"AU Small Finance Bank Limited

Q2'FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the AU Small Finance Bank Q2'FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone.

I now hand the conference over to Mr. Prince Tiwari, Head of Investor Relations and FIG, AU Small Finance Bank. Thank you, and over to you, Sir.

Prince Tiwari: Thank you, Rutuja, and good afternoon, everyone, and welcome to AU Small Finance Bank's Earnings Call for the second quarter of financial year '26-'27. We thank you all for joining the call this evening. On today's call, from management, we have our founder MD and CEO, Mr. Sanjay Agarwal; our Executive Director, Mr. Vivek Tripathi; our CFO, Mr. Gaurav Jain; and IR team.

CFO sir will start today's call with 15 to 20 minutes opening remarks highlighting the bank's performance, positioning, and outlook. We'll follow the opening remarks with a 40 to 45 minutes of Q&A from participating investors and analysts.

For the benefit of all participants and so that we can take everyone's questions, we would humbly request everyone to keep the number of questions restricted to two per participant and join back in the queue in case you have further questions. For any data keeping questions, you may kindly reach out to the IR team anytime post this call.

With that, I now request Gaurav to share his opening remarks.

Gaurav Jain: Opening remarks: Q2 FY27 earnings call

Thank you, Prince.

Good evening, everyone, and thank you for joining us for our Q2 FY27 earnings call.

Q2 was our 38th quarter as a commercial Bank and over the past decade, we have navigated a dynamic operating environment while strengthening our balance sheet, building multiple growth engines, investing in technology and talent and maintaining a sharp focus on risk management and governance.

Q2 was another quarter where the Bank demonstrated resilience and strong operating performance amidst a challenging macroeconomic backdrop. The operating environment in this quarter continued to be influenced by geopolitical risks and monetary policy tightening with MPC raising policy rate by 25 bps to 5.5% and shifting stance to "Calibrated tightening". While domestic activity and credit demand remained healthy, we remain watchful of the implications on liquidity, deposit pricing and loan yields.

Now let me walk you through the key highlights of our performance in Q2.

Our deposits grew strongly by 29% YoY and 8% QoQ (vs banking system growth of 18% yoY). This was despite not meaningfully participating in the strong FCNR inflows in the banking system due to our limited overseas footprint. We garnered around US$230 million of FCNR deposits on a gross basis in Q2. CASA deposits continued to see strong growth at 29% YoY and 11% QoQ with CASA ratio sequentially improving 72bps to 29.5% from 28.8% in Q1

Loan portfolio grew 25% YoY and 7% QoQ, against banking sector credit growth of 19%. Secured assets, which remain the foundation of our lending franchise, grew by 26% YoY and 5% QoQ. Unsecured businesses grew 23% YoY and 8% QoQ led by microfinance and personal loan.

Disbursement for the quarter was up by 33% YoY, driven by broad-based growth across businesses.

This balance-sheet growth translated into healthy operating performance. Net Interest Income increased by 32% YoY on the back of strong growth in loan portfolio and 33 bps YoY expansion in margins. Sequentially, margin declined by 9 bps to 5.8% driven by higher share of investments to total assets and seasonality. Sequential loan spreads remained broadly stable with decline in loan yields (by 9bps) being offset by 7 bps decline in cost of funds. Core fee income grew by 16% YoY driven by healthy business volumes. Treasury profits were lower on a YoY basis leading to muted total other income growth of 8% YoY.

Operating expenses increased by 26% YoY driven by growth in disbursement volumes and continued investments in distribution, brand and technology. Operating leverage continues to play out on underlying basis, with Cost-to-assets ratio, excluding guarantee premium, improving from 4.0% in Q1 to 3.9% this quarter. We expect cost to assets ratio to improve YoY on a full year basis.

