Management Discussion

Hanishi Shah - Investor Relations, Adfactors PR
Thank you, Pooja. Good evening everyone and thank you for joining us on the Q2 and H1 FY27 earnings conference call of Fusion Finance Limited. We have this company's senior management team with us on this call. Before we begin, I would like to remind you that certain statements made 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 Q2 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.
Yeah, thank you, Anushi. Good evening, everyone. On behalf of the entire Fusion team, I would like to extend our festive greetings to you and your families. If there is one thing the last few quarters have reinforced for us, it is that in a constantly evolving environment, it is more important to navigate by the compass than by the clock. There are several moving parts around us industry dynamics, customer behaviour, credit conditions, and emerging growth opportunities. When we laid out our priorities, we were clear about 4 things: restoring growth, strengthening credit discipline, delivering sustainable profitability, and building a more diversified institution.

Those priorities remain our compass. We also articulated 3 financial milestones. An AUM ambition of 10,000 crore, credit costs of 2-2.5%, and an exit quarter ROA of 4%. I am pleased that we have made meaningful progress on 2 of these ahead of our original timelines. Credit costs are sub-2%, and we have already achieved an annualised ROA of approximately 4% this quarter. The progress gives us confidence in the direction of our business, even as we remained measured about the pace of growth. Q2 performance.

Our disbursements stood at 1,726 crore, representing a 33% year-on-year growth while remaining broadly flat sequentially. The AUM subsequently increased to 8,007 crore, 14% year-on-year growth. During the quarter, 5 of our markets experienced heavy rainfall and floods, resulting in temporary disruptions to customer accessibility during July and August. However, recovery through September was encouraging and collection efficiency returned to 99.75%, with net flow rates falling below 0.10%. This is a testimony to our well-disciplined approach towards customer acquisition.

Portfolio quality continued to improve, with GNPA declining to 1.6% from 2.5% in the previous quarter. Importantly, even if we consider the 54 crore ARC transaction as a part of the loan book, The GNPA would still be 2.28%, reflecting an improvement over the previous quarter's 2.5%. Credit quality and customer leverage. We believe sustainable credit performance begins at origination. One of the most important changes we have made is how we assess customer leverage and repayment capacity. 83% of our onboarded customers in MFI have no more than 2 lending relationships, including Fusion.

This is a deliberate choice. We continue to monitor lender count, indebtedness, repayment capacity, supported by differentiated credit templates. Our on-ground credit assessment program has now expanded from approximately 200 branches to 950 branches now, giving us greater control over customer selection. These initiatives are designed to strengthen the quality of our new origination. Early bucket collection performance has remained resilient. Same-day ex-bucket collection stood at 97.9%, with monthly gross and net collection efficiencies at 99.7% and 99.84% respectively on the

quarter basis.

Our objective is not simply to maintain strong collection performance today, but to build a portfolio that delivers more predictable credit outcomes over time. Recoveries and legacy portfolio. Alongside strengthening new originations, we continue to address the legacy stress portfolio. You are aware that we brought recovery activities for the 90 DPD portfolio in-house, supported by dedicated teams, analytics, and specialized recovery capabilities. We are also deploying structured interventions including Lok Adalats, legal officers, and legal notices wherever appropriate.

During the quarter, recoveries from the 90 DPD portfolio exceeded 30 crores, including 21 crores from return of accounts. While the new book will determine our future earning quality, recoveries from the legacy portfolio can progressively unlock additional value. Growth and diversification. Turning to growth, we see 3 complementary opportunities. First, core microfinance will deepen our presence where portfolio behavior supports growth while continue to maintain focus on disciplined expansion. Second, premium JLG, which is income levels greater than 3 lakhs, and individual lending.

These products and segments allow us to deepen relationships with eligible customers and serve differentiated credit needs. Our Vishwas product that we had shared with you, which we launched in the last quarter, has made an encouraging start, accounting for 20% of MFI disbursements during September and now in October. Third, Secured MSME. We are expanding our reach by leveraging our existing microfinance infrastructure. Approximately 10% of MSME disbursements are now originating through the MFI branch network, and we have expanded from 50 to 100 MFI branches acting as MSME spokes.

Our focus remains on cash flow-based underwriting and secured lending to suitable customers. The strategic advantage of these 3 businesses that we just spoke about is to allow us to serve a broader range of customer needs through infrastructure and customer relationships we already have established. Operating leverage and technology. We are pursuing 4 interconnected operating initiatives. The first is improving branch productivity and operating leverage. The average MFI EUM per branch has improved to 5.4 crores from 5.1.

We are rationalising approximately 102 branches while planning to open another 50 branches in markets which offer strong opportunities. The second is generating growth through our existing distribution infrastructure. By expanding the premium JLG individual lending and MSME sourcing through our network, we aim to increase the earning capacity of our branches without a proportionate increase in infrastructure or operating expenses. The third is strengthening credit underwriting through differentiated credit templates and more rigorous customer assessment.

This should allow us to pursue growth opportunities while maintaining discipline around customer leverage and repayment capacity. And the fourth is building stronger in-house recovery capabilities, particularly for the harder delinquency buckets. Together, these initiatives should support greater productivity, more consistent credit performance, and better operating leverage over the medium term. Technology will be an important enabler of this transformation. Our new LOS and LMS systems have been implemented now While I talk, across 15% of the branches, with broader transition targeted for completion before the financial year end.

