Letter No. FFL/SEC/2024-25/SE-118 **Date: 21.11.2024**

The Manager Listing Department National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block Bandra Kurla Complex, Bandra (E), Mumbai - 400 051	The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400 001
Scrip Code: FUSION	Scrip Code: 543652

Sub: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Q2&H1 FY24-25 Earnings Conference Call.

Dear Sir/Ma'am,

In continuation to our Letter No. FFL/SEC/2024-25/SE-116 dated November 16, 2024 regarding Audio Recording of Q2&H1 FY24-25 Earnings Conference Call on the Un-Audited Financial Results of the Company for the Quarter and Half year ended September 30, 2024, we hereby inform that the transcript of the aforesaid call is available on the Company's website at www.fusionfin.com . This can be also accessed via the following link:

Link: https://fusionfin.com/wp-content/uploads/2024/11/Transcript-of-Q2H1-FY24-25-Earnings-Conference-Call-16.11.2024.pdf

The aforesaid Call commenced at 1:00 PM (IST) and concluded at 2:00 PM (IST) on November 16, 2024.

Request you to take the same on records.

Thanking you,
Sincerely,

For **Fusion Finance Limited**
(Formerly Fusion Micro Finance Limited)

DEEPAK MADAAN
Digitally signed by DEEPAK MADAAN
Date: 2024.11.21 17:31:38 +05'30'

Deepak Madaan
Company Secretary & Chief Compliance Officer
Membership No. A24811
Place: Gurugram

"Fusion Finance Limited Q2 FY-25 Earnings Conference Call"

November 16, 2024

MANAGEMENT:	**MR. DEVESH SACHDEV – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - FUSION FINANCE LIMITED.** **MR. GAURAV MAHESHWARI - CHIEF FINANCIAL OFFICER - FUSION FINANCE LIMITED.** **MR. TARUN MEHNDIRATTA - HEAD CUSTOMER LOYALTY PROGRAM & NEW INITIATIVE - FUSION FINANCE LIMITED.** **MR. SUNIL MUNDRA – COO, MFI BUSINESS - FUSION FINANCE LIMITED.** **MR. DEEPAK MADAAN - COMPANY SECRETARY AND CHIEF COMPLIANCE OFFICER - FUSION FINANCE LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to Fusion Finance Limited Q2 FY25 Earnings Conference Call.

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 "*" then "0" on your touchstone phone. Please note that this conference is being recorded.

From the management today we have Mr. Devesh Sachdev MD and CEO; Mr. Gaurav Maheshwari, CFO; Mr. Sunil Mundra, COO of the MFI Business; Mr. Tarun Mehndiratta, Head Customer Loyalty Program & New Initiative; and Mr. Deepak Madaan, Company Secretary and Chief Compliance Officer.

We will have opening comments from the management team post which we will open the call for Q&A. With that, I will hand over the call to Mr. Devesh Sachdev. Thank you, and over to you sir.

Devesh Sachdev: Good afternoon everyone, and thank you for joining Fusion's Q2 Financial Year 24-25 Results Conference Call. I am here along with my colleague Sunil, who has recently joined as Chief Operating Officer for our MFI vertical, Tarun, who is now handling Customer Loyalty Program and New Initiatives. Gaurav, the CFO and Deepak Madaan, who is Chief Compliance Officer and IR. I hope you got a chance to go through our investor presentation for Q2 FY25.

As we all know, the microfinance industry has been facing headwinds since past few months. In our last earnings call, we were one of the few MFIs which had highlighted the increasing stress in the sector. The headwinds in MFI were not evenly spread across the country, and there were few states that experienced elevated levels of stress on asset quality. A large part of the differential impact for the various micro finance lenders can also be attributable to their exposure to those geographies. As part of our early recognition of portfolio stress and to ensure that we have adequate coverage, we had made an upfront provisioning in June quarter. We had also shared an early estimate of expected provisioning of between 500 to 550 crore for Q2 FY25 in mid-September, which was subject to limited review by auditors.

I would like to mention that post the review of our auditors, our actual credit cost for Q2 FY25 has been determined at Rs.693 crore. The elevated provisioning has been due to us proactively taking accelerated provisions due to observed rapid deterioration in the on-ground collections. Looking at our portfolio performance and challenges faced by the sector, our auditor wants to bring to the attention that there are covenant breaches that will require waivers. We are in discussion with our lenders and rating agencies. We have received all the waivers in Q1 and remain confident that similar waivers will be granted further too. Importantly, we believe that these breaches are temporary in nature and we have already planned additional remedial measures, including the rights issue of up to INR 550 crore, on which we have been working on the last month or so. Now that our Q2 numbers are out, we have fast tracked the process and hope to file it within this quarter.