Core PPoP grew by 31% YoY to INR1,480 Cr whereas provisions declined by 25% to INR359 Cr, largely led by normalization in unsecured businesses. Asset quality metrics remained stable during the quarter. Slippage ratio improved on a YoY basis to 2.6% vs 3.3% a year ago supported by improvement in unsecured businesses, while slippages in the secured assets remained stable. GNPA ratio declined by 42bps YoY to 1.99% and Credit cost, including guarantee premium, declined by 45 bps YoY to 0.8%

Profit after tax grew 53% YoY to INR858 Cr compared to INR561 Cr in Q2'FY26. RoA for the quarter improved to 1.7% vs 1.4% in Q2 last year and RoE improved to 16.1% vs 12.4% in Q2 last year. For H1'FY27, Profit after Tax improved by 45% YoY to INR1,654 Cr compared to INR1,142

Cr in H1'FY26. Similarly, RoA and RoE improved to 1.7% and 15.8% compared to 1.4% and 12.9% for same period last year.

In terms of other strategic updates, We continue to invest in our people, distribution, branding and technology, to strengthen our foundation for the next phase of our growth. During the quarter, we added ~2,400 employees largely in customer facing roles to support our increased distribution with 45 new deposit branches and 100+ asset centres added in Q2. We also strengthened our senior leadership team, with Mr. Anil Agarwal joining as Senior Executive Group Head, to lead our Commercial & Institutional Banking business and Mr. Amol Padhye formally assuming the role of Chief Risk Officer. We have also stepped up our brand investments across television, print and digital media with association with Kaun Banega Crorepati being a prominent investment. This month we also inaugurated our new corporate office in Mumbai, marking an important milestone in our journey. In the next few months our entire senior leadership will be co-located in this office, bringing us even closer to the broader financial ecosystem. In terms of our credit rating, on 1st October, ICRA Ratings upgraded our credit rating outlook to Positive from Stable, while re-affirming our long-term rating at AA.

Coming to our Technology and AI initiatives. As announced last quarter, our Tech strategy is organized across 3 pillars of Run, Build and Transform with dedicated teams and leadership for each area. Run and Build capabilities are enabling the Bank to scale faster while serving customers more intelligently, at lower cost and in uniformity. Transform pillar is focused on ensuring AI adoption at scale and moving AI from individual use cases to an enterprise operating model. Our deterministic, agentic AI platform is a framework of responsible AI, human-in-the-loop governance, model explainability, full auditability, zero-trust security with real-time risk monitoring.

This enterprise-wide automation is driving straight-through processing and cross-sell. Our investments in data lakehouse and analytics platforms have started to show some traction. For example, our Cross Lead Platform, together with Voice AI, enabled ~5% of our total disbursements in Q2; Importantly, this automated customer coverage led to ~50% operating cost savings Voice AI led disbursements. Additionally, the score card-led underwriting models delivered ₹500 crore+ disbursements in unsecured loans during the quarter. Agentic AI LOS for Gold Loans is showing promise with over 2,500 loans disbursed till date delivering faster turnaround times and superior customer service across 40 branches. Increasingly, the Bank is focusing on scaling Agentic AI journey to Wheels, Mortgages and Commercial Loan while redesigning 5 priority back-office and control functions as AI-native workflows. Overall, our technology investments remain focused on delivering measurable business outcomes while creating a scalable foundation for sustainable growth and long-term differentiation.

Now, let me now provide some colour on our key businesses, starting with deposits. Our liability franchise is classified under two broad verticals - Branch Banking and Commercial & Institutional Banking. Branch Banking forms 61% of our total deposits and focuses on relationship led customer acquisition and servicing. Commercial & Institutional Banking now comprises of all other deposit verticals like Government Banking, Commercial and Wholesale banking and FIG and capital markets where the mandate is to build a stronger current account-led deposit franchise through deeper, solution-led engagement across transaction banking, cash management, forex and institutional banking.

In Q2, total deposits grew 29% YoY supported by strong growth of 55% in CA balances and 23% in SA balances. On a daily average basis, CA balances grew 61% YoY whereas SA balances were up 24% YoY. New

CASA account acquisition during Q2 also remained strong with 45% YoY growth in acquisition of premium accounts. During the quarter, Bank also received SEBI approval for providing UPI Sponsorship Services under the ASBA framework for IPOs and Public Issues. This will strengthen our Capital Markets and Transaction Banking proposition and help Bank position itself as "Banker to an Issue" for public market issuances.