We're also developing AI capabilities across collections, customer service, and credit assessments. Our objective is to create a more scalable operating platform with greater underwriting consistency, stronger controls, and improved productivity. Our way ahead outlook and priorities. Our medium-term ambition remains AUM growth of 20 to 25%, ROA of 4% plus, and credit costs in the

range of 2 to 2.5%. We are entering the next phase of growth with a focus on building a more diversified, productive, and resilient franchise.

This will be supported by disciplined underwriting, very strong credit costs, continued investment in technology, and strong commitment to sustainable and profitable growth. Our 10,000 crore AUM ambition remains firmly on track as a medium-term objective. The disruptions during the first half have led to a slight calibration of the timeline. We are moving to integrated branch-led model which will cater to our core lending products which are as follows. First, our JLG products which is going to be the major portion of our business.

We will continue to evolve underwriting standards based on incremental data and experience. Second is premium JLG borrowers, income greater than 3 lakhs. Borrowers which have graduated and whose income has increased from the 3 lakh limit will be offered the loan based on repayment history and track record. Third is the individual loan product for small businesses under the MSME secured product umbrella. This allows us to diversify our lending portfolio while benefiting from capital-efficient expansion and operating leverage.

Hence, our branch infrastructure will enable growth and diversification vision of the company, enhancing operational efficiencies without any increase in OpEx. The early improvement in Q3 disbursement momentum With 10 to 12% growth over the previous quarter average is encouraging and reflects the gradual improvement in our operating environment. While this provides a starting point, we remain disciplined in translating this momentum into sustainable portfolio growth in line with our medium-term ambitions and underwriting standards.

With that, I will hand over to Krishna to take you through the financial performance in greater details. Thank you.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Thank you, Sanjay, and good evening everyone. I am pleased to present our Q2 financial performance. Our Q2 performance demonstrates clear improvement across key businesses and financial metrics, including growth, margins, operating efficiency, asset quality, cost of borrowings, and profitability, reflecting disciplined execution and a focus on well-capitalised growth. Asset quality continues to improve during the quarter. Our gross NPAs stood at 1.6% as of September 30th, '26, compared to 2.51% in the previous quarter, while the net NPAs stood at 0.11%.

If we would not have done the NRC transaction, our gross NPAs stood at 2.28%. This improvement was driven by strong collection efficiency, healthy recoveries, and seasoning of a higher-quality portfolio. Credit costs remained constant on a sequential basis despite floods in the 5 states. During the quarter, company strategically decided to sell secured loans of 54 crore, including 3.5 crore of return of loans, to asset reconstruction company. This will enable the company to impose surfeasy and get the recoveries quicker.

Our focus has been on reducing the cost of funds and maintaining a stronger liquidity buffer. These initiatives are now clearly visible into our funding matrices, ALM position, and margin profile. One of the most significant achievements during the quarter was the continued reduction in the marginal cost of borrowing. The marginal cost of borrowing declined to 9.35% in Q2 FY27 from 12.16% in Q2 FY26, representing a year-on-year improvement of 281 basis points. And 74 basis points improvement on quarter-on-quarter basis from 10.1% in quarter 1 of FY27, which was last quarter.

The marginal cost of borrowing stands at 9.39% for the quarter, even when we exclude the borrowing through CGS Scheme 2 for MFIs. This makes the 5th consecutive quarter of decline in

marginal Cost of borrowing. In this quarter, we have raised 320 crore through PTCs, which enhanced its share in overall borrowings booked to double-digit, which is 10%. The company secured PTC funding at an all-in cost of around 8.5% during the quarter. We have further scope to increase the PTC transactions in coming quarters, and that will help company to keep the marginal cost of borrowing in control.

In an increasing interest rate scenario. In addition, we are working to reduce reliance on direct assignment transactions quarter on quarter. The delay outstanding as a percentage of AUM has come down from 13.75% to 12.65% last quarter. We maintained strong negotiating leverage and adopted a disciplined cost-focused approach to funding decisions. In last quarter, One of the key priorities was to strategically utilize the CGS MFI 2 scheme, ensuring that its benefits were maximized through prudent allocation and a lower all-in cost of borrowing.

As a result, the company accepted selected sanctions aggregating to about 468 crore at an average all-in cost of 9.23% out of the available sanctions of about 1,100 crore under CGS We maintained a firm stance of not taking sanctions that did not align with company's economic value and carried unfavorable commercial terms. Our disciplined treasury approach and proactive liability management resulted in reducing the marginal cost of borrowing at 9.35% for the quarter. On the liquidity front, we have maintained 1,661 crore of liquidity.

In addition to this, we have 2,800 crores of undrawn sanctioned facility available for utilization at any point of time. Further, we have a strong funding pipeline of 4,500 crores. Together, these provide us with significant liquidity cushion, hence our funding flexibility, and position us well to meet our obligations. Our capital adequacy ratio stood at 36.75%, comfortably above the regulatory requirements. Our external credit rating remains strong with A- stable from CRISIL, A stable from CARE, and A- stable from ICRA, while our PTC program carries ratings of up to AA+ SO.