Would like to highlight that our balance sheet remains strong, with a capital adequacy of 24.4% as of September '24 with a robust liquidity position of INR 1700 crore plus as of Q2 FY25.

Now, I would like to talk about the measures which we have undertaken to ease the stress and bring the business back on track. Firstly, I would like to talk about the steps on improving the collections. As highlighted in the last call we now have a senior resource as collection head. We have strengthened our collections team as well, and now we have a robust team of 550+, dedicatedly focused on 60+ DPD bucket. We have strengthened our tele-calling infrastructure to reinforce outreach to our customers for better recoveries. We have also appointed third party agencies in the few of the geographies to recover dues from 90+ DPD customers. Additionally, we have rejigged the incentive structures across business team to increase focus on collections.

Second, we have tightened our credit criteria. As a result, our new customer onboarding criteria is now tighter than the MFIN guardrails for new clients. This has calibrated our overall disbursements which have dropped to Rs.1661 crore from Rs 2987 crore in Q1. This has also led to a rise in our rejection rates, while ensuring that we are building a quality portfolio. Here, I would like to highlight that while at the sectoral level, the uncertainty still persists regarding the duration of this situation and customer behavior evolution as core issues gradually normalize. We are observing some early positive signs, though these remain in an nascent stage.

Sectoral measures are showing results and over-debtness is beginning to decline. The rural agriculture economy is expected to improve due to favorable monsoons, which is likely to enhance income levels. Specific to Fusion, as we continue to progressively align with the changing external environment, we are observing the following trends. Early preemptive actions taken in the previous quarter, followed by a sector-wide guardrails issued by MFIN have moderated the composition of portfolio, vis-a-vis customers having equal to or more than four lenders with a corresponding impact on over-debtness levels. We have mentioned this in slide number #9.

Collection performance seems to be stabilizing, and we continue to monitor the same closely. Further, in addition to the measures that I spoke about, we have also taken more steps to address the current challenges and support the healthy growth of the business. To tackle the issue of low center meeting attendance, we have already reduced our customer handling per relationship officer to 380 customers per relationship officer, so that we can improve our customer outreach on ground with strong focus on customers with irregular attendance. Further, we have been working on our customer loyalty program while it is in an early phase. We have received encouraging response from our customers, and we have seen improvement in their attendance wherever this program has been launched.

In addition to this, we also have a separate tele-calling infrastructure for customers up to 60 DPD which is helping us to increase touch points with our customers and enhance engagement. The moderation in client handling per field officer will also help in reducing workload and attrition at the ground level. Apart from this, we have also stepped up our efforts in training our field staff so that they are well equipped in a dynamic environment. We also taking several other steps to motivate and incentivize the field staff. We have continued to strengthen the executive leadership team of the company, and as previously mentioned have initiated a search to appoint a new CEO, which is also on track. Additionally, we are also initiating a project to further review and enhance our internal policies and processes with respect to disbursements, over and above the changes we have already made. From a medium term perspective, our focus remains on enhancing our IT capabilities to improve our operational efficiencies, field personal management and risk controls. We see this as critical going forward given our extensive geographical presence.

Our other key focus areas would be our MSME vertical, as we ramp up our efforts to expand it's share in our overall business. Our MSME AUM has grown to Rs.620 crore, with almost 78% of portfolio being secured. We have implemented new loan origination and customer management tech platform, which has been built in-house, once fully rolled out, it will bring in better operational efficiency and scalability. Our MSME portfolio quality continues to be healthy. At the overall company level, I would like to reiterate that we continue to remain adequately capitalized, which will be further strengthened post the completion of the rights issue. As mentioned earlier, we continue to maintain healthy liquidity in excess of 1700 crores. I would like to assure you, that our strong focus is on improving collection efficiency and thereby our overall portfolio quality. As seen in the past, second half of the financial year should see better rural activity. We are hopeful this will aid in our recovery process. We remain watchful and continue to evaluate the situation on quarter-on-quarter basis while taking measured approach. Thank you very much. With this, I hand over the call to my colleague, Gaurav.