This strong deposit performance reflects several strategies coming together: sharper segmentation, dedicated liability channels, wider distribution, stronger brand and an improved customer proposition. These capabilities built over several years are now translating into stronger acquisition and more granular, broad-based growth. We are encouraged by the progress but remain focused on sustaining it with the right mix, pricing discipline and quality of deposits

Moving on to our assets franchise. Retail secured assets, comprising Wheels, Mortgages and Gold Loan, forms 66% of our portfolio and grew 22% YoY and 5% QoQ. Within Retail, Wheels book crossed the 50,000 crore milestone this quarter and grew 27% YoY and 6% QoQ to reach ~51,000 crore; growth was driven by strong demand in the new vehicle segment as well as increasing disbursement traction across newer geographies. Gold loan business grew 102% YoY and 4% QoQ to ~4,700 crore. Mortgages business, comprising Micro business loans and affordable housing, grew by 12% YoY and 2% QoQ with growth largely being led MBL business where disbursements are up 17% YoY. As mentioned in the past, we are not looking to chase affordable housing loan growth, given our cost of funds and the competitive intensity in the segment.

Moving on to Commercial Banking. This business grew 39% YoY and 8% QoQ to ~₹35,300 crore, with broad-based growth across sub-verticals.

Transaction-banking and forex income grew by 51% YoY, reflecting improving product penetration and stronger customer engagement. With growth remaining robust, focus in commercial banking is to become progressively self-funded with every lending, supply-chain, and corporate-banking relationship having a Current account, CMS or collections, and payments proposition attached.

Now moving on to Unsecured businesses. Our Inclusive Banking franchise, which primarily includes MFI, grew 23% YoY and 6% QoQ. Collection efficiency was stable at 99.6%, and 99% of the book is covered under the CGFMU guarantee scheme. Our digital unsecured portfolio also reported a strong growth of 23% YoY and 14% QoQ. Personal loans grew by 81% YoY and 31% QoQ off a low base, supported by analytics-led cross-sell and calibrated new-to-bank acquisition. The credit card book saw marginal growth, with 1.5 lac new cards issued in the quarter.

To conclude, Q2 reflects continued progress across our deposit franchise, lending businesses and profitability. As we look ahead, our focus remains on building the institution ahead of its scale by strengthening governance, leadership and organisational capabilities, while simplifying processes and leveraging technology, data and AI to improve customer experience and productivity. While we remain watchful of the operating environment, the investments we have made in our businesses, teams and distribution provide us a strong foundation to pursue growth with discipline, granularity and consistency. We remain confident in our ability to compound sustainably, deliver predictable performance and create long-term value for all our stakeholders.

I would like to thank our teams for their commitment, and all our stakeholders for their continued trust in us. With that, I will now hand over to Prince for Q&A.

Prince Tiwari: Thank you, Gaurav. Rutuja, we can now open the floor for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Akshay Jain from Autonomous. Please go ahead.

Akshay Jain: Hi, sir, and thank you for the opportunity. Sir, I have two questions. First, on your margins. I can see that margins have declined by 9 basis points quarter-on-quarter and you have attributed higher investments as the reason behind it.

So, my question is on this liquidity. You have seen a deposit growth of 8% QoQ and even if we adjust it for FCNR, it is strong at 6.7%. What's driving this strong deposit growth? Is it some one-offs, or is it because the larger banks have vacated the domestic deposit space for FCNR (B)? What should be the sustainable deposit growth incrementally, and also the margins?

Prince Tiwari: Hi, Akshay. Prince here. Thank you for the question. I think on our overall deposits, we have been commenting for some time that as a Bank, we have been investing heavily both in our distribution as well as technology and getting processes right, getting to make it easier for the customer to onboard themselves to bank with us.

What you are seeing is net-net a result of that. I don't think there is any one-off there. There could definitely be some transactional current account flows which came through this quarter, but I would not say it's a one-off. It's something that we have been working upon as a bank, and we have started to see some bit of result of that, and that's why you see the CASA ratio in the quarter going up by almost 70 basis points on a quarter-on-quarter basis.