Coming to our margins, our NII for Q2 '27 is at 265 crore, that is 12.52% compared with 10.85% in Q2 FY26, representing an improvement of 167 bps year-on-year. On a sequential basis, it improved by 59 bps from Q2 FY27, contributed by improving yields and reduced cost of borrowing. The reduction in the cost of borrowing has come after the lenders have derived confidence after extensive discussions and due diligence. We are confident to sustain these margin levels and further improve upon these. Our pre-provisioning operating profit stood at 125 crore in Q2 FY27 compared with 89 crore in Q2 FY26, an increase of 40%.

Quarter-on-quarter PPO increased by 22%, demonstrating the underlying earnings strength of the franchise reflects reflecting the tangible benefits of the operating efficiencies we have systematically built over the last few quarters. Our credit cost is 39 crore as compared to 39 crore during the quarter, broadly remaining flat even in a tough quarter. Our total provisions stand at 209 crore, which includes 19.5 crore of management overlay. This translates into provision Coverage ratio of 93.4% on Stage 3 assets and 67.3% on Stage 2 assets.

As a result of improving asset quality and better operating efficiencies, present quarter makes a clear turnaround story with profit for the quarter standing at 86 crore compared to loss of 22 crore. And on a sequential basis, our profit is up by 40% from 62 crore ROA improved to 4% annualized, while ROE stands at 13% annualized, reflecting normalization of business performance and improving earning quality. Overall, with the strengthened leadership team, robust capital backing, and new portfolio underwritten through stringent guardrails, we begin festive season with a lot of confidence in achieving new scale in the coming quarters.

We will continue to pursue growth in a disciplined 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. Uh, with that, I would like to open the floor.

Questions & Answers

Operator
Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. [Operator Instructions] And can ask both questions at the same time. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Meet Sangoi from PL Capital. Please go ahead.

Meet Sangoi - Analyst, PL Capital
Hi, am I audible?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yes, Meet. Hi.

Meet Sangoi - Analyst, PL Capital
Hi, hi, sir. Congratulations on a strong quarter, sir. Uh, so I just wanted to understand 2 things. One, uh, if you can quantify the since October is done, if you can quantify the collection efficiency number for the month of October and also the disbursement number for the entire book and also specifically for Maharashtra and Karnataka.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Right. So, uh, Meet, uh, the collection efficiency for September was 99.77 gross, uh, and October is 99.78. So October actually at a gross level is little better than September. Uh, in terms of disbursements, uh, we were averaging about 568 crores per 570 crores per month for the previous quarter. There is a growth in October of about 10%. So October has grown by 10% across both MFI and MSME separately. Uh, on Maharashtra, we have about a 117 crore book from Maharashtra where the collection efficiency in October is at about 98.84%, which is essentially which used to be 99.4%.

Uh, if you look at a net level, it's about 0.57% net flow, uh, which means at a portfolio level of about 117 crore, about 57 lakh is, uh, moved into net flow forward.

Meet Sangoi - Analyst, PL Capital
Got it. And Karnataka?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Karnataka is Karnataka is a pristine portfolio. Karnataka, we don't see Karnataka is 99.95% in October. And Karnataka, the net flow rate is negative.

Meet Sangoi - Analyst, PL Capital
Got it. So that's good to hear, sir. And the second question then is, uh, so in terms of, you know, second half, given that it will be seasonally strong, uh, do we press the growth button now or do we wait for another month to sort of see how things are panning out in some of these drought and flood-affected areas and then maybe, uh, you know, look to hit the growth button?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
No, sir, absolutely. So I think, uh, what we have already done is, uh, certain bordering branches of Karnataka and Maharashtra, and almost entire of Maharashtra, we have moved to stricter guardrails. We are not doing new customers. So there are a lot of precautions that we have taken. But as you know that Maharashtra is what, about, uh, 2% of our portfolio, Karnataka is another about 1.25%. So Other than that, uh, we are pressing the growth accelerator, and I think the confidence comes from look at 5 of our large states: UP, Bihar, MP, Orissa, and partially Assam also.

They were all they went through 2 months of floods, excessive rainfall, and other than 1 month of flow forward, we have been able to come back to actually better collection efficiencies. Both in September and October. So, uh, and you see the 99.78 October, it includes Maharashtra going down from 99.4 to 98.84. So without Maharashtra, actually we would have been 99.83 or 84. So I think you are absolutely right, uh, that, uh, we have already pressed the, uh, growth and we see good demand coming. So I think because of floods, the demand had got postponed, uh, and we see demand coming back.

Meet Sangoi - Analyst, PL Capital
Great, sir. Thanks, thanks for answering the questions.

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

Renish Bhuva - Analyst, ICICI Securities
Yeah, hi, sir. Uh, before I put my question, I would like to congratulate your team, sir, for excellent, uh, fiscal year outcome. Despite so many headwinds in last 3 to 6 months. And this also reflects the operation-level changes we have done since Sanjay has joined and started yielding positive note. So just 2 things. So one, on the asset quality front, right? So we can see that at net flow levels, we are sort of one of the best at just 7 basis points. But now there is some noise around this fraud, the rainfall deficit, etc.