Gaurav Maheshwari: Thank you, Devesh. Good afternoon, everyone. Firstly, I would like to talk about our liability side, including fundraising, capital position and liquidity. In Q2 FY25 we have raised 1513 crores, including direct assignment of 435 crores, and till H1 we are able to raise INR 4060 crores, including direct assignment of 915 crores. In the month of September, we drew the remaining tranche of $5 million from DFC, which is US International Development Finance Corporation. As on September 30th, our liquidity stands at 1800 crores approx. and we have sanctions in hand of approximately 1500 crores. Refer slide number #26 for stable liquidity position from October to March 25.

We are maintaining a healthy capital adequacy of 24.39% as on 30th September. And as mentioned by Devesh, we are in a process to raise capital under the rights issue. Our marginal cost of fund has further reduced by 4 bps on quarter-on -quarter basis, and 53 bps on year-on-year basis. Average cost of fund has decreased by 50 bps on year-on-year basis and by 4 bps on quarter-on-quarter basis. The NIM of the company has reduced by 15 bps to 11.48% from Q1 and increased by 37 bps on year-on-year basis. QoQ drop is largely due to the higher write off taken in this quarter. The interest income of the company grew by 0.77% on a quarter-on-quarter basis and 26.02% on year-on-year basis. The total income has reduced by 0.42% on a quarter-on-quarter basis and increased by 23.19% on a year-on-year basis.

Cost to income ratio stands at 40.41% which as Devesh has mentioned that we have rationalized the manpower on the field level, where RO productivity has been reduced to a particular level. And apart from that, we have revamped the incentive structure for the collection team and the regular field staff. The operating cost has increased by 21 bps on a quarter-on-quarter basis. As mentioned earlier for cost-to-income ratio, the major reason is the incentive structure and the rationalization of the manpower at a field level.

Operating cost for MFI business is 6.18% and MSME business contributes 0.30% for Q2 FY25. As on September 30th, 2024 the pre-provision operating profit is INR 284 crores increased by 17.39% on a year-on-year basis and decreased by 4.67% on a quarter-on-quarter basis. The ECL, as on September stands at 1140 crores, which includes 59.50 crores of management overlay. We have done total write off in H1 of Rs 254.84 crores. And in Q2 we have done write off of INR 196.44 crores. The de-recognition of interest pertaining to this write off is 34.41 crores in Q2. The gross NPA stands at 9.41% and net NPA stands at 2.41%. In this quarter as I mentioned earlier, we have done direct assignment of 435 crores. The DA outstanding as of September 30, 2024 is approximately 11.70% of the total book, and we will continue to do so as per the market condition. Thanks and now we can open the floor for the question-and-answer.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just two questions, first things first, in the opening remarks you highlighted the external challenges which are there, if you could also just highlight what are the deficiencies that you have identified internally, because I am sure you will also acknowledge our performance, our asset quality, our credit cost, are much higher than what you have seen in the rest of the industry. So what are the deficiencies that you have identified, maybe in your processes, controls, supervisory levels, that is the first question. The second one is, what is the basis on which your auditor has put out the note on the going concern premise, so he went through the note where you have spoken about almost 5000 crores of liabilities which are repayable on demand given the breaches in covenants. So if you could just throw some more light on that, just trying to understand, what is the probability that maybe Fusion might default to its liabilities going ahead, particularly what is the support that our two promoters have shown in this regard. And lastly, which are those five banks where only on your liability side, which have the highest exposure to Fusion today?