And I think if you recollect, our public guidance has always been that our deposits will continue to grow faster than or in line with our loan growth. On our loan growth, given that this quarter we didn't have any FCNR component, loan growth has been at about 25% on an annual basis, and deposits have just followed that. There's nothing specific to call out there, I would say. It's more the granular work that the team is doing, and that makes us a lot more confident going into this next cycle.

Akshay Jain: Sir, but what should be the sustainable deposit growth? Should we assume the current run rate of say 26%, 27% as sustainable, or should it cool down a bit incrementally? And even on the CASA front?

Sanjay Agarwal: Yeah, Akshay. Sanjay Agarwal this side. The whole endeavor of organization is just to look for a sustainable deposit growth, right? And we've already commented that we want to relate it with the overall nominal GDP growth of the country, and there if the country is growing this year in the range of 10%, then we are expecting around 25% plus.

This year-on-year 29% growth can be a little bit more than what we expected, but I think the whole architecture of building our deposit franchise has been really clearly laid down in the organization. We have a retail branch banking franchise, we have a commercial banking franchise, government banking franchise. So, overall, we believe that for the last 9 years now, 38 quarters, we really have worked every day on our deposit franchise, and now it's a time when it's really paying in for us.

Prince Tiwari: Yeah. And also if I can add, Akshay, if you see the average balances, I think we have given the daily average balance also for current account and savings account, I think Gaurav covered it in his speech, on a Y-o-Y basis, you are seeing both current accounts growing at about 60% on an average basis, and savings account also growing 24%. That also tells you that this is more transactional money rather than any one-off.

Sanjay Agarwal: Our target is to grow in the range of 25% year-on-year. But it will depend on the market and the overall condition. But we are very happy to see our growth irrespective of not doing so well in our FCNR deposits.

Akshay Jain: Understood, sir. And second question is on asset quality. This quarter has been pretty robust on asset quality, but what would be the outlook on asset quality, given the El Niño and the uncertain macro? Plus, many of your peers have warned of the impact of drought, especially in certain regions in Central India. How should we expect asset quality to behave incrementally, and any change to credit cost guidance?

Sanjay Agarwal: Yeah, Akshay. Of course, there are lot many vulnerabilities which we are all going through, but the silver lining is this that our six-monthly credit cost is around 73 bps or 74 bps (81 bps including CGFMU premium). We have given a guidance of close to 90 bps, so we have enough room for any kind of vulnerabilities or one-off. Largely, some of the districts or states might be facing challenges due to drought or high oil prices, but the data has not shown any kind of stress till now.

Yes, fingers crossed. Let's see how quarter three behaves because whatever will be there will come in the quarter three. I do not expect any surprises in quarter four, to be honest. Vivek, you want to add on something?

Vivek Tripathi: Yeah, so largely, what do we anticipate, right? So far, till September, everything has been in line and what we anticipate that we would be within our guided range. So we do not anticipate that we will be reaching it (guided credit cost). In terms of product also, I would say one of the most vulnerable products (MFI) has a very wide coverage now. 99% of that book is covered under CGFMU, so we do not worry that much.

Akshay Jain: So, sir, is it safe to assume that your SMA levels as well as the collection efficiency are still pretty robust, and we are yet to see any deterioration over there?

Vivek Tripathi: Absolutely. Yes.

Akshay Jain: Thank you, sir. Those are my questions.

Prince Tiwari: Thanks, Akshay. Thank you.

Moderator: Thank you. The next question is from the line of Jayant Kharote from Axis Capital. Please go ahead.

Moderator: I am sorry to interrupt you, Mr. Jayant. We are unable to hear you.

Jayant Kharote: Hello. Am I audible now?

Moderator: Yes.

Jayant Kharote: Yeah. Congrats on the good set of numbers. First question is on slippages. If you could help us understand which segments have seen inch-up Q2 versus Q1 in terms of slippages? That is first question. I will come back with my second.

Vivek Tripathi: Jayant, both Q1 and Q2 sequentially is not comparable. Typically, it's not apple-to-apple comparison. To have a right comparison, you have to compare it with the last year Q2 because tractor is a one product where you have a billing cycle twice in a year, right? This quarter, you had tractor billing, and tractor billing will have a little bit of impact on your overall slippages, right?

