18%. This year, around 50, which is again 17% of total branch network. So the southern states will contribute around 31% to our branch network.
- Others will be around 34%. So that's how it stands. We are going to split around 60 branches, which is around 20% -25% of the branches will get split, where the portfolio has moved up. And these definitely are in some of the top states like in Bihar, in Uttar Pradesh. But overall, you might have seen that our top 5 states are still hovering around 70.4%, as we remain committed on diversification. If you see, we have the highest overall spread as far as district is concerned. So the highest portfolio district is around just 1.52%. So we remain committed on diversification. And you will see that this is panning out in this financial year also.
- Pranav Gupta:** Good luck for the future quarters.
- Devesh Sachdev:** Thank you.
- Moderator:** The next question is from the line of Rajiv Mehta from Yes Securities.
- Rajiv Mehta:** Congrats on stable performance. So many of my questions are answered. Just 2 questions. Firstly, the part that is being collected.
- Devesh Sachdev:** Rajiv, we can't hear you. Hello? Hello?
- Moderator:** The line got disconnected. We will take the next. The next question is from the line of Renish from ICICI Securities.
- Renish:** Sir, just two questions. One, on the collection efficiency, which you talked about is 98.3%. But I'm assuming this is including arrears. Right, sir?
- Devesh Sachdev:** Yes.
- Renish:** So what is the ex-arrear collection for this quarter and Q3?
- Tarun Mehndiratta:** Yes. So this ex-arrears, for comparable numbers, is around 95%.
- Renish:** For Q4?
- Tarun Mehndiratta:** Yes, for Q4.
- Renish:** And what it was in Q3? I think it was 95.5%, if I remember correctly.
- Tarun Mehndiratta:** No, I think it was around, 95.2% is what we had mentioned, like around the same number, around 95%- 95.2%.
- Renish:** Got it. Got it. So Tarun, just one follow-up on that. I mean let's say, when we look at the ex-Punjab collection efficiency, it is still lagging the industry trend. So is there any specific pockets which are causing this spread? Or this is the industry-level phenomena and maybe the same is

reflecting in other numbers and maybe going ahead? I mean how one should look at this data point?

Tarun Mehndiratta:

So, I think, Renish, relevant observation. I think what we should do is a comparison with our numbers quarter-on-quarter like Gaurav mentioned earlier. So, we obviously have about INR317 crores of Punjab portfolio, and as I mentioned, that 65% of the branches are in impacted areas. So yes, that definitely is impacting but I think overall, other than Punjab, I think we have been able to stabilize and improve in some of the states, like we mentioned last time.

But comparing it with sector, I think there is no public information which is available, but the secondary information typically says that this is the same range, right? So 95% ex arrears is largely around what we see, what we gather from our information in the field. So that is what it is.

Renish:

Got it. Got it. And Tarun, again, on same point only, so let's say, when we look at the our portfolio concentration - top state is at 20%, it has been like since quite a long time. So, is it right to assume that maybe outside top 5 states, the collection efficiency will be lower and hence, we would not want to go to those areas unless and until we.

Tarun Mehndiratta:

No, no, no. I think top 5 states are only because of a concentration standpoint. And I think it's more to do with the total demographics of the state, including the eligible population and the target segment. But I think there are states outside of top 5, which performed very well, right? And we are very, very positive on those states, and we will continue to grow there as well.

Renish:

Okay. Okay. Devesh Sir, just one last question on the strategic front. Let's say, we have seen that people are moving from monthly to weekly model as they reach scale. What is your thought on that? I mean do we continue to operate on a monthly model, let's say, even at this scale or maybe next 2 years will be probably double of the benefit side? And on that, still monthly is a good model. I mean what is your sort of analysis?

Devesh Sachdev:

Yes. So Renish, I have 2 observations. One, we will show the data which we have from credit bureau on 17th May. I think the difference in credit cost over whether it is a fortnightly, weekly or a monthly is not much. Data will show. I think that data will put to rest a lot of things, which I talked about, about the frequency of collection.

However, the second point, in the newer states we have entered, we are doing fortnightly. So today, 20% of our branches are fortnightly. So, we are taking a hybrid call because there are geographies like Andhra Pradesh and Telangana, where the micro finance activity was closed for over 12, 13 years. So, we said that, because we are starting new, we are doing a fortnightly there.

I can still tell you that when we look at the portfolio breakup between these 2, there is not much difference. But we will follow a hybrid model. There are states like Maharashtra, where we have opened few branches this year, 8 branches,. Looking at that geography, we said we will do fortnightly. So, we'll follow a hybrid model between fortnightly and monthly.