Management: Yes, so thank you. I will first like to take your question on whether we have identified any deficiency or process and everything. My answer to this is, when you look back you can always say that you could have done more. But, I don't think anywhere we have found any such deficiency. We as an evolving organization always look at our processes for where we want to strengthen. That is what we have been doing, if you look at the fact that the sector itself is going through a challenge. We have been putting out the leverage of the customer in all our past conference calls, and this has an accentuated by the customer, overall center meeting, discipline, door-to-door collection, some pain at the ground. So what we have noticed is that, overall the profile of the customer, the credit profile of the customer, has weakened because of this over leverage. That is what is our observation, and that is the reason that even at a sector level if you see, everyone has come together for this four lender guardrail though, Fusion we have always been ahead. Even we had that guardrail since 2022 and we have now kept it more stringent. And then overall, some of the aspects of the sector are changing and we are aligning with that. Like, we mentioned even in the last call that now you need to have a separate collection team that we have put in place, because of the model, simply the guy who was doing the sourcing was also doing the collection, but now because the customer profile and the difficulties are in the field, due to customer, the boy has to go door-to-door, and then there are in some pockets, there are outside influences on because of the pain, people who have illegal agencies who are trying to influence customer not to pay. And you have also seen there are various disruptions which may have accelerated this situation because there were floods. We had highlighted the floods last year in Punjab in Northern India, Rajasthan, MP, we have also highlighted the pain in Punjab because of the factors which are outside the control of the sector, which is the Karj Mukti Abhiyan. Similarly, in Q1 we have seen heat waves and all that. So, the point where I am trying to drive away is that there were some of these factors which also have played a role in impacting the customers, actually impacting their livelihood, and the customers are not able to pay on time. We have seen in the past, if you go back, look at the sector, how resilient it was during the demon, all the events which happened after demon and COVID. What we have seen is that there are certain customer who are taking some time. There are some delays, we are seeing even in the higher bucket some customers are trying to make a payment. Once the overall leverage of the sector is going down, which we have referred in Slide #9, which is clearly visible even in our portfolio, and overall economic activity at the ground will go up. And I am sure that this customer will come back as the way this customer has come back in the past in various events. So this is my response on your first point, the second point you mentioned about that, about this covenant breach**,** because we have done an oversized, overall provisioning in this quarter, and some due to acceleration of provisions. Our auditor thought it prudent to bring to the attention that there are covenant breaches that will require waivers. You asked about our confidence. In the past we have received all the waivers till Q1 for the covenant breaches, even in Q1. We have got all the waivers as I mentioned in my commentary, we are in discussion with the lenders and rating agencies. We remain confident that similar waivers will be granted further too, and these breaches are temporary in nature. We have already planned our rights issue; I can confirm again that our promoters are completely behind this 550 crore rights issue. We have been working on it for the last month or so, now because we were waiting for our Q2 results to be out so that we can do the filing. The filing process has been fast tracked, and you will see that we are confident that within this quarter we will be able to file this and as far as our liquidity is concerned, we have a strong balance sheet capital adequacy of 24.4% and we have a robust liquidity of upwards of INR 1700 crore, which gives us confidence that we will be able to continue to remain sustainable going forward. Regarding your other query, Gaurav can you answer on some specific point on the number of lenders, top lenders.

Gaurav Maheshwari: So the top five lenders are HSBC, Axis Bank, Yes Bank, ICICI, SIDBI.

Abhijit Tibrewal: Got it. And roughly, the top two, three will be in excess of 200, 300 crores?

Gaurav Maheshwari: So, they are having an exposure of more than 500 crores per bank. And having said that, we are already in discussion with the bankers. So as of today, we are in active discussion to have the waiver to be happening and as mentioned by Devesh in Q1 we got breach from 12 lenders. All the 12 lenders have given the waivers for Q1 and largely, they have given waivers for the entire financial year. And some of the bankers have given for Q1 and Q2 also.

Abhijit Tibrewal: Got it, Gaurav sir. And sir just one follow up on that, what are the covenant breaches that have happened, is it more in the nature of the level of GNPA, NNPA where we are at, or is it more in the nature of the kind of credit cost that we have reported in the quarter and one follow up for the Devesh sir. Sir in the opening remarks, you also spoke about that there are few states which have experienced elevated levels of stress, and whatever we have seen in this quarter can also be attributable to the respective lender exposure to those geography. So if you could give some nuances around those particular states which are a problem area today?

Gaurav Maheshwari: So as far as the covenant breaches are concerned, it is largely what you have said, Abhijit one is gross NPA, second is net NPA, and third is a rating downgrade which has happened by CARE, which was in the month of September. As we have already communicated about the rating downgrade to all the lenders, and it has been near about more than 30 days to all the lenders where the rating downgrade has been communicated. Everybody has confirmed that they are not doing something, and they are active in discussion with us.

Abhijit Tibrewal: Perfect, thanks.

Tarun Mehndiratta: Also your first question on the states, like we had mentioned last time as well. So we had seen pain in our states of Jharkhand, Odisha, Rajasthan, Gujarat. And we had mentioned also that there were a mix of reasons, obviously like Devesh had mentioned in his opening remarks about unnatural and unforeseen climatic conditions, added to the pain. But having said that, other than those reasons, we have also now seen some of these parts of these states showing resilience like we have always witnessed. So we see some, some bit of pain easing in parts of East Odisha, we see some bit of pain, we have seen actually in Punjab and Haryana, as I remember last year as well because of issues there. And then parts of some Southern Tamil Nadu, and then especially some parts of in and around Bhopal. So these have been some of the encouraging geographies which have shown resilience. So, while they are part of the larger state, but we have seen them showing resilience to come back to normalcy.