So, it has seasonality because it's linked with crop cycles. I would say that if you look at the improvement area from last couple of quarters, that has largely been from the unsecured side. Our credit card and microfinance franchise has stabilized and is absolutely in pretty shape. On the secured retail asset or commercial asset, there has never been

a challenge for us, right? That's always has been range-bound. We do not see any sort of reason to ascertain that any change in the slippages. It's more of seasonal and more of a tractor billing. Yeah.

Jayant Kharote: Understood. Sir, you can continue, if you want, or I can go on to the second one.

Prince Tiwari: No, no. Go ahead, Jayant. Next question.

Jayant Kharote: Okay. Second was the insurance fee income impact, right? While there is some ROA impact to that tune, we have been guiding for this 1.8% ROA outlook consistently. Given that this could be maybe 7, 8 basis points of impact, what levers do you have to ensure that our ROA/ROE profile remains stable going ahead?

And why I am asking this is, as I can see, you are shoring up deposits or liabilities as you scale up, that is going to weigh on your NIMs, right? And probably a right strategy to invest on the liability side from the medium-term perspective. But then how do you manage the ROA profile with this surplus liquidity on the deposit side continuing for the next 2-3 years, and then that insurance hit coming?

Gaurav Jain: Yeah. When you speak about the ROA outlook for in the sort of, say, medium term, right? Clearly, there will be some headwind from this insurance fee income consultation paper, right? It remains to be seen what is the final shape in which this is ultimately passed, but irrespective of that, there will be some impact, right? What I want to add is there are other line items within the other income line which are growing on a secular basis. We have forex business, which we started a couple of years back.

That is gaining quarter-on-quarter. We also have credit card issuances bouncing back, so that is also aiding sort of my other income fee pool. We are also growing our trade finance business, right? There are other

fee pools which will help offset some of the headwinds from the insurance side of things, right?

In terms of other components of the ROA tree, we have been discussing extensively the operating efficiency as a key driver on a multi-year basis, right? When you look at our cost-to-assets ratio of about 4%, that compares with other mid-sized banks who are operating between, say, 2.5 to 3.5. I feel confident that on a multi-year basis, we should be looking for sequential improvements on this, despite sort of continuing to invest in our in our franchise, right?

Then on credit cost, we have said that long term, you should expect 90 basis points to 100 basis points of credit cost on a through-the-cycle basis. That will depend on how each year is playing out. Those are some of the key drivers.

And the final one, again, I don't want to comment on quarter-on-quarter, but we have a deposit franchise which is gaining momentum and traction with each passing quarter, right? Prince spoke about, and I mentioned in my opening remarks, how we are adding propositions which are for differentiated segments, how we are investing in our distribution, in our technology, and in our brand, right?

So my deposit franchise will improve, which should help me lower the cost of funds differential versus other peer mid-sized banks over a medium-term outlook. I think those are some of the things which will help, right? These are some of the known things which we think we should have.

And then there's always, you know, there are stuff which comes out of the woodwork both on the negative side and positive side, so we remain hopeful that there are other stuff like the UPI MDR income line, etcetera, which will start to come into play, so multiple things to offset this.

Moderator: Sorry to interrupt. May we request Mr. Jayant to please rejoin the queue? We have other participants waiting for turn. Thank you. The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yeah, hi. Thanks for taking the question. So particularly on the deposit side, from two contexts, one is, we have grown at a pace faster at almost 28%-29%-odd, and other banks are flushed with liquidity from FCNR. So what would be our deposit rate strategy?

Would we continue with this 80-90 basis points of premium on the term deposit side? Or given that other banks would not be very aggressive? Would we look at tweaking the deposit rate? What would be our deposit rate strategy in the current environment?

Sanjay Agarwal: Hi, Kunal. Sanjay this side. So, I think 80-90, or maybe 100 bps premium to other banks, we want to be on that strategy only, because we haven't seen any rates coming down because of FCNR deposits, and it was largely on the I would say wholesale deposits where some cut happened. And we also calibrated ourselves, and that is why our cost of money for Quarter 2 has come down, right?