And thanks for sharing, you know, October collection numbers as well. But when you look at, you know, at ground or from your branch visits, etc., are you seeing any stress building up in any of the districts, states, etc.? And is there any sign of things worsening because of rainfall deficit or droughts?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay. Yeah, thanks, Renish. So, Renish, I'll separate Maharashtra because Maharashtra you've already said, and that's like a we have already in the previous question explained that there was a drop of collection efficiency in Maharashtra, and I have also explained that what is the POS. So assuming a 50 bps deterioration, that's approximately about 50 lakhs, uh, which has gone into the first bucket, and this I'm saying in October. Now if you look at the rest of the markets, I think one thing that we have learned over, uh, last 6 to 7 months, and this is not just pertaining to, uh, drought or El Nio expectation.

I think we have been, uh, we, we, while there are new segments, new products we have launched, we have continued to be putting guardrails which are little stricter than what the laid out otherwise guardrails are. And, uh, I think the, I think the positive thing that we see right now Is that there is no baggage that we are carrying in any of the markets. There is no baggage of, uh, October performance, September performance, September spilling onto October, October spilling onto the

next month. And I think, uh, with that And the second thing, we have been able to launch 2 products, uh, which take us into premium JLG.

So we continue to do JLG at 3 lakhs and above ticket size up to 6 lakhs. So 3 lakh to 6 lakh income The ticket size we have not increased too much, so the ticket size continues to be till 1 lakh, and we are seeing good progress in that. So 20% of our MFI disbursement, while it will be non-qualified, however, it is the same ROA accretive, the credit cost is little better. Just to give you a number, in that segment, uh, through the cycle in the last 1.5 years, the PAR was 0.19%. In 3rd cycle and above, which is essentially majority of what we are catering to.

So I think we see good positive momentum right now, and, uh, I, I, we feel that the early calls that we had taken when the West Asia crisis happened, uh, I think this is the time, uh, to take advantage of all those checks or balances that we had internally created.

Renish Bhuva - Analyst, ICICI Securities
[Technical Issues]

Operator
I'm sorry to interrupt you, Raneesh. We are unable to hear you, sir. Your voice is breaking.

Renish Bhuva - Analyst, ICICI Securities
Is it better now?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yes, Raneesh, we can hear you now.

Renish Bhuva - Analyst, ICICI Securities
Hello?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Raneesh, you're dropping in between, but yes, we can hear you.

Renish Bhuva - Analyst, ICICI Securities
Okay, just to follow up on that, sir. So, you know, when we are calling out, uh, you know, this higher ticket MFI loan as a JLG, but I think this is individual loan, you know, what industry calls out. Is that right?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So the RBI has clearly informed the bureaus that if you do a JLG, as long as you do a JLG, you report it under MFI JLG. So while it will be a non-qualified, you are absolutely right, but we are following all the guardrails. And when the bureau also when let's say the other lender also looks at bureau for this customer, uh, they will adhere to the guardrails. So this product is with all MFI guardrails but income greater than 3 lakhs. Got it,

Renish Bhuva - Analyst, ICICI Securities
got it, got it. And you said it's 20% of disbursement in Q2?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Absolutely. And the ticket size is 1 lakh. It is not like it is not a complete swing. It is not like 1.5 to 2 ticket. The ticket size continues to be up to 1 lakh.

Renish Bhuva - Analyst, ICICI Securities
Got it, got it. And that's why our more than 1 lakh Average ticket size customer went up to 3% in this quarter. Is that right?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Right, correct. Greater than 90, greater than equal to 1 lakh has gone to 3%. Correct, correct.

Renish Bhuva - Analyst, ICICI Securities
Got it, got it. This is very helpful, sir. Thank you and best of luck.

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

Operator
Thank you. Next question is from the line of Viral Shah from IFL Capital. Please go ahead.

Viral Shah - Analyst, IIFL Capital
Yeah, hi, good evening and thank you for the opportunity. So I had 2 questions. One is basically on the growth front. I think over the last 2 quarters, of course, initially we were uncertain about, Sanjay, the West Asia kind of war, and then basically I think this quarter got impacted because of the flood. Now in the current context, there are some potential headwinds. Of course, we are not looking at anything immediately currently apart from a couple of geographies and pockets of that. How confident are you basically to scale up the disbursement growth?

Because in the last 2 quarters we have been kind of stagnant. Idea and expectation was that we will be scaling it up quite fast. Now in this potentially adverse macro condition, what is the level at which you intend to go to in terms of, say, the disbursal growth? And the second point is for Krishan. Basically last quarter we had the excess liquidity which kind of pulled down our margins and spreads. Now in this quarter it seems to have kind of normalized, plus there is some benefit of the rate hike, 55 bps rate hike that we had taken, right?

So how should we think about, say, the margins incrementally, and do we intend to take any rate hikes?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, so I think first, Krishan, we'll take the question on margins and spread, and I think you're referring to the cost of borrowing also. Yeah.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So, Viral, uh, during this quarter there was an uptick of about 24 bps in the yield. That was due to the rate hike we exercised at the beginning of the year, and it was a mix of one was rate hike and another was the reduced delinquency. So there was no reduction in the interest due to NPA, etc. So that was one piece. Second is, uh, there is a reduction of about 35 bps on the cost of borrowing. So now at a steady state going forward, uh, this NIM of 12.52%, we have a scope of another 15 to 20 bps from the yield, which is which will come out of the rate increase we did at the beginning of the year.