Moderator:

The next question comes from the line of Bhavik Dave from Nippon Mutual Fund.

Bhavik Dave:

Just 2 questions. One is broadly in the sector, sir, just wanted to get your view in the sense that is this turning out to be a 95%, 96% collection efficiency kind of a model, which used to be 99% pre-COVID and a 3% kind of credit cost model considering there will be different states having different events at any given point in time.

So maybe and the rules of the game have changed considering the 2, 3 lender rule that has changed and now it's more household income, people transitioning to individual models. Do you think that is leading to some bit of overleveraging of customers? Is that visible out there on the ground in your view, considering rural has been quite weak.

When we look at other macro data points, rural has been struggling. And maybe that is one of the reasons that post-COVID, things have just maybe deteriorated for the economy from the rural segment. So, do you think this is a 3% kind of sustainable credit cost model in your view?

And how would your collection efficiencies be different north versus south because we're relatively more central- and north-focused player. Does that also play a role in terms of the collection efficiency because I think what we ended up doing is comparing you with a few southwest players where in the collection efficiency will be very different or the economy will be very differently positioned versus how north and center is central is, sorry. So can you just throw some light on this?

Devesh Sachdev:

Yes. Bhavik, it's a good point. So let me first talk about the last point, which you asked. if you look today, at our core states, Bihar and U.P., our collection efficiency even if its daily collection efficiency, today's collection against today's demand its hovering at a very, very good rate. So, there our overall credit collection efficiencies are hovering anywhere around 99%. So, we are not seeing anything in these core states.

We are diversified. We are there are certain northern states, which have lagged, like we mentioned, because of the floods, some part of Rajasthan, Punjab, we already highlighted, Haryana. So those are still coming up. Even Haryana has improved. So, I think you're right. As a pan-India player and mostly from north India, you could say that, that the economies are different. But still, we would like to be best in class as far as our business processes are concerned as well as collection efficiencies.

And the second point, is what we are seeing in the field is that and which you have rightly mentioned, One, definitely, there is a pressure on centre attendance because this all got disrupted during the COVID. We are running a very huge campaign now in our branches to make sure the customer comes to centre meetings we are building incentives for customers to come to the centre meeting.

And other thing is, yes, earlier, same-day collections were very different. Now they are slightly different. But that's how when the sector matures, the sector changes. These are dynamics - customer may not pay today, but customer will pay in the next 2 to 3 days. That is also happening. That's why you see overall collection efficiencies around more than 98%. But yes, there's a 3% or 4% lag here and there in what we collect within the month.

So if you see, that is one of the reasons we have rationalized the number of customers handled by our field officers, which was hovering around 555 customers, which now we have been trying to maintain between 450 to 475 customers per field officer.

Second thing is that we now are completely revamping our collection vertical, putting up a complete collection vertical as you see in any mature asset class. So that is also one change. So I think this is more of an evolution. Customers still remain committed.

There is a demand for credit. People are cognizant of their record in the credit bureau. But yes, you're right, the credit costs will not be what it was pre-COVID. I'll still say that we would like the credit cost to be hovering anywhere between 2.5% to 2.75%. That's what we're saying we should be at from where we ended in FY24. In FY25, we would definitely like to improve there and that's how we said it would be less than 3%.

One more thing, Bhavik, which is very important is that if you see this whole liberalized pricing guideline which has also come because of these factors. We all have to appreciate, even the regulator has looked at all the data that there are such situations, which lead to higher credit costs. And now you see, if you look at our performance, in spite of slightly elevated credit costs, we have been able to deliver consistent ROA of more than 4.5% and ROE of 18% to 20%.

So, I think what we have to see is that there are elbow rooms. There is a risk-based pricing. There are states where you can differentiate we have already put the states into high, medium and low. There are states where you can have a differential pricing to cover your credit costs. I think the important point here to see is that, even we say 2.5%- 2.75% kind of credit costs, still we are in a position to give robust metrics on all fronts.

Bhavik Dave:

Got it. And just to follow up, one question on this is that when you look at this year's performance, right, we rose at 4.8%, 4.9% ROA guiding for 4.6% to 4.8% with an improvement in credit costs. What am I missing? Like why is it either flat to what we reported in FY '24 and checking our credit costs are coming down by 50 or more basis points in this year. So what will be the factors that will not let us be on the higher end of that 4.6%, 4.8% or around 4.95% ROA considering we'll have a significant improvement in our credit cost this year versus what we reported in FY '24.