So in a larger sense, we need to build our deposit franchise, and we need to build with some kind of price, and that we really want to be like this till we get a new platform and we settle on the new platform. So I think deposit franchise remains our top priority, and we will not play around with market-driven forces or events. Rather, we want to be on our own path and create more and more customer and treat them holistically, or serve them holistically, so that in a long run, our franchise becomes more stable and sustainable.

Kunal Shah: Okay. So in rising rate, if other banks don't react in terms of increasing the rates, we might still react looking at maybe our growth profile and

maybe our strategy which is there? We will not be more market-determined?

Sanjay Agarwal: No. I won't say -- I'm not saying this. I'm just saying this because we'll have our strategy, which is always based on some market data and all those things, but it's not driven by not many optics number, right? Whether we are pricing 100 bps more or we are pricing with some other or you know, it's our own strategy where we want to raise our money. So that will continue.

If money becomes expensive, we need to build our deposit franchise around that. But our deposit franchise is now becoming more and more, I would say, visible, it's gaining traction. We are building our franchise more in sense that people are trusting us and knowing us more and more. So the cost of acquisition and effort in acquisition is now going down.

So that's the way I'm explaining that, what we have done around deposit franchise is one of the example where how we can calibrate both, the cost and the growth. So it's a balance of both, right? So let's not read too much. And I would say, we go along with the requirement of the business.

Kunal Shah: Got it. And secondly, on opex-to-asset, so this quarter again we saw quite significant jump on opex side, 7% quarter-on-quarter, and when we look at overhead costs, that has gone up by almost like 11%-odd quarter-on-quarter, 35% year-on-year.

So currently, it's still in line with the overall AUM growth, and we keep talking about the opex efficiency. So when should we actually start seeing this efficiency? I understand we have added branches, added employees over past couple of quarters, but when ideally this operating efficiency would start to play?

Gaurav Jain: So look, there are two impacts, right? When you look at the 25% year-on-year increase in cost, right? So there is an underlying cost which is supporting the existing business, and then there is investment which is going to improve the platform, be it through technology, distribution, or branding.

So the 25% is a net result of that, right? But if you look at on a cost-to-income ratio or a cost-to-assets ratio, we are either stable or improving on that. On ROA tree basis, I think we improved on a Y-o-Y basis when you look at Q2 numbers.

Kunal Shah: Okay, got it. Okay, yeah, thanks. Thanks for answering the questions. Yeah.

Moderator: Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Yeah, hi. Thanks for the opportunity, and congrats on good results. I have two questions. One is on the gold loan growth. Like, we have been earlier reporting pretty strong growth, 100% plus, but this quarter is a little outlier in that strong growth context. So, anything to read into this from this quarterly growth perspective?

And second is again, going back on the margin. In general, there has been a concern about the fixed-rate nature of the bank and how the rate cycle is playing out. So what levers do we see to maintain margins? And is there any risk that we are looking at that can play out on the margins if the competition for deposit tightens going further? And because the book will take some time to reprice, how is the management looking at that?

Prince Tiwari: Nitin, I'll maybe first comment on margins, and then ask Sanjay ji to comment on gold loans. So margins, I think, if you see our margins this quarter, the loan spreads have been similar, right, if you compare

quarter-on-quarter basis. While the cost of funds have gone down by about 7 basis points, we have also seen some decline in the yields because of the mix change, right? That's what we had articulated last time as well.

So, I think the larger part of the NIM decline has been coming from the higher liquidity that we have maintained, or basically the higher investment book that we have run as a percentage of total assets. And then there have always been the day count impact, which keeps altering between quarters. This quarter, I think there was an extra day count, so that had impact of 3 basis points, 4 basis points, right?

If I look forward, there are a couple of key components to the NIM. One is obviously on the cost of funds. On cost of funds, as we articulated, this quarter the cost of funds benefited from transactional current account balances which had gone up significantly.

As somebody else said in the call earlier that the system liquidity is drying up, from the FCNR there was a lot of system liquidity, that also helped. That has started to dry up and the rates have started to go up. Especially in the short term, you can clearly see rates going up. This probably will put capping in terms of further improvement in our cost of funds.

Going forward, it will be more a function of liquidity and deposit competition which will determine the trajectory of cost of funds. I think