And 15 to 20 bps similar on the cost of borrowing in terms of the spread. Now mixing this with the external environment of increasing interest rate scenario, etc., I think, uh, uh, we definitely see in the next quarter an increase in the margin for about at least 15 to 20 bps. And then after that, I think we

would, uh, we would endeavor sustain at these levels because on the cost of borrowing, even there is an external environment of increasing interest scenario. As I mentioned in my discussion, we are going to increase gradually our PTC share, which is the least cost borrowing for us at about 8.5%.

That will sustain our marginal cost of borrowings and the average cost of borrowing on the books. So we are pretty confident for about next 2 quarters on maintaining these margins plus even increasing this. That is one piece. Post that, we will, uh, we will review the situation, and if required, uh, I mean, we may think of increasing passing on the increased rates, but that is a little away, 6 to 9 months away. We don't see that happening as of now. So that's the situation on the margin. We are pretty Are you confident on sustaining these and even increasing it by a few percent?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, and Viral, on the growth, so I think, uh, it is important to quantify that it is not that overall in the country there are macro headwinds. I agree with you that there are macro headwinds pertaining to a particular event, but if you see and I'm not saying that our book in that market is very small While it is, uh, 2%, even then the impact on our collection efficiency is about 98.85%. And at a net flow level, we have explained, even in October, which is 2.5 months of drought, it is 0.57%. So, uh, the net collection efficiency is 99.43%.

That aside, we don't see headwinds in rest of the country. And, uh, I think, uh, 3 things we have done very patiently. I think we have identified clear customer segments where we want growth to come from, and I think very silently we have built a strong credit muscle in the MFI thing. So like I said, 950 branches now have the ability to actually gauge what's happening on the ground in that particular lady's household or the Centre meeting. So I think that gives us the confidence that we are not looking at just the BRE or the bureau or the past performance of that customer when we are giving a fresh loan.

We are also evaluating how her household and the Centre is doing on the ground. So I think we are fairly confident and you already see October, we had what, 5 days of holidays because of the Cherta and Pooja and multiple things. Despite that, there's a 10% growth in each of MSME and MFI. And I think, uh, so this is the point where demand, uh, starts to, uh, go up over the rest of the half year. So we are confident of the demand and we are confident that, uh, there will be significant growth from here on.

Viral Shah - Analyst, IIFL Capital
So, uh, Sanjay, just, uh, if I may, uh, typically, of course, the second half remains, uh, more heavy on terms of both growth as well as also the asset quality. Uh, you expect that trend to now, uh, sustain in this year despite all of this?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Absolutely. Like I said, I don't see we have ring-fenced. See, there are challenges in certain markets, and those markets we have ring-fenced. So in those markets, we have either stopped disbursements or we are going extremely cautious. We have, in fact, in certain markets, we have assumed that the income levels have dropped by 20-30%, uh, and we have reduced fires drastically. So the ticket sizes, everything we have crashed in certain in, in the, in, in the ring-fenced market. But rest of the markets, uh, look at it this way, we have our ground force credit now which is evaluating every customer.

So we are not just going by the past performance of the customer with us, we are also looking at

how her household and how she is doing on the ground. So that gives us ample confidence, uh, that, uh, there is no reason why growth why the growth will not come in the next, uh, 4 to 5 remaining months. And we are already seeing that growth in October. I've given you October figures.

October is already 10% growth over September.

Viral Shah - Analyst, IIFL Capital
Right. And just one last question.

Operator
May we request you to please rejoin the queue? Thank you. Next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje - Analyst, Kotak Securities
Good evening, sir. Just one question from my side on this Maharashtra situation. When you are speaking to these delinquent borrowers, what is the typical reason for the non-repayment from their side? I understand there is a drought, but is there an impact on their income or are they holding more cash? Or has their access to credit been affected? How would you characterize it?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, great. So I think majority of our customers, uh, Ashish, have, uh, the cash flows are not impacted yet, uh, but they are saving for, let's say, in case there are there will be income impacts going forward. So most of our customers, uh, rarely it has come across that the customer has no money, or because of the droughts there is some problem that has happened, uh, because of which she doesn't she's not in a position to pay. That will be, let's say, uh, less than 0.5%. But, uh, let's say that the 1.2 or 1.3% customers which have not paid, uh, majority of those customers are which are, let's say, a little uncertain about the future.

And it's not that their cash flows have dried up or they have got directly impacted because of the drought. I think plus there's a lot of, uh, there is a lot of uncertainty when there is a drought, and the customer would be, let's say, saving a little extra or seeing how it goes. But, uh, in most of the cases, we don't see an impact on the cash flows because, uh, the dependence on direct agri is very little.

Ashlesh Sonje - Analyst, Kotak Securities
Understood, sir. Friend, you mentioned that you have taken a few actions there, uh, including cutting your fire, uh, etc. When do you think you will have the comfort again to loosen these filters again?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
I think, see, drought is a situation which will not this is not something that will immediately go away like floods. If you look at so right now internally we have thought that we will do this at least for one quarter and we will see how things are on the ground. We have our branches and teams very close to the ground, but at least for one quarter we would want to keep it at this level.

Ashlesh Sonje - Analyst, Kotak Securities
Understood, sir. Perfect, sir. Those are all the questions. Thank you.

Operator
Thank you. Next question is from the line of Pratik Kothari from CR Khotari Stock Broking. Please go ahead.

Pratik Kothari - Analyst, CR Khotari Stock Broking
Uh, thank you for the opportunity, sir. Just, uh, joined the call a little late. Uh, just wanted to check, uh, our credit costs fell from 39 crores and Stage 3 coverage rose 93.4% while we were about 70 crores, I think. Uh, so, you know, what is the FY27 credit cost guidance that, uh, are we guiding for something at this point in time? And what portion of H1 profit is recurring? I mean, is bad debt recovery inside our other operating income?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, so I, I will, uh, so, Krishan, you want to explain the change in that provisioning?

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
Yeah. So, uh,

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
and then I'll explain the guidance on credit cost.

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So the credit cost, annualized credit cost remains flat, uh, sort of It is just a reduction of about change of about 1 CR. And net of the recovery, it is 0.3% for the quarter and 1.2% annualized, net of the recoveries. So these recoveries are sort of normalized, and we expect these recoveries to continue. So that takes us to the next question also. This 86% 6.47 crore is the recurring one. In this, there is no extraordinary or exceptional item in this.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
I think he's yes, his other question is this. So on the Stage

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
3, uh, the PCR has increased from 81% to 93%. That is because we have sold a secured portfolio to NERC of about about 54 crores. So, uh, after that is out, this, uh, CCR has increased from 81% to 93% in the Stage 3. Okay.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
And on the guidance, uh, on the guidance, uh, on credit cost for the rest of the year, we are, uh, clearly saying that our flows are roughly what, sub, uh, around sub-20 bps. So let's say about 15 to 16 bps, and, uh, assuming, uh, this at an annualized level is about 1.8% of credit cost. What we have also given guidance is that every time there's a shock, let's assume a 30 bps per quarter impact. So you add 60 bps to that, so about 2.5% credit cost. So the range is between 2% to 2.5% guidance on the credit cost for year.

But like you, like you already see, despite the shock, we are at sub-2%. But from a guidance perspective, the range is 2% to 2.5%.

Pratik Kothari - Analyst, CR Khotari Stock Broking
Thank you very much. All the best.

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

Operator
Thank you. Next question is from the line of Rajeev Mehta from YES Securities. Please go ahead.

Rajeev Mehta - Analyst, Yes Securities
Yeah, hi, good evening. Congratulations on pretty strong numbers. So I just want to check firstly on Maharashtra collection efficiency impact, the drop we have seen. Any idea that how much it would have dropped for the competition? Are we better off in terms of seeing a little drop versus competition since we've been very cautious in the last 6 months in terms of customer identification, the whole underwriting, you know, you spoke about? Is our drop relatively less than competition in Maharashtra's impacted districts?

And secondly, in, uh, you know, in terms of Karnataka, uh, do you expect any income any impact to come in November with some lag, or you believe that if any impact had to come, it should have come in October?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Absolutely. So I think I'll take the easy one, which is Karnataka. So we've been so there are certain markets in Karnataka or branches which are prone to drought, so those we have been cautious. And, uh, like I said, Karnataka collection efficiency is actually improved in October. We are close to 99.95%. And, uh, so it's been like that for the last, uh, now 2 quarters, 2 to 3 quarters. So Karnataka, we don't, um, we don't see any concern, but we have still put other, uh, potential drought, uh, impact on a different guardrail.

On your first question, which is Maharashtra, obviously that's a very tough question. I can't say for competition, but I think if you look at how what we have been talking about guardrails or what we have been and this is right from the last week of February when the West Asia crisis happened obviously we did not know that, uh, there would be, uh, these kind of situations. But we've been, uh, saying that it is not that there is no demand or there is no growth, but, uh, from a guardrail perspective, we will always keep an industry minus 1.

So our guardrails will always be a little plus 1 over the industry. And, uh, so I think, uh, uh, we obviously feel that we are very confident that, uh, we will be able to I am not comparing against competition, uh, we are very confident that there will not be too much of impact, uh, because of this. But obviously we will have to wait and watch because we have done far stronger customer selection than what we were doing, let's say, uh, much before, about 1 or 2 years back. So I think I would stick to that.

Rather than comparing directly with competition.

Rajeev Mehta - Analyst, Yes Securities
And just one thing on growth and disbursement scale-up. See, this premium JLG, I don't know when did you launch, but I think you're saying that it's already 20% of disbursement. Then individual loan product is also being launched. I think it's already launched, so that will also add to some disbursement volume. And as I see that you've also raised ticket size in MSME to up to 50 lakhs from earlier 25 lakhs. So I think all this incrementally have to contribute to much larger disbursement run rate, you know, going forward.

Hence, what will be the, you know, exit EUM number which we can, you know, kind of reach by the end of March? And then the related question is on the exit ROA. I mean, we've already done 4% in this quarter and, you know, our CFO said that there is nothing one-off in this. So then can the exit ROA be slightly even better Would you want to raise that guidance for the EBITDA ROE?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Okay, so I think on the number, I'm I don't want to take I don't want to give another number because we have already given a number and we have also shared that because of the floods or excess rainfall that happened in Q2, there was an impact on those numbers. But I think if I put I'm just putting 3 things in, uh, perspective. One, we are not carrying any baggage from September or Q2 and including October. So we are getting into November absolutely fresh with a super and a very good collection efficiency, no baggage on collections, uh, no prior, uh, incidents or concerns.

So I think that makes us very, very confident. The second thing is that the 2 new products we have launched. So we are already so the individual loan you will see now scale-up happening, but the JLG MFI, which is a non-qualified loan up to 1 lakh, that we will continue to grow and we see very good demand in the market, especially our customers and competition customers or customers out in the market who have a previous track record. The third is the MSME growth, which will come from the increased ticket size.

So MSME has already grown about 20% in the between Q2 to Q1, and grown by about 10% this quarter over the previous quarter. So I think with this you will see a very strong growth, uh, obviously coming in MSME, uh, and they will start having substantial contribution to the numbers now. But I am refraining from giving a year-end number, but I can tell you that we are in a strong position for growth.

Operator
Thank you. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta - Analyst, Maximal Capital
Good evening, sir, and congratulations. Sir, on Maharashtra, you said 117 crore.

Operator
I'm sorry to interrupt you, Mr. Gupta, but your voice is sounding very muffled. Can you please check in case if you're connected on any Bluetooth? Can you please come on your handset? Yeah,

Sarvesh Gupta - Analyst, Maximal Capital
yeah, yeah. So on Maharashtra, you said 117 crore. I'm

Operator
sorry to interrupt, Mr. Gupta, again.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Coverage, 117 crore. Yeah, okay, so

Rajeev Mehta - Analyst, Yes Securities
that is 0.5%,

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
correct? So that is at a 98.84% collection efficiency in October and net flow rate of 0.57% in the Current bucket.

Rajeev Mehta - Analyst, Yes Securities
And this is the entire Maharashtra book, right? Not the

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
this is the entire Maharashtra book.

Rajeev Mehta - Analyst, Yes Securities
Okay, okay.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So the drought-affected Maharashtra is, uh, smaller. That POS is also close to about, uh, 26 to 27 crore.

Rajeev Mehta - Analyst, Yes Securities
Okay, so all this reduction in the net flow of 0.5% is coming because of 26 crore book rather than the 117 crore book?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, most of this is coming from see, uh, like I said, it's not that all of drought is, uh in fact, 60% of drought has not started giving impact Yet, and we see it wherever the drought impact is also there on the collection efficiency, like I explained in the previous question. It is not because the customer's cash flow is impacted. It is because the customer wants she is not sure about her future earnings and she is just playing a little safe.

Rajeev Mehta - Analyst, Yes Securities
Okay. So the 0.57%

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
or 55%, the net flow forward is on the overall Maharashtra book.

Rajeev Mehta - Analyst, Yes Securities
Okay, but since you are saying that 26 crore is the main affected one, so in that sort of a geography, maybe you are coming down to 96% or thereabout, and remaining might be Obviously

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
we will be we are there, we are at about 97.25. That's, that's about 26 crore of POS.

Rajeev Mehta - Analyst, Yes Securities
Okay, and the remaining book which is 90-odd crore, is that at 99.8 just like the overall company?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So I have not, uh, done that math separately, but yeah, so I have given you the 2 books. You can do the math I have given you. You can put weightages, and I have not done that separately.

Rajeev Mehta - Analyst, Yes Securities
Okay, okay, okay. And secondly, sir, on the DTA side, so how much, uh, DTA are we carrying now which is which can be consumed

Krishan Gopal - Chief Financial Officer, Fusion Finance Ltd.
So as on September 30th, we are carrying 271 crore of GTA which is unrecognized.

Rajeev Mehta - Analyst, Yes Securities
271 crore, okay. And on the Karnataka side, you know, normally, you know, we have seen some

commentaries by companies about drought, etc., but in your case you are saying that, you know, it has actually gone up in terms of X bucket. So I mean, any particular reason why our book might be behaving a little bit better than the, than the commentaries otherwise? I

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
think Karnataka, as a rule, we had put we will do only 2 lenders. We had so they were, uh, so when the Karnataka crisis had happened, post that we had not opened, uh, Fusion Plus 2 across all the branches. So there were multiple, uh, Riders that we had put. And even where we did Fusion Plus 2, there we put with multiple other caveats. So we've been overall, since the Karnataka episode, we've been very cautious on Karnataka. And, uh, we did this homework, I think, about 7-8 months back, that which are the markets which are rain-fed, uh, and what is the pro which markets could get impacted.

So we had identified part of after this issue happened, the rain-fed part of Karnataka we had identified, uh, with separate guardrails. I think maybe that's why the collection efficiency continues to be strong. And October also, like I said, I have shared with you the October numbers also. October also Karnataka continues to be very strong.

Rajeev Mehta - Analyst, Yes Securities
And our

Operator
Mr. Gupta, I'm sorry to interrupt. We are unable to hear you, sir. Can you come in a good reception area?

Rajeev Mehta - Analyst, Yes Securities
Yeah, I was asking that 2 states, there is nothing in any other geography?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
No, we don't see. We have been watching, so we see we saw reservoir levels dropping in, uh, Andhra and Telangana, uh, but We don't see any impact on collection efficiencies there or any disturbance or any impact on the ground.

Rajeev Mehta - Analyst, Yes Securities
Okay. And secondly, sir, on the NIM side, so, you know, there are larger players which have spoken about reducing the yields and then on the competitive side, how is that going to play out? You know, difference between the various players is also getting higher now. So are you seeing I mean, how do you see that situation panning out? Because the, the some of the bigger guys also have very, you know, I mean, good sort of source of funding, etc., and now they are earning excess sort of, you know

Audience?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
So we have lost you, Praveesh, but I'm, I'm assuming your question is that do we, uh, see any, uh, stress on the cost of borrowing going up because of because you're seeing everybody else's cost of borrowing going up and people are talking about that, even the large players. I think clearly, uh, you have to appreciate that we are coming out of a high we are personally coming out of a high interest rate cycle. You look at the incremental cost of borrowing, uh, and, uh, you look at the

trajectory.

Now the market, uh, the external rates have not changed so much, uh, so I, I think it was because of our past performance where our cost of borrowing was high and not to do with the market. So the increment that you see is because our performance continues to improve from a profitability perspective. And like Krishan already explained, we think there's an opportunity to further reduce the cost, the incremental cost of borrowing from the levels right now. And assuming that, let's say, there's a 50 to 75 basis points increase in the next 2 quarters, impact of that will be very muted for us.

Plus the other thing that Krishan already spoke about is that the, uh, the rate that the pricing because of the PTC coming in, you see PTC as a percentage has significantly gone up, uh, to close to about 9%. And Krishan already explained that this will further go up. So we have plenty of leverages available to reduce the cost of Uh, funds. The second thing is that there is another the, uh, the yield increase that we did, only 25 to 30 bps of that effect is coming in the portfolio. Uh, in the next 2 quarters, you will see another 12 to 15 bps coming per quarter.

So we see, uh, NIMs to be continuously, uh, increasing from here on. And I think next quarter we will give you a more clearer idea on the future NIMs, how they will be. But at least right now we see that increasing.

Rajeev Mehta - Analyst, Yes Securities
Okay, sir. Thank you and all the best.

Operator
Thank you. Next question is from the line of Varun Gajaria from Boring Asset Management. Please go ahead.

Varun Gajaria - Analyst, Boring Asset Management
Hi, sir. Congratulations on a good set. So just wanted to understand, in case I missed it, we are on track for our yearly guidance? And do these macros worry you at this point, or are we good to go?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Sorry, did you say which guidance, Varun? Is it AUM guidance?

Varun Gajaria - Analyst, Boring Asset Management
Yeah, for the growth guidance and our annualized cost guidance, what I meant.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Correct, correct, absolutely. So I think there are 3 clear guidances that we had given for this year-end. I'll just reiterate, we had said that 10,000 crore of AUM. 2, we had said that the credit cost will be in the range of about 2-2.5%. And 3rd, we had said that we were at 3-3.1% in Q1, we had said we'll be close to we'll be at 4% by the last quarter. Now we are very confident, you've already seen 4% ROA hitting right now, so we see continuous growth happening. Happening in ROA. Uh, we see, uh, you see, uh, good performance on credit cost.

We will continue to hold that. I have shared with you the October numbers already. I think on AUM growth, because of, uh, Q2, because of the 5 states that we spoke about, the demand has got a little delayed, and hence, uh, they're That 10,000 crore, we may have to moderate a little, and that AUM could come a little later. But, uh, like I said in the previous question, I don't want to give another number because there are too many moving parts right now. However, I have shared with you the

October numbers.

We are already seeing a 10% growth, and we are confident that the growth will continue. However, your specific question of 10,000 crore of AUM, we don't I'm not giving another number, and, uh, I, I think we will wait and watch. But obviously some of that, uh, will get moderated because of what happened in Q2. But I think the good thing is that there is no moderation in, uh, the credit cost reduction or the ROA, uh, targets that we had taken.

Varun Gajaria - Analyst, Boring Asset Management
Right. Uh, and, and overall, our borrowers seem to be down by 25% while, uh, While we have outstanding per borrower is probably above 52% at 37.7%. So when do you think the borrower count stops? Is it conscious credit management policy to onboard safer borrowers? How does it work?

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
I think so. So there are you already if you look at in our book, there are approximately, and most of it is old book, there are about 4% customers who are more than 3 lenders. So we cannot fund to these customers. They will have to at write and move out. Similarly, there are also customers who are moving out because they are overleveraged because of other reasons. Let's say not just the lenders. I'll just give you a sense of how we are measuring this. Of the customers which are eligible for a second loan in the, uh, in the 20 between the 24 to 27 months.

That's when 50-60% of customers come for a retention or a repeat loan. We were retaining about 30% of the customers. Actually, exact number was 29%. There are some changes that we have done, uh, and there is, there is additional focus that we have put, uh, from August onwards on how we are tracking, what offering we are giving to those customers, even our KPIs internally at a branch level. So this retention has now moved from 28% to 38%, actually close to between 38% to 39%. So I think our focus is that customers who are eligible, who are ready for a repeat loan, a significant percentage of that we should be able to retain with us.

The immediate target for the next few quarters is we want to be at about 50% of the customers we want to retain.

Varun Gajaria - Analyst, Boring Asset Management
Okay, thank you so much and all the best.

Operator
Thanks. Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Sanjay Garyali for closing comments.

Sanjay Garyali - Managing Director and Chief Executive Officer, Fusion Finance Ltd.
Yeah, thank you everybody for being with us and wishing you and your families a festive season ahead. Thank you so much.

Operator
[Operator Closing Remarks]