Moderator: Thank you. We will take the next question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Sir my first question is on the lender data that you have shared fusion plus four or more lenders was, is that 10% now it was at 17% in March 24 so if you can help us understand the 7% borrowers that have moved out of this bucket, how many were written off, or did they close their loans with the other lender, do we have some color around that and I guess that the PAR data you shared that about 70% of these 9.7% customers are paying regularly. So is there still due in your assessment, do you think there is still some risk of this 9.7% slipping further more any color around this would be very helpful. My second question is on the loan officer attrition. So, what I understand is, if you can help me understand how much part of these loan officers salary is variable. So for example, if majority of the salary ends up being variable in times of stress, they may find leaving the job easier. So are we having any discussions around that on what kind of salary structure do we want to keep, do we want to keep majority in variable form, or majority in fixed form. And my last question is, you spoke about these unauthorized, illegal agencies. So just wanted to understand, because I thought this Karj Mukti Abhiyan was done and dusted in Punjab and the Northern area, so this shouldn't have been impacting us in this quarter at least. And if it is happening, which states are these unauthorized individual agencies operating in?

Management: Shreya I will go one by one. The first question was the number of over leveraged number of customers which have come down. So, look I do not have the very specific number, but I can tell you the broadly, it is factors like there were customers in our book which were at the fag-end, which have closed their loan, and we have not renewed their relations. This could be the customers who are fag end with others, and they have not renewed, because guardrails are in place. They could have closed their loan, and then some customers have also been written off, that could also affect us, so it's a very good sign that it shows that, from people even at the industry level there is an attempt to make sure that the guardrails are followed by everyone, and the customer who is defaulting, customer has more lending relationships, is not given further money. So in my view, any such kind of situation creates some temporary, scarcity at the customer level, because the supply is low, but for the long term sustainability of the sector we are all aligned towards better customer acquisition, follow some of the common norms at the industry level, also persuade customer, engage with the customers to come on the center. And some of these steps will really help in making sure that, the industry becomes more resilient. And then there are certain issues which still remain which is, there is some pain, income level pain at the ground. Once the customer's leverage will come down, it will be easy for them to repay their loans. We have gone further tighter in terms of even old indebtedness. What we have done is that, though at the sector level the indebtedness limit, has been fixed by the SRO at 2 lakh. We have gone state-by-state, we have looked at certain states which have given more pain. We have even gone further and say, okay we will be only 1.5 lakh. Then we are doing some more granular work in terms of understanding the villages. So, all those steps should help in the long run, there will be some temporary pain which will remain.

Your next point was about the incentive. So, Shreya you are absolutely right as a company, we have never, ever had the situation where the large proportion of the money which the field officer gets is variable. I totally agree with you, we have seen in our case the incentive out of the total salary is around 25%, 30% only. It has never gone beyond that. Just to give example, if RO gets around 15,000, so around 4000, 3500 to 4000 has been our average incentive over the years. But, also in terms in situations like this, just to compare I will take you back to COVID and situations, events post demonization, we always have ensured a certain lower cap so that these people remain incentivized and we encourage people by making sure that at least some base level incentive goes to them. But we never do the situation where the proportion of the incentive is too high in overall component of the salary structure for the field officer. So, that is my point on incentive structure.

Third thing, what we have mentioned, that the situation which we see is accentuated. I am not talking about this quarter, what I was talking about that if you look at the events in the last one year, starting from what happened in Punjab and then in some areas, that is what I was saying that, there are illegal outside agencies which have tried to influence customer, and especially during the stress crisis, any stressed customer has this inclination to really bank on some of these people, to really not to pay. We, at a MFIN level, are very closely working with some of the states to make sure that wherever something like this which happens, it is taken care of, however the point I am trying to drive is that, yes there are some small events here and there, which keep on happening like we have seen even in Eastern UP some of these events. So they keep on happening, we try to at a sectoral level, we all come together. We work with our local administration, we work with the state government. However, once the situation from the outside influence situation is curtailed, the customers take some time. You need to do a lot of visits to them, persuasion, moral persuasion, engagement, to bring the customers back. That is the point I am trying to drive here, that it takes some time for the customers to really realize that, there is no waiver, they will not get money, once they need the money then they really come back and they start paying. And that is the reason you will see, we have seen in our situation also, even the customer we have written off, we always have around 6%-7% collection happening even from that pool, because customers comes back and realize, so that's the point. I hope I have comprehensively covered your three points.