And margins are on the up move or stable, at where we are operating expenses, like you mentioned, 36% to 38%, which is broadly where we are today. So what is what am I missing? Why are we not why do we not touch a 5% ROA for FY '25, at least, considering credit costs improving in FY '25? Just wanted to understand what is the missing point.

Devesh Sachdev:

Yes. Look, Bhavik, since we came for IPO, we have been saying, our long-term ROA will hover between 4.25% to 4.5%, which takes into account any blips here and there. So, what we are, again emphasizing is our ROA/ROE guidance is for long term. So that's what I'm saying. These are not for this financial year. These are for long term.

Moderator:

The next question is from the line of Umang Shah from Kotak Mutual Fund.

- Umang Shah:** I have a couple of them. To begin with, Devesh, in your opening remarks, you did mention that the company has created adequate provisions towards the Punjab portfolio. Could you just quantify what's the quantum of provision that we are carrying against Punjab portfolio?
- Gaurav Maheshwari:** So Umang, as mentioned, that we are carrying 25% of the provision on our INR317 crores of book. So effectively, we have a provision of INR80 crores, near about.
- Umang Shah:** And this INR80 crores would be sitting probably across Stage 2 and Stage 3?
- Gaurav Maheshwari:** So, one largely is that as I mentioned in my opening remarks, that the opening buckets are stabilizing as collection efficiency is getting stabilized at 75%. So, whatever pain needs to be coming in Stage 2 and Stage 3, it's already being taken care as upfronted, which we have seen in Q3 and Q4 now.
- Umang Shah:** Okay. Okay. The second question was, it would be really helpful if you could just give us some guiding thought process in terms of the whole management overlay provisions. Now I'll just give some context here, right? Now while we appreciate that currently, we have about INR60-odd crores of management overlay provision that we have, but what is the guiding vector which the management keeps in mind when you guys either create or utilize the overlay provision?
- So let's say, today, we have close to 3% of the portfolio where the collection efficiencies are dropping by the quarter. And let's say, in the third quarter, we utilized INR20 crores of management overlay provision to some extent towards the Punjab portfolio. In this quarter, we have created about INR18 crores of management overlay provision.
- Now if, let's say, the Par 60 book has already crossed 30%, why not aggressively run down this portfolio and probably, if at all, there are recoveries in the future as a matter of prudence take the hit today and why not account the recoveries later on? Or is it just a deferment of credit cost as we see because the management overlay is sitting, but at some point, we have to utilize the management overlay, right? I mean I just want to understand the broader thought process outlay.
- Devesh Sachdev:** So first, I will one part I will answer. The second part, Gaurav will answer. The first part, Umang, is that you asked a fundamental question. What is the thought process between creation of the management overlay and usage of the credit? Am I right?
- Umang Shah:** Yes.
- Devesh Sachdev:** So look, the basic thought process is that any quarter where we see that the profitability is better and we are giving metrics which are near to what our guidance is on ROAs, we will create buffers.
- So that is the basic thought process and because we believe that this sector goes through some blips here and there, so it is always better to have an extra cushion. And we all could see that we used INR20 crores, for, exceptional situation, like Punjab. This will not be used for any day-to-day or this thing out.

So that is our thought process. And that's what we have fundamentally been able to prove when we used INR20 crores. And we have recouped INR18 crores odd. So that is the basic thought process on overlays.

The second is if you see our overall provision coverage has already from last quarter to this quarter has moved from 107% to 119%. Let me also say this that there is an overall commitment to increase this coverage ratio. And you will see in the next 3 to 4, 4 to 5 quarters that this is reaching higher including the management overlay. You will see increasing trend on the provision coverage ratio. So, this is on the fundamental aspect. The second, Gaurav.

Gaurav Maheshwari:

So, like Devesh had mentioned, we are going to utilize this management overlay in an exceptional scenario. And if you see that Fusion has a presence in 22 states, 453 districts, so we need to cover for any event that can happen in future. So, if any district gives us near about 1%, 1.5% of blow, then obviously, we will be able to utilize overlay in that particular situation.

So, this is all towards an insulation we want to create for our P&L going forward. At this point of time, the number looks quite small. But going forward, as Devesh has mentioned, the intention of the management is to create and increase this management overlay over a period of time, so that there can be an insulation, which we are not able to see right now. But going forward, it can come, it can't come. So that's the way.

Umang Shah:

Gaurav, I truly appreciate that. But where I was coming from is that when we reported our Q3 numbers that December Par 60, Punjab was 12%, 13%. When we had our call in Jan, it was about 20%. Today, it is 36%. I don't really know where is it standing now in April or May, right?

So I'm saying that probably Punjab is that exceptional situation, right, where probably with every passing quarter, it appears that the utilization of the management overlay will only become more and more critical, then why not buy the bullet and utilize it simply because although this portfolio is smaller, but it's dampening the overall collection efficiency numbers anyways, right, and the hit has already gone through the P&L. So why call it out as a management overlay and not take it as a credit cost is what I was trying to understand.

Gaurav Maheshwari:

No, no. For like last quarter, what we did is that proactively, we've moved from Stage 1 to Stage 3. Now in this quarter, there is a movement of INR20 crores, which has already happened, so we have already covered INR100 crores. If you calculate, out of INR317 crores, 35% is INR113 crores. We have already covered in Stage 3 as approximately INR100 crores. Apart from that, there is a management overlay, which we have already created over and above that. So, that is what we have said in opening commentary that Punjab-related pain is being taken care of at collection efficiency at 75%. And Devesh has also mentioned that in April, the collection efficiency is remaining at that level, which we have quoted for March.

So incrementally, we don't see that anything which we need to provide for Punjab. We have sufficiently taken care of whatever the pain. If you see that in my earlier statement on one of the questions or in the commentary that the new slippages to 0 to 30 has reduced in Punjab because of stabilization of collection. So, there is no incremental pain which needs to be taken in provisioning.

- Devesh Sachdev:** And Umang, if you see even our write-off policy was modified in the middle of the last year, we have already accelerated our write offs. Instead of 365 days, we are now writing off in 270 days.
- Umang Shah:** Sure. Got that. And just last question is on operating efficiency now. Again, Devesh, you did mention that you guys have been calibrating, let's say, borrowers per branch or the relationship officer, the number of borrowers that he manages. So is it fair to assume that incrementally, let's say, the growth that we are guiding for will require equal amount of physical distribution expansion? Or at some point, we should start seeing the AUM per branch or AUM per officer sort of metrics kind of starting to improve, which have been kind of stagnating for past 3, 4 quarters now?
- Devesh Sachdev:** Yes. So one, we said that, look at our customers per branch, Umang, we are one of the best. If you compare this with the industry, there's a difference of anywhere between 500 to 1,000 customers per branch. We are at 3,200. We can share the data with you. If you look at the comparable peers around this. So we're already doing well there.
- The second is, because of our risk metrics, we split our branch after the branch reaches certain scale. This is more from managing our risk. So third, the only metric which we are changing is that number of customers handled by a field officer. However, you see that overall, there will be around 10% to 12% increase in the ticket size and the average outstanding of the customer which should take care of AUM per RO. You will see that maybe in Q4 FY25, because the first 2 quarters, you will be aware we'll be opening new branches and those metrics may not be visible. But then you will start seeing that change happening, and you will see that overall metrics moving up in Q4.
- One last point is the important metrics for you to really focus on is the cost to income. If you see, we are still we are in 36% to 38%. Another aspect is that our MSME is scaling up, it is also contributing to the overall opex. But if you look at standalone opex at MFI level, we are very, very competitive.
- Moderator:** The next question is from the line of Nidhesh from Investec.
- Nidhesh:** Sir, first, can you share Par 30 data for Micro Finance, ex of Punjab and on Punjab? And Par 30 on MSME book?
- Devesh Sachdev:** We provide Par 60 data, Nidhesh, which we can provide.
- Nidhesh:** Sure, sir. Par 60 also will be useful.
- Devesh Sachdev:** Yes. It is 3.10%.
- Nidhesh:** 3.10% for which book? So I would think it's ex of Punjab, Punjab and MSME book? All three.
- Devesh Sachdev:** This is inclusive of Punjab. Ex Punjab, we will share you later. This includes Punjab. Its on overall book.
- Nidhesh:** And MSME book also, if you can share, Par 60?

- Devesh Sachdev:** Yes. So we will share the data separately.
- Nidhesh:** Sure. And second.
- Devesh Sachdev:** So Nidhesh, we'll talk about it in more detail when we meet for May 17.
- Nidhesh:** Sure, sure. And secondly, if you can also share the reason why we are changing our name or proposing to change our name from Fusion Micro Finance to Fusion Finance Limited?
- Devesh Sachdev:** Yes. Yes. As we are diversifying our overall book by building MSME vertical, what we could see is that this was creating a confusion because if we open a MSME branch it still says Micro Finance. so that is one. And then even when we are looking at more products going forward, we thought that it is better that we show that commitment by changing our name, and we had put a similar explanation to the regulator and they approved this change, and we've also got this name approved from ROC.
- Micro Finance will remain our core, and we are completely committed on that. But around that, whatever elbow we have available of 25%, we would like to utilize that to do more products as we are already now building MSME. So that's the thought process.
- Moderator:** The last question is from the line of Viral Shah from IIFL Securities.
- Viral Shah:** So basically, with regards to the Punjab portfolio, right? First of all, you mentioned that the collection efficiency over there is 75%. Is this on a quarterly basis? Or is this for the month of March '24?
- Devesh Sachdev:** this is for quarterly.
- Viral Shah:** So then in that case, because in Jan, you mentioned that the collection efficiency in Punjab was around 78%, 80%. And for the full quarter, if this is at 75%, does it mean that the collection efficiency in March on an exit basis was lower than 75%?
- Devesh Sachdev:** No, no. It is that level only. if we had seen any change in the trend, we would have definitely called out. If we are not calling out, it is basically because of the fact that the collection efficiency has remained similar.
- Viral Shah:** So then can you help me with the monthly collection efficiencies in Punjab for Jan, Feb and March?
- Devesh Sachdev:** Sorry?
- Viral Shah:** The monthly collection efficiencies for Jan, Feb and March in Punjab?
- Devesh Sachdev:** See, more or less, right now, we don't have, but it is more or less in a similar range. So, we found that it came down to around 78% in January, when we last did the call. But after that, it is hovering on that level only, 75%.

- Viral Shah:** Fair enough. And the second question is basically on the ex of Punjab portfolio, so we saw that quarter-on-quarter, the collection efficiency declined 10 basis points. What is driving that? Or is it just a seasonal thing which is there?
- Tarun Mehndiratta:** Yes. So you're right, we mentioned that. So this is about 10 basis points only, right, that you brought it out. Gaurav has already said that, there are no any special events or something like that. It is just about a few fraction basis points and in any particular state this is largely in the same range. So, 10 basis points of drop in on such a large portfolio across 4 million customers really, it's something that we really bake in terms of saying that it's in the same range.
- Viral Shah:** Fair enough. And the last question is basically, 2 quarters back, you had called out some stress in the Gujarat and the Rajasthan states also on a relative basis, of course, nothing on the scale of what it is in Punjab. But I see that in last 2 quarters, we have added branches in both of these states. So what is giving us that confidence?
- Tarun Mehndiratta:** Yes. So, I think this is a question which was raised earlier also on growth outside of top 5 states. And we mentioned very clearly that there are promising states, and we continue to build our network there, have that conviction. So, we have added branches because we think that there is potential. And we continue to monitor our portfolios and we've seen improvements in terms of both Gujarat and Rajasthan, be it in terms of levels of collection efficiency or customer risk accretion.
- So, we have not seen any reason why we think that we need not expand there. And we are expanding in a very calibrated manner. So, you would have seen that in our expansion of branches in Gujarat and Rajasthan. So, I can tell you, for the entire year, we would have added close to about just give me one second about 9, yes, about 17-odd branches, right? So it's not really too significant a number of the total number that added, if I added 181. So it's about 10% and kind of similarly in Rajasthan. So, we continue to maintain our network optimization there.
- Viral Shah:** Fair enough. And the last question is with regards to the lending rates. So, we have seen that a lot of the peers now coming and saying that they are going to take a rate cut. Where are we on that? And what is our stance?
- Devesh Sachdev:** – If you remember, because of this aspect only, I've covered this point on the regulatory landscape, in my commentary. I've mentioned that since the implementation of liberalized pricing guidelines, we have been very calibrated. We are one of the lowest cost to our borrowers. And we have a well-established, risk-based pricing framework in line with RBI guidelines. And our pricing disclosures are very, very transparent. There is no plan in the immediate future to reduce the rates.
- Moderator:** That was the last question for the day. I now hand the conference over to Mr. Sameer Bhise from JM Financial. Please go ahead, sir.
- Sameer Bhise:** Thank you, everyone, for joining this call. We would like to thank the management of Fusion Micro Finance for giving us this opportunity to host the call.

Devesh Sachdev:

Yes. So, if you would allow me one minute. I think one important aspect here is that we have grown. We have ticked all the boxes since our IPO. Our ROAs and ROEs are more than what we guided for, in spite of slight elevated cost. And you can see that we have made the highest profit this quarter. I think I will, again, like to drive this point that please look at us from a long-term perspective. We are very focused on making a very wonderful franchise. Thank you.

Moderator:

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