Management Discussion

Hanishi Shah - Investor Relations, Adfactors PR, Fusion Finance Ltd.
Hi. Thank you so much. Good evening everyone and thank you for joining us on the Q1 FY '27 earnings conference call of Fusion Finance Ltd. We have the company's senior management team with us on this call. Before we begin, I would like to remind you that certain statements may in today's discussion may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q1 FY27 Investor Presentation which has been uploaded on the stock exchanges and the company website.

I now hand over the call to Mr. Sanjay Garyali, MD and CEO of Fusion Finance Limited to begin with the proceedings. Thank you. And over to you sir.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Good evening everyone and thank you for joining us on Fusion's Q1 FY27 earnings call. The last 18 months there's a significant change that's happened in the microfinance industry. The bottom segment which constituted of heavily leveraged customers or ones who did not have a steady income stream, moved out of the formal MFI sector. The customer who remains is in our view better place to service her obligations and navigate the external headwinds than she was at the start of the previous cycle. Fusion has used the same period to reshape its portfolio.

More selective on customer acquisition, more granular on where we grow and more technology led on how we manage the business. Q1 gives us increasing confidence this strategy is working. Business momentum strengthened. Disbursement grew 88% year on year to 1783 crores while AUM grew approximately 4% sequentially to 7702 crores. On the quality front, approximately 85% of the customers disbursed to in Q1 had just one other lender besides Fusion and 37% were new to Fusion. A figure that moved closer to 40% in June with a similar trend into July.

This is in line with what we have been saying about 40:60 ratio on new versus existing. Last quarter we described the methodology we use to categorize MFI branches by credit quality, operating performance and growth behavior. That framework is delivering the outcomes we expected, helping us decide with more precision where to grow, where to calibrate and where management attention is needed. The result shows in portfolio quality, collection efficiency remains above 99.75%. Risk and growth decisions are increasingly now embedded at the branch level, letting us intervene early when portfolio behavior shifts.

We are also evolving how we manage harder bucket collections. Until last quarter external agencies handled roughly 30% of the hard bucket recoveries. We have now moved that capability fully in house, combining AI with our own collections and branch teams. We thus run two models on hard bucket collections, 1 dedicated collections team engaging customers directly towards resolution and 2 AI handling initial identification and contact before the branch teams takeover. This transition hasn't cost us recovery performance.

In fact, we continue to deliver upwards of 35 crore quarterly from the 60 plus DPT book and 21 crores from this of this is from the written off portfolio. That gives us greater control over customer engagement, less dependence on external agencies and a more scalable recovery model. The same discipline is shaping in our network in FY27. Between now and Q3 we expect to open around 50 new MFI branches while rationalizing about 100 existing ones. The goal isn't just on branch count, it is the right branches in the right markets serving the right customers.

Turning to how we are extracting more value from a distribution franchise we have already built

starting with MSME, MSME collection efficiency remains above 99.3% giving us confidence to move into calibrated expansion. Disbursements moderated in April, typically a seasonally soft month for mortgages, but May and June returned to Q4's average monthly levels. We continue to deliver on our right to win with no deviations on cash flows. In early Q1 we had identified 200 existing MFI branches in attractive MSME catchments where we would want to source secured business.

The customer segments stay distinct, but we will leverage existing real estate for MSME sourcing. We are Starting with around 50 of these locations in this quarter and will expand progressively based on our performance. We are also entering Tamil Nadu for MSME for the first time using our existing MFI retail infrastructure but with a separate MSME team and independent underwriting and credit processes within MFI. Our PQM model is delivering encouraging value across roughly 250 branches. In parallel, we are also launching an individual loan product across these branches for a select, more engaged segment of MFI customers.

Lower on leverage, higher business vintage and an established repayment track record with Fusion. This isn't simply a larger ticket. MFI loan initial assessment originates with mfi, but credit evaluation has a close oversight from the MSME credit team. We will scale this gradually based on portfolio behavior with potential for individual loans to reach around 10% of MFI disbursements over time. Together, these initiatives let us extract more value from an existing distribution franchise while keeping customer segments and credit architecture clearly differentiated.

We have also identified specific MFI customer segments where we can increase share of wallet and we are developing differentiated products for them. Most of this would be either launched while we are talking or would be launched in the next fortnight. Technology is another area where the conversation at Fusion is changing. In Q1, our AI enabled platforms handled over 6 million customer interactions reaching more than 1.1 million customers. Inbound calls are now quality monitored using Gen AI, improving consistency while lowering calling costs.

This is translating into earlier risk identification, more consistent customer engagement and higher productivity. Our new LOS and LMS platforms should strengthen these outcomes further. I'm very happy to share with you that the initial pilot on migration has been very encouraging and has got thumbs up from the field teams. Now to the financial outcomes. GNPA improved from 3.21 to 2.51% and credit cost further declined to 40 crore in line with the 2% annualized expectation. The seventh consecutive quarter of reduction reported PAT for Q1 was 62 crore and ROA of nearly 3% of the again in line towards the 4% end of the year.

ROA that we plan to achieve on a like to like basis. PBT rose from 37 crore in Q4FY26 to 62 crore in Q1FY27 up approximately 67% sequentially our third straight quarter of improving core profitability. There's an important shift underway within these earnings. The first phase of our earning recovery was driven largely by normalizing credit costs. The next phase should increasingly be driven by average AUM growth and operating leverage. We remain focused on reaching the 10,000 crore of AUM by the year.

FY27 calibrated around portfolio quality and broader operating environment. FY27 FY26 was about rebuilding fusion. FY27 is about showing what the rebuilt fusion can deliver. Q1 is an encouraging start. Our focus now is consistent execution through rest of the year. With that I will hand over to our CFO Mr. Krishan Gopal for the financial performance in greater detail.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Thank you Sanjay and good evening everyone. I am pleased to present our Quarter one financial

performance this quarter reflects strengthening across profitability, margins, asset quality and capital with disciplined and well capitalized growth. The improvement in our book is clearly evident in our strong asset quality matrices. Asset quality continues to improve during the quarter. Our gross NPAs stood at 2.51% as of 6-30-26 compared with 3.21% in the previous quarter while net NPA stood at 0.47%.

This improvement was driven by strong collection efficiency, healthy recoveries and seasoning of a higher quality portfolio. Credit cost declined from 56 crore in Q4.26 to 40 crore in Q1 of FY27 marking our seventh consecutive quarter of credit cost reduction. The company has also significantly strengthened its balance sheet over the last few quarters. Our focus has been on three key priorities maintaining a strong liquidity buffer, reducing the cost of funds and diversifying our funding franchise.

These initiatives are now clearly visible into our funding matrices, ALM position and margin profile, creating a stronger platform for sustainable growth. As of June 30th 26th, we maintain 1880 crore of liquidity. In addition to our own balance sheet liquidity, we have approximately 2300 crore of undrawn sanction facilities available for utilization. Further, we have a strong funding pipeline of approximately 2000 crore. Together these provide us with significant liquidity cushion and hence our funding flexibility and position us well to meet our obligations.

Our capital adequacy ratio stood at 36.95% comfortably above the regulatory requirement. This strong capital position provides us with the sufficient headroom to support our future growth while maintaining a prudent capital structure. I am pleased to report that there is no financial covenant breach as on this quarter end. Our marginal cost of borrowing reduced from 12.6% in Q1 of FY26 to 10.1% in Q1 of FY27 representing an improvement of approximately 250bps points year on year on a sequential basis as well.

Marginal cost reduced by 20bps from 10.3 in Q4FY26 to 10.1 in Q1FY27 while with the reported average cost of borrowing stood at 10.6%. The underlying cost trajectory is more encouraging after adjusting the 4 crore MTM impact or to avoid that 4 crore impact. Our normalized average borrowing cost was approximately 10.3% in Q1FY27 which is current quarter compared to 10.4 in Q4FY26 which is just the previous quarter. This MTM impact is expected to be not there next quarter onwards. Our external credit rating remains strong with a stable from Crystal, a stable from CARE and a stable from icra.

While our PTC program carries ratings of up to aa, so our funding franchise is also well diversified across private public sector banks, foreign banks, NBFCs, DFIs and foreign portfolio investors and across multiple instruments including term loans, PTCs, direct assignment, ECBs and NCDs. We have received sanctions of approximately 480 crore under Credit Guarantee Scheme of MFI 2 from both private and public sector banks with a further 520 crore currently in the pipeline primarily from private sector bank.

These sanctions under CGS are at an attractive pricing which is considerably lower than our current marginal cost of borrowing. We feel we can create a significant value through this with disbursement to identified segments where credit cost is expected to be around 100bps lower than the median credit cost. These sanctions under CGS scheme will further strengthen our funding diversification and increase the share of public sector banks in our overall borrowing profile. Coming to our margins, NIM for quarter one FY27 is at 236 crore that is 11.93% compared with 10.29 in quarter one FY26 representing an improvement of approximately 160bps year on year.

On a sequential basis, NIM improved by approximately approximately 49 bips points from quarter

four FY26. Our pre provisioning operating profit stood at 102 crore in quarter one 27 compared with 87 crore in quarter one of FY26. This demonstrates the underlying earnings strength of the franchise and reflects the tangible benefits of the operating efficiencies we have systematically built over the last year on ECL provisions. We recorded provisions of 40 crore during the quarter under the ECL model.

We also had a 74 crore reversal on account of write offs. This translates into provision coverage ratio of 81.5% on stage three assets and 64.5% on stage two assets supported by a management overlay of 19.5 crore. This quarter we have not released any amount from the management overlay. Last quarter we have released 10 crore from the management overlay as a result of improving asset quality and better operating efficiencies. Profit before tax for the quarter stood at 62.4 crore up 67% sequentially.

Return on assets on PBT improved to approximately 3% annualized while return on equity stood at approximately 10% annualized reflecting gradual normalization of business performance and improving earnings quality overall. With the strengthened leadership team, robust Capital backing a new book that is performing well and seven consecutive quarters of improving asset quality. We begin FY27 with confidence and discipline. As we enter FY27, our focus will remain on maintaining financial discipline, enhancing operational efficiency and further strengthening our funding franchise to support our long term sustainable growth engine.

We will continue to pursue growth in a calibrated manner, ensuring that our provisioning and capital buffers remain aligned with the evolving risk environment. With improving asset quality, robust capital adequacy, strong liquidity and diversified borrowing profile, we are confident of delivering a sustainable and responsible value creation over the long term. Thank you. With that I would like to open the floor for the Q and A session.

Questions & Answers

Operator
Thank you very much. [Operator Instructions] The first question is from the line of Piran from CLSA. Please proceed with your question.

Piran Engineer - Analyst, CLSA
Yeah. Hi team. Congrats on the strong numbers. Before my questions, I just have a couple of clarifications because I don't. I didn't hear some things correctly. So firstly sir, you mentioned you've reduced management overlay provision by 10 crores. That was last quarter, right? Or again have we done it in one queue?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah. So just can you ask all your questions together then we will answer. Yeah. One is management. Yeah.

Piran Engineer - Analyst, CLSA
Yeah. Yes, that was one. Second, I didn't catch your comments on branch openings. You said you'll close some, but you'll also open some. If that you could reiterate because we've actually been shutting branches in the last two, three quarters. So that is there. Secondly, where does NIM really settle over the next three four quarters given our cost of funds trajectory plus we took those yield hikes. And lastly you mentioned that we've changed hard bucket collections. Until last quarter, 30%

was done by external agencies.

Now it's your own team. So is it the sales guy who's doing it? Or do you have a separate collections team for this purpose?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So I suggest we will take only your first two questions because you are asked four questions. So first the management overlay clarification of 10 crore that Krishan will clarify.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Management overlay this quarter. Q1 we have not released any amount. So in the 62 crore profit there is no management overlay release. Now coming to the last quarter, last quarter we released 10 crore of management overlay in the P L. So that's the factual position.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah. And on the branch opening and shutting, see there are, if you look at, we have clarified in the past also that there's a certain amount of branches which are present in markets where the headroom to grow is not there. And that is the. So these are all branches which are performing a below par and lesser headroom. So like I said, there are between about close to 100 branches which we will shut down between now and Q3. And there are about 50 to 60 new branches that we will open. So net we would be about 40 to 50 branches down.

And if you also look at it, if you look at more from a, let's say an AUM perspective, we have given an AUM target of 10,000 crore this year. And we are saying we will grow at about 20, 25% CAGR. So for 12,000 crore of AUM between MFI and MSME technically we do not require more than 13, 50, 1400 branches. So there is no point having more than that right now. Because you understand that Both MFI and MSME branch takes just about one month. MSME takes about one month to set up. MFI takes about 15 days to set up. Understood?

Piran Engineer - Analyst, CLSA
Understood. Yeah.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yes. For the other questions, if you can come back in the queue.

Piran Engineer - Analyst, CLSA
Okay, sure, I'll come back. Thanks.

Operator
Thank you. The next question is from the line of Rajiv Mehta from Yes S ecurities. Please proceed with your question.

Rajiv Mehta - Analyst, Yes Securities
Yeah. Hi, good evening. Congratulations on very good numbers. So my first question Is on the AUM growth target of 10,000 crore. So now again in the context of the approval rates, when you look at in mfi the approval dates have in fact come down in this quarter. It could be seasonal also and it could also be a function of maybe some sort of leverage again building back in the industry. So in that sense, see a lot of heavy lifting of growth will have to be done by MFI in this year because MSME will scale up slowly and individual loans you will be launching later.

So to do this heavy lifting of growth in the current year through MFI with current level of approval

rates, how would that be possible? Would you do more sourcing or would you think that the approval rates will itself move up from where they are?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Right. Any other question, Rajiv, what this is.

Rajiv Mehta - Analyst, Yes Securities
Yeah. And you also spoke about, you know, you know, offering more, you know, differentiated products, additional products to select identified MFI customer. And you said that few of them you already launched and then some you'll be launching in the next fortnight. So can you also, you know, slightly elaborate on it? Yeah,

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, absolutely. So I'll take your first question which is let's say for 10,000 crore of AUM, the disbursement that we require is technically about 44 to 45% happens of the disbursement happens in H1 and about 55% happens in H2. Let's say if we divide it like this. Now if you recall there is a guardrail that we had built when this West Asia crisis and all the fuel concerns were there. We had introduced a guardrail Fusion Plus 2 saying that new to Fusion we will not do two lenders other than Fusion. So because of that, essentially because of that guardrail, there was a drop of about 3 to 4% on the approval rate.

And these were customers. This was specifically an area that we wanted to avoid because there was no clarity how the West Asia crisis would phase out. But I think we've been, the collections efficiencies have been exceptional and we have looked at how the Fusion Plus 2 specifically the new customers that we had acquired over the last six to nine months have there been any deviation during the last four months while this crisis was going on. And it's been pristine and impeccable. And so what we have done is that in all our category A branches, that's about 80% of the branches we have gone back to Fusion plus two and only on lower category branches we are continuing to keep this guardrail.

So that is why you saw the approval rates drop a little. However, there is a pre approved base that we have looked at which is the customers which we have lost. And in the last 15 days we have been experimenting that what is the propensity of onboarding of these customers. So the first one week of August has been very encouraging and our problem was less on the new customers. If you see in the last two quarters the new to Fusion has been progressively increasing as a percentage. So we were what 3/4 back?

About 25%. We were at 37%. Just to give you a number, if we segregate June from quarter one, June was close to 39% and while we are talking July was 42%. So new customers is progressively increasing. What we were experimenting with was that on the existing customer segment, is there anything else that we need to do? I think in the last 15, 20 days there are like partially what you ask that the new products or the differentiation that you're doing. So the differentiation is basis, the categorization of branches, the ticket size we were offering to the customer and whether there is a credit person in that.

So we have told you that There are about 250 branches where we have credit and these are all large branches. So between these three, we are already in the first seven days of August seeing the run rates climb up on the existing customers. So we are pretty confident that in terms of what we are expecting in H1 that about 45% of the disbursement that is required to reach to 10,000, we don't

need to rely on the individual loan. And you're absolutely right. Individual loan will start giving us results only in Q3 onwards.

And that too we don't plan to do 100 crores in a month. So we are fairly on Track on the AOP on both Q1 and Q2, the 40 days that have gone in Q2 so far.

Rajiv Mehta - Analyst, Yes Securities
Okay. And on the collection, I mean in this recent two months of July and August, the collection efficiency that you have disclosed for Q1, is it holding up for the current bucket? Is it holding up for the, you know, bucket 1, 2, 3 as well in terms of lesser floors between those buckets?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Absolutely, Rajiv. So. And the confidence is coming from there. So the all the confidence that I'm giving you on scale up on existing customers is coming because collection efficiency continues to hold very strong. So it continues to be upwards of 99.7%. And there is no state where there is any, any impact we see anywhere across any of our five, six large states where we have higher concentration.

Rajiv Mehta - Analyst, Yes Securities
Okay, thank you. Yeah.

Operator
Thank you. [Operator Instructions] Thank you. The next question is from the line of Karthik Srinivas from Unifi Mutual Fund. Please proceed with your question.

Karthik Srinivas - Analyst, Unifi Mutual Fund
Hi sir. Thanks for the opportunity and congratulations on the good set of numbers. I just had two questions. I'm just referring to slide number 22. Credit cost is about 40 crores. It says credit cost on other financial assets. So. I know. Could you please elaborate on what, what does the Gaada financial assets mean? That is, I mean. And I just had a question on the bad debt recovery. So in FY26 we had about 54 crores for the entire year. And in Q1 we have had a strong start of about 21 crores. So are we seeing this trajectory improving going forward or how is that?

So this was my first question and I just put my other question also. On an industry, at an industry level every player is moving towards targeting the very high quality borrowers because all the other MFIs are moving into that. Less than two MFIs, three MFIs borrowing. So how are we able to reach out to new customers? Are they. Are you trying to reach out to a larger set of customers or how do we expect the growth to happen from there? From where does the growth come from? That was mentioned.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Right. So I'll let Krishan take the question on credit cost and then I'll explain collection expectation and what are we targeting as customer segment.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So on the credit costs, the other financial instruments etc. So there are certain receivables like the insurance receivable in case of death cases. So we have strengthened the provision there. So that is a small line item apart from the credit cost which is lying in the other credit cost.

Yeah. So yeah, this is done. You can....

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah. Okay. So on the collections there are. So like I explained we have moved from external agencies to completely in house and we are seeing sustained recovery there. So there are two things, two models that we are building. One like is the warm body who are actually going and connecting. But the challenge that we were facing was that how do we reach out to let's say the entire write off book where we are recovering from and having people on the ground for every customer, customer or every branch is not a viable opportunity.

So right now we have, there are four partners that we have engaged. These are all AI partners and we all understand that because there are linguistic issues it was not easy to work with these partners and set up these voice bots. But I think I can tell you that now we have 95% capability to manage this language skill and we are using AI to reach out to the customer to understand that whether we can then through a warm body do the entire collection. We feel that there is an opportunity of about 600 crores.

If we take a rough settlement of about even 30% that's about 180 crores to be done. If you let's say take 15 to 18 months we are talking about 10 crores every month. So right now we are still averaging about 7 crore. So I think there will be more use of technology and data around this and with same set of people you will continue to see higher delivery and sustained growth on write back from there 2 on the industry that you are mentioning. See there are two ways to look at it. One, if you see the while the demand, even if the demand is static, the supply is shrinking.

There are selective players in the market who are able to offer, who have the capital, who have scaled up their operations, who have built up the right infrastructure. So it is not that everybody can go out and offer loans, loans with clear credit guardrails that are present right now. So within the MFI segment also there is a huge demand. If you look at our bifurcation, the challenge that we are, we have been able to do a decent job on new customer addition which means that the new disbursements that we are doing continuously, the new customers are increasing.

And I gave you the number for June which is close to 40%. In July it is 42%. So this is continuously increasing. And I think it is also because the capital is scarce and it is with selected players. I think that's also a role to play. Where do we see the other growth coming from is that within the MFI sector there are high performing customers or customers with very low leverage. The challenge was that income assessment was a problem all these years. But I think the confidence that we have got through the PQM team which we are servicing 250 branches right now that is giving us very healthy signals so that we will continue to scale up.

And you will see that eventually we will have two businesses. One is MSME which is shopkeepers and retailers in tier 3 and tier 4 markets. These are non rural businesses, semi urban tier 3, tier 4. The other is the MFI where while what we are talking about right now is MFI jlg, MFI jlg, let's say lower leverage customers then we will also subsequently move into. We have launched the individual loan product and not right now but towards end of the year or next earlier we will also look at a secured offering for these customers.

But like I am saying the credit will be differentiated. The moment the ticket size goes up beyond 90,000 the credit will come in very strong. So that will be a constant factor across all the growth other than pure glg. And I think we the growth number that we are talking about, what we are saying are 20, 25% CAGR growth. I don't think that's a challenge at all. While for this year we have taken a little higher growth target because of the lower base. But there is confidence in our strategy and how we are going that 20 to 25% CAGR growth, it is on the cards.

Karthik Srinivas - Analyst, Unifi Mutual Fund
Thank you.

Operator
Thank you. [Operator Instructions] Now the next question is from the line of Meet Sangoi from PL Capital. Please proceed with your question.

Meet Sangoi - Analyst, PL Capital
Hi, thank you for the opportunity and congratulations team for a great execution across all the parameters. My first question is around liquidity. So we have around 1900 crores of liquidity with capital adequacy upwards of 36, 37%. When can we expect this excess liquidity drag, you know to go away? Sir. And this is also important especially given that you know we have seen the cycle bottoming out across the board. We have seen collection efficiencies improving and also now that we have a fair bit of idea in terms of monsoon and Western Asia conflict, when can we expect this drag to normalize?

So that's one. The second one is on the MSME business. Just broadly how do we since the MFI business has now settled down what's the strategy to increase or improve the size of the MSME business? And how do we see that over the next three to four years in comparison to the MFI business? What will be the total sort of number in terms of the size of both the businesses in say FY29, FY30?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, so Krishan will take the first one on liquidity, excess liquidity.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So on the liquidity front we have, you're right, we have kept slightly higher liquidity during quarter one. However after these geopolitical things and positivity from there we have already addressed this. We have not borrowed broadly anything in the month of June, July and we have brought it 1880 to about 1400 crore. And our plan is to...

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
July our total borrowing was less than 50 crores.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Less than 50 crores. Yeah.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So it automatically comes down to around 1400 crores.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
1400 crores. And this is the level we which we want to close the Q2. And this is in line with our internal policy to keep two months disbursements like liquidity which comes to about 1400, 1450 crore. So this issue is already addressed and that was in response to the West Asia crisis.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
On the MSME business, on the MSME business that you asked. So we we currently at about 800 crores of book and we're roughly doing about 50 crores a month. So ticket size is about 7 and a half to 8 lakhs. The important thing is that last six months the collection efficiency has been upwards of

99.25, 99.3% which gives us the confidence that the strategy that we have been using on credit which is what we've been saying that we don't want to be taking cash flow calls. We are better off giving a little higher ltv.

I think that is paid off and we are getting that confidence. So there are two ways. One there we have within our existing 90 branches there are about 2530 branches where you will see productivity significantly going up. There are some specific state differentiations that we have introduced. The second thing is that I explained in the in my call that there are 200 branches of MFI where we'll be leveraging the MFI real estate for acquiring MSME business. Now these branches are in MSME catchments so we will not be going to rural markets.

It will be semi urban tier 3, tier 4 shopkeepers, retail outlets. The branches are in the real estate is in MSME catchment and these will operate as hub and spoke to the main MSME branch to start with. 50 such branches are being taken up immediately and we will keep adding but 200 branches we have identified across north and central where we will be scaling on MSME. So the way you should look at it is 90 branches of ours which are like completely dedicated MSME and another 200 branches for which we don't require any high level of OPEX which is existing real estate.

Just we will operate as a hub and spoke one dedicated person in each of those 200 branches. So you will see this scaling up and our view is that we want to eventually take it to 15% next year and then 20% in the next two years. So MSME we are doing multiple things but clear but the clarity is whatever we do, the clarity is that no deviation on cash flows and we are creating a right to win in each of these markets. So MSME you will see initially 15 and then 20%.

Meet Sangoi - Analyst, PL Capital
Got it. Thank you sir and all the best.

Operator
Thank you. The next question is from the line of Akhilesh from North Star. Please proceed with your question.

Akhilesh - Analyst, North Star
Yeah hi. Thanks for the opportunity. Sir. Can you just confirm what is the current value of deferred tax assets on our book and whether any recognition will happen only in Q4. And the second question would be what's your view on credit guarantee schemes like CGFMU and whether they how do you think about that? Do they form a part of your business plan going ahead?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
You will take that Krishan.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So on the DTA front we are unrecognized. DTA amount is around 290 crore and now the plan is as and when the profit accrues we will utilize that rather than utilizing in one shot like we did in the last quarter. So technically this output amount is sufficient for next two years tax outflow. So we expect PVT to be equal to pat for about next 24, 26 months.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah so on the. Yeah. So on the credit guarantee scheme I'm assuming you're referring to the credit guarantee scheme for the borrower and not the credit guarantee scheme that has been introduced for the banks. Right. So on the credit guarantee scheme for borrowers we had not registered so far

we plan to register. We have initiated all the documentation so there are some formalities that we need to complete. But there are two or three markets we have identified where it. We don't know whether over the cycle it's viable but we also want to pilot an experiment.

So there are two or three markets where we will be initiating this by end of this quarter. Most probably

Akhilesh - Analyst, North Star
Sir, can you quantify how much percentage of your book you might pilot? Like is it going to be 5% less than that?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, it will be less than 5% because this is. This will be more on the fresh disbursements.

Akhilesh - Analyst, North Star
Right. Okay. Thank you.

Operator
Thank you. The next question is from the line of Vishal an individual investor. Please proceed with your question.

Vishal - Analyst, Private Investor
Hello. Yeah. Congratulations sir for your result. Sir, I have only one question the mon is comment and everyone is talking about and I think our customers are based on. So based on that Your guidance for 10,000 crore is still intact.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay Vishal, any other question Then we will answer.

Vishal - Analyst, Private Investor
Sure.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Vishal. Yeah, thank you. So Vishal, I think like we've been talking about this I completely. It is not that microfinance sector is completely insulated from either El Nino or monsoon or any of these issues. But we strongly believe that every segment has a prime subprime and a mid prime. I think the subprime let's say what every time gets impacted wherever there is a headwind whether it is El Nino or it is floods or any other is the subprime segment within that overall let's say segment. Now if you look at MFI same as the challenge.

There is a prime segment, there's a mid segment within MFI also it is not all customers are the same. So what has happened in the deleveraging cycle in the last one year is that the sub segment has exited the formal MFI sector. And we have been in fact even more careful that while we are onboarding customers our guardrails have been tight enough that while other customers we will give much more the customers which are at the bottom we will stay out of. So I think this has helped us and that's why you see state level we have given you collection efficiencies.

There have been states which have, which are rain fed and where there have been heat and delayed monsoons and you see clearly that collection efficiency continues to hold at 99.7, 99.8. And while I'm talking even in July and first seven days of August that have gone by the collection efficiencies are held very strong now. So we are very confident that as long as the customer assessment is done

right which is either through PQMS or through the guardrails that we have developed the growth targets that we have taken of 10,000 crore.

That is not a challenge at all. So we are, we continue to be absolutely confident on the same.

Vishal - Analyst, Private Investor
Okay, thank you sir. And sir, GNPA also be improved over still for the year.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
I think we have, I'll not talk on specifically GNPA but on the. You are already seeing the trend on gnpa. On the credit cost we have given a guidance that we are roughly what 0.1% flow forward monthly which translates into 0 point even if you take 0.15 close to about 1.6, 1.7% credit cost. And we have also given guidance that let's say if there is some challenge in the market 25 to 30bps or 40bps that quarter will get impacted and that's how we given a guidance of overall 2.5. But I think from a credit cost perspective as of now the way first four months or four and a half months have been, we see it closer to 2% rather than 3%.

Vishal - Analyst, Private Investor
Okay, thank you sir and all the best for your full year.

Operator
Thank you. The next question is from the line of Shalin Kapadia from IIFL Capital. Please proceed with your question.

Shalin Kapadia - Analyst, IIFL Capital
Hi sir, thanks for the opportunity and congratulations on a week on a great quarter. So just one question on nims. Where do you expect it to settle over the year?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah. Do you want to take that nim?

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yeah. So there is a slightly more scope in the NIM. It's, it's definitely about 15, 20 pips more from here and that will gradually come into by the year end there will be a, we can see addition of about definitely at least 15 to 20 pips and which takes care of any glitches in the cost of funds etc.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
This is assuming that there is no red drop. So let's say there is a minor rate increase. We have already explained, explained to you that we don't see any impact because of that. But unless there is a rate, if there is a red drop then it can go further.

Shalin Kapadia - Analyst, IIFL Capital
Okay, got it. Thank you.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
And I think what will start kicking in right now since names are on the book and the we have increased the customer Yields by approximately 55 basis points now that the impact of that on the book right now is only 12 bits b ecause you understand that disbursement moving into book will take time. So by the year end let's say if that 55 bibs is fully baked into the book that itself will be 55. So 1255 -12 is let's say 2530. So we have not done the exact math but you can just assume how much

that will be on a full book disbursement by end of the year.

Shalin Kapadia - Analyst, IIFL Capital
So is it fair to assume that 15, 20 bits of increase is more of a conservative number from here?

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yes, that's a bare minimum. And the range is about as Sanjay has mentioned, about 30.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, I think 15 can be. 15 can go up to 25.

Shalin Kapadia - Analyst, IIFL Capital
Got it. Thank you.

Operator
Thank you. The next question is from the line of Srijan Sinha from GCLI. Please proceed with your questions.

Srijan Sinha - Analyst, Generali Central Life Insurance
Yeah, hi sir. Thank you. Can you please help me quantify the one time impact on the finance cost? So let's say you're carrying about 500 crores of extra liquidity on the balance sheet. So the quarterly impact of that would be let's say closer to 10 odd crores plus. Krishan also talked about some kind of mark to market of about 4 crores being included in the finance cost. So is it fair to assume that this 14 crore impact that we see in this finance cost in this quarter, this is not going to recur in the second quarter and the only impact will be for the growth that you will deliver from here on.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yeah. So MTM impact will not be there. So MTM is.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
MTM is how much we have.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Mtm is about 3.93 crore. So let's say 4 crores

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
you will not see in the second quarter onwards. And now the excess liquidity, what is the net impact net of let's say. So the net impact

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
net of what we have earned on the investments etc that impact is about three and a half four crore. So if we normalize that and don't keep the excess liquidity that should also not be there.

Srijan Sinha - Analyst, Generali Central Life Insurance
Okay. So 8 crore is the delta that you see over the queue broadly. Okay. And sir, second question is on, on the ECL coverages How do you see that panning out over the Next, let's say 2, 3/4. given that, given that you're seeing significant improvement in your selections.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yeah. So ECL coverage, if your question is if it has come down. So if we look at MSME and MFI

individually, there is no reduction in fact maybe a slight bit increase also. However, in the composition, there is a change in the stage two and stage three. As we have mentioned on that credit cost slide, the MFI stage two and stage three contribution has come down and you know, MSME, the LGD's, etc are lesser because of the secured and all. So that is how on the face of it, the coverage seems to be reducing.

However, it holds on very well, both MSME and MFI respectively. The change on the face of it is just because of the composition change.

Srijan Sinha - Analyst, Generali Central Life Insurance
Okay, enter. My final question is what is the conversation with the rating agencies? Is there any benchmark that they're looking at for a credit rating upgrade?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So I think they were in our last discussion on the Sujan they were quite satisfied with our performance. Their concern was the external environment. Now I think most of the rating agencies have assumed that the external environment has limited impact, especially the West Indies Asia crisis has limited impact on the MFI book. So we are very hopeful that they will look at it positively because from a pure entity perspective, they were extremely positive in our last two conversations.

Srijan Sinha - Analyst, Generali Central Life Insurance
Okay, sure. Thank you sir.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Thanks Srijan.

Operator
Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please proceed with your question.

Shreepal Doshi - Analyst, Equirus
Hi sir. Thank you for giving me the opportunity. So my question was on the product portfolio front. So while we are ramping up msme, do we have any plans to also launch individual loan as a product? Because as industry players are transitioning primarily into individual loan and then also launching products like micro mortgages. So do we have any plans of having individual individual loan as a category within the portfolio?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, so I've just. Shripal, I just explained in my call that we have, we have received the board approval also for launching the individual loan product and we are now doing the system development. Hopefully by first week of September we would have done the first individual loan. Now the important thing is that this is not like microfinance loan from a JLG to individual. So we'll be doing serious credit on this and we understand credit assessment. So it is not that we are doing banking credit. So from the MSME credit that we do, that is 100% assessment that will be, they will have an oversight on The MFI credit that will be done we already have about 250 branches where we have a PQM who's a kind of a credit person who reports separately into the credit vertical.

He and she will start working immediately on the individual loan. Right now they are doing credit for mfi. So the individual loan portfolio will. Will have a specific credit person who will evaluate the loan.

And initially we are looking at roughly an average of about 1.5 lakh ticket size customers who have some shop or some outlet. It is not like operating from home three years business vintage. So there is a. I think all of us, we understand our background is all credit only we understand credit and we are coming out with a very.

We have come out with a very robust individual loan product which we have launched today. So that will be an offering to the existing customers to start with and then depending upon the performance we will go to new customers. So but that. That is the MFI upgrade micro loans that you are referring to on the mortgage side that is let's say level two of this. So eventually the. The credit memory that we want to build is that MSME and MFI will operate two different businesses. They can share each other's real estate but within MFI also we may have a secured out operating outside through those to those customers.

But we will not do anything without credit. So anything that is being done outside JLG will have very strong credit around it. And we understand what kind of credit is needed. So that is an assurance that I want to give you. And we will see good growth eventually. But obviously we will go slow and we will test the market before going all out.

Shreepal Doshi - Analyst, Equirus
Got it. And like initially is what. What is the pricing that we are looking at for this for individual loan as well as like you all heard about micro mortgages as well.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
While that is level the pricing will roughly be the same. But it. It could be we are. It could be about let's say 100 dips lower but roughly the same. So you can assume same 200 bit slower.

Shreepal Doshi - Analyst, Equirus
Got it, Got it. So the second question was on the capital raise. So I'm sorry I joined the call late. So when what is the timeline on capital raise as the growth on. On the loan book side is now back, what is a broader timeline that we are looking at in terms of capital?

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So while we speak even after having additional liquidity our leverage is 2.32 times and capital adequacy is 36% or so. So we are very well capitalized and this capital is good for the growth plans which we have mentioned, which is broadly two years. However we should be on the road at least six to seven months before. So middle of next financial year we should be on the road and discussing the capital raise with the investors. So, so now till one and a half years which is middle of FY27, 28. We are fine.

And post that we will be coming on the road to have a discussion on the capital raise.

Shreepal Doshi - Analyst, Equirus
Sir, just a follow up here. What is the tier one ratio that we are keeping in mind as a trigger?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
I suggest you come back in the queue please. My request is. Please.

Shreepal Doshi - Analyst, Equirus
Sure. Thank you. Thank you for answering my question.

Operator
Thank you. Ladies and gentlemen, in interest of time. That was the last question.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Sorry, if that was the last question then let Sripal continue with that. No, we will just let Sripal finish that then. Just let people finish that.

Operator
He left the queue, sir.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah,

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yeah. So anyways, I think question was what is the level of tier one? So the first thing is in our 36 capital adequacy it is broadly tier one only. And on the lower side what level we can go, I think regulatory is 15%. However our internal risk management practices have a graded level of indicators wherein I mean we wish to maintain about bare minimum about 23 to 25%. And then there are graded indicators wherein we need to work on the capital raise.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
I think that that's it. That's the, that's what we understood from the question and that was the response. And that is

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
My request is we can take one last question in case there is anybody in the queue otherwise we can end.

Operator
Okay, the next question is from the line of Rajiv Mehta from Yes Securities. Please proceed with your question.

Rajiv Mehta - Analyst, Yes Securities
Yeah, thank you. Yeah. So the question is on how do you see the absolute opex, you know, moving given that you know what you plan to do with your rationalization of branches, adding few branches then rolling out, you know, introducing new products on the individual loan side then you know, rolling out MSME in existing MFI branches, putting everything together. How do you see your absolute OPEX moving in the current year and then what kind of growth one should tension in for next year in absolute opex?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Absolutely. So I think Rajiv, last year if you see our OPEX was what about 830 crores. And this year we are the first quarter is about 204, 205 I think. While so to the on an AOP we had assumed that we had shared with all of you that we expect a 4 to 5% increase in Opex but that is without rationalization and without taking some measures, we are pretty confident that we will be able to save at least some OPEX on that AOP that we have given, which we have already shared that the

effort is either through branch rationalization or through other means.

We take at least 2 to 3% reduction in the OPEX that we have shared with you. The product, new product launch or let's say because we are not creating any separate real estate. It is mostly rationalization of resources. So you won't see resources actually in absolute terms increasing anywhere significantly. So the sales guys are what, let's say even if MFI needs about what 200, 300 people and similarly about 100 people in MSME, it doesn't. 300, 400 or 500 people also will hardly have any impact on the overall opex.

So and that's why deliberately we are saying that we are utilizing the existing real estate of both MFI and msme. Next year onwards, I think going forward, rather than giving you just one year perspective, eventually we will be at roughly around 6 to 7% opex. Both the businesses put together.

Rajiv Mehta - Analyst, Yes Securities
Okay, this is OPEX to average area.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, absolutely.

Rajiv Mehta - Analyst, Yes Securities
Got it. Thank you. Best of luck.

Operator
Thank you. Ladies and gentlemen, in interest of time, that was the last question for today. I would now like to hand the conference to Mr. Sanjay Gariali for closing comments. Over to you, sir.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah. Thank you so much. Thanks everybody. For I think the most important thing is that each one of you how you have backed us in, in our tough times and I think the most important thing that we have realized over the last, I think 12 to 18 months is that you will see constantly progress happening and we would want to deliver ahead of whatever we are explaining to you. There is growth opportunities that we see and the commitment is that there is be no unnecessary risk we'll be taking. But we see good growth opportunity and good takeoff in the next six to nine months going from here.

So with that I would want to thank all of you for taking time out for the call.

Operator
[Operator Closing Remarks]