Moderator: Thank you. We will take the next question from the line of Bhavik Dave from Nippon. Please go ahead.

Bhavik Dave: Few questions sir, one on a little bit on the past. One is when we look at our data and when we analyze the customers that we have written off over the last H1 FY25, where is the pain coming from in the sense, is it like the three plus customers who had three plus loans over and above Fusion is where the pain is, or is it customers with higher indebtedness is where the pain is, or is it where external environment has gotten difficult and things have gone bad. So if you can, if you had 100 customers that you have written off, if you could just explain us where is the pain coming from in terms of cohorts, that will be question one. Question two is, when we look at the customers that have gone down, 1,30,000, 1,20,000 odd customer that we have maybe written off, and the customer the count has come off, what exactly is the reason there, in a sense again, any, any customers where we saw documentation not being done properly from our end because what we understand is, there have been lot of lapses across players in terms of KYC, and if you could just talk about out of a 38 odd lakh customers that we have, how many have we underwritten on Aadhaar versus any other document like a voter ID or any other document, to onboard the customer. So if you could just talk a little bit on this, just to understand how the past has been?

Devesh Sachdev: So one, Bhavik let me tell you with full confidence that all the customers are KYC-compliant. We onboard the customers with the KYC, we look at the credit bureau. So as far as that angle is concerned, I don't think there is any lapse which we have found, we remain very committed to very tightly follow the processes. However, to your second question, your point on the color of this thing. So, if you see in our slide number #9, we have even mentioned that and if you look at our PAR 0, composition of PAR 0, and especially with the customers where relationship is with Fusion plus three and more than Fusion plus four, you look at the PAR 0 composition is higher. So what we have absolutely seen that when the relationship goes beyond a certain threshold, it impacts the performance. So, Bhavik, as I mentioned earlier also that when the overall client indebtedness goes beyond 1,50,000 and depending on geography especially geographies which are in pain like Chhattisgarh, Rajasthan, Gujarat, MP, Odisha and Jharkhand and customer relationship with the number of lenders goes beyond four. That's where we have seen, the cohort clearly shows that the pain is more. Just to give you one more data point that in terms of how we are tightening it now - we also looked at the fact that if the customer goes to a 30+ DPD more than twice in last 12 months, the tendency to default is more. We have also now, we are even going this detail to make sure in our new credit policy, we have brought this point, that we will not onboard a customer if it has gone more than 30+, so that is on this thing, but broadly Bhavik, if you see it is also accentuated by the over-lending, the door-to-door collections. We have seen in many cases where the customer intent is there, but because of the whole model, where it was dependent on all the customers coming on a center meeting has been impacted. Earlier the center meeting would complete in around 15, 20, 25 minutes. Now, center meetings are happening longer and in around 45-50 mins.- In 50% of the cases, the boy has to go door-to-door, now the customer knows that if they don't pay today, they can always promise to pay. So that discipline has got disrupted. So, it is very difficult. We are not saying no, there's been some lapses in terms of onboarding. There has been some, if there is some credit exuberance, which has happened. And then we have also been publishing that data is the retail overlap, this is one more animal we have seen where whether its Fintech, whether it is their customers taking loans from two wheeler, the customers who are taking loans from other sources, that also has increased the over-leverage of the customer. So, over leverage in my view, is the basic point and then, because of these issues of door-to-door, somewhere attrition as for the boy, the conditions have become tough. He has to go and haggle with the customer, engage with the customer, door-to-door. And then he is not able to, now since everyone has tightened onboarding, he is not able to source those many customers. We have even lowered, to earlier question which Shreya, asked about incentive. We have even lowered the number of customer, new customer, he is going to source every month. We have even gone ahead saying okay, this is a certain number you cannot even source because we believe that if you do more customer, that means there is some kind of quality issue. Then the new third eye we are trying to bring, many branches we have put a third eye where we have the third layer. In one of the slides, we have mentioned that we are bringing in the quality OPs guy and we already have given offer to around 60 people in the first phase, we will bring it around in 200 branches. The idea is that, look at some of these things. So, it's a more broader this thing, but whatever learnings we have seen, we are trying to implement those.

Bhavik Dave: And sir, second question is on future, and when I look at like you mentioned, if we take that point of over leveraging, where almost 28%- 29% of the customers have three plus and four plus loans, and even when we look at the cut on ticket, the average indebtedness of the customer is around 27% odd over a lac, so around 30% of the customers are under stress. And out of which almost 15% is PAR 0. Going ahead, what kind of credit cost, or how much is more to come in terms of pain, will 50% of this 15% go off in the second half, or will it be 70%, 80% how are we looking at it, because we have already utilized the kind of provisions that we spoke about in this quarter itself. How bad is going to be the second half, considering things have not materially improved, they are improving like if I look at your number from March 24 to now, 5% of the customers have gone lower in terms of the +100,000 indebtedness, but the write off that you see is almost 10% odd. So from a second half perspective, how are you thinking about business out of this 15% odd of PAR 0, how much can like really come as a write off or a credit cost, if you could guide us something on that would be really helpful. Thank you.

Management: Yes. So my two, three comments here, one just to say that any customer who has more relationships, all those customers will behave badly that's not the right assumption, because I can give you one more data point. We have looked at our customers in the top five states, and what we saw that 85% customers are still current. They are either current or up to 30, but they are still, in the last six months, they have not gone beyond 30. So, there is some pain they are going through. So they are still there is an effort. So which is a one data point I can share with you. Your second point is on, in my view in our assessment in terms of provisioning in this quarter, and there's a peak we have hit. From here on, we should see improvement in our performance based on the steps we are taking. Having said that, things still remain dynamic and we remain watchful. Therefore, I will reserve myself from providing any guidance for H2 Bhavik, I can only give you as we mentioned that we are seeing some green shoots. The book after the tightening of the credit norms further is performing better, though given it’s months on board, it is not the right metrics. But when we talk next time after Q3 that will be a better time. But we have seen the early signs that, that book is behaving better than what the similar book was behaving in the last two quarters. And then as we have put up the collection team, we have seen that there are amounts which are being picked up, though the overall quantum in those buckets are still high. But that numbers are progressively in the last three months have improved. Our overall collection efficiency, which we have mentioned in our PPT, is holding up. So, I can tell you that even till now, in October the numbers are more or less similar. So it's not that it is going down. So that gives us some kind of confidence that look once this could be over, hopefully, if there is no other intervention and how things are coming and all this everyone is, has tightened the norms. Overall, you see at the sectoral level, the disbursements are down. Customer will realize that, they need to keep their records clean. They will need money, right now the activity will go up once this pain is goes down. So, that is what we would like to say on your point.

Bhavik Dave: And, sir it will be helpful if you could just, maybe post this call give us a 30 DPD, 60 DPD cut of this 14.9 and just talk a little, give us a flow chart of how it happened in first quarter and second quarter. Because what will happen is the 30 DPD roll forwards are not stopping, then eventually it will hurt us in terms of credit cost. When they have crossed 90, and we will have to provide 50% and 70% odd respectively as they move bucket. So if you could just give us that flow, that will be important because otherwise, even if we have a second half which is half as bad as the first half, I know things will really look bad in terms of the overall numbers, and because our challenge is liability because, if I heard Gaurav correctly, this quarter we have been only been able to get 1000 odd crores from lenders. Any, color on how the conversations are panning out with banks in terms of borrowings that we might have to raise, in terms of the liability side, if you could just talk a little bit about that, that will be helpful. Thank you.

Devesh Sachdev: So, I will let Gaurav add, but I will make two, three comments here. normally, we carry on our balance sheet cash of around 8% to 10%. Keeping this situation in mind, we were already carrying as we mentioned around 1700 to 1800 crore of cash. Our disbursements were down from earlier if you see, we had said its around 50% to 60% drop from what we did in Q1 so, we thought this is sufficient. I can make one more observation here that if the way the collection efficiencies are holding up, around 91, 92. Even at a 90% collection, we are able to comfortable service our debt and our OPEX. So, so that is my second comment. I will let Gaurav respond to add more.

Gaurav Maheshwari: Yes. So, as Devesh has mentioned, because we usually calibrate the incremental source of money as per our disbursement plan, but obviously after Q1 result, we have made a slight change in our overall liquidity position to carry. So that is what Devesh has mentioned that we are carrying approximately between INR 1700 to 1800 crores on balance sheet as cash. Now obviously we have come out with Q2 result, and obviously we know what the flavor of the sector is. So we are actively engaging with the lenders and we are getting a good response from that, that they are they are going to have some discussion with us on the on the covenant waiver, once the covenant waiver is there, then obviously we are going to have normalcy.

Devesh Sachdev: Also, Bhavik one more big confidence we are trying to give to all our stakeholders is this rights issue. This INR 550 crore rights issue is giving a good confidence to all our stakeholders and promoters are completely backing us up. In the past also we have similar some challenges we have faced, whether post demonetization or COVID, we have got full support from our lenders. And, we are hopeful that lenders will give us full support. We have a very healthy capital adequacy and once this INR 550 crore is in, it will further strengthen our capital adequacy, as from a cash flow perspective as I mentioned to you, we will be going back to our normal disbursement levels very soon. So disbursement levels will still be slightly subdued. So, we will keep you updated how our discussion is going on. We are very actively speaking to them, and we are very hopeful.

Gaurav Maheshwari: Again, adding to what Devesh has said that in Q1 also we had certain breaches in the covenant. We got all the waivers from all the lenders. As of today, from Q1 perspective, we are not in default of any of the breaches.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors. Please go ahead.

Pranav Gupta: Two questions and one clarification. If you talk about collection efficiency in the x bucket or in the zero DPD bucket, how is that trend moved you mentioned that, there have been certain green shoots but could you give out that number, that would be very helpful, that’s my first question.

Management: So, Pranav, I could not hear what did you say. So, can you repeat your question please, the voice is not clear.

Pranav Gupta: Just two questions and one clarification. So first question is, if you can talk about the collection efficiency in zero bucket or x bucket, that will give us an idea of how the flow forwards are moving. If you can give that out, that will be very helpful to understand how we can think about, the quarter going ahead, that's the first question.

Management: Okay, you can tell me both the questions, and then I can answer all.

Pranav Gupta: So the second question is, if we talk from an industry perspective and even if we look at our numbers, it seems that a large part of the over leverage has mainly come in the industry because of the relaxation of RBI norms from moving from our ticket size cap to a household income assessment gap, when we analyze the borrowers that we have today, is it fair to assume that a large part of those borrowers, as per our assessment would sit in the more than 2.5 lakh half lakh household income bucket. Is that a fair assessment to make. Those are the two questions.

Management: So, to your question on the collections efficiency in the current bucket. So at a pan India level, we have been maintaining almost 97% collection efficiency on that particular bucket. And this has been kind of consistent across the months. And just to give you a flavor, so that has been what the number that we have shown you is on all the buckets taken together that's the comprehensive number, but it's about 97% on the current bucket. To the second question, I would like Devesh answer that to you.

Devesh Sachdev: So, once this RBI deregulation, and especially the change of rules happened in March 2022, and this was definitely an ask from the industry as the overall household level caps of 2 lakhs and

1,60,000 I remember were low because overall income levels, inflation taken into account. And this was done with the fact that everyone will follow all these norms, but looking at it now, you are right there are other retail overlaps which has led to the over leverage of this customer. Looking at, when we look at our this thing, because we are rural MFI, and we see that mostly the customer income level, household level, income levels are hovering anywhere between 2 to 2.75, 2.8, so that's the broad income levels. However, you have to also appreciate that all this is it's very difficult to really ascertain, so there's no formal way. So all this is done in a very informal method, speaking to the customer on the face-to-face, and asking them questions around it. So, that we also have to have to keep in mind that there are no formal ways to understand even at a sector level we are discussing now to come out with some kind of template. How do you treat overlaps, which is like if there is no EMI but there is a loan of suppose the customer's husband has a credit card and there is no EMI which is mentioned so we will say, okay which is minimum due at least 5% has to be taken into account in calculation of the liability of the customer every month. If there's a gold loan.. So we have come out with even those formulas now at a sectoral level, and we are in the process of implementing. Only in case if there is no EMI mentioned, so it's an evolving thing. I agree with you as companies, we all have to really move towards a situation, where how do you assess the customer better, but keeping in mind that it still remains informal asset class, and there would always be ambiguity in terms of understanding the real income of the customer.

Pranav Gupta: Right, thank you. Sir just one clarification.

Management: You can actually reach out personally to my IR team for any clarification please.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. We will close the call now. On behalf of Fusion Finance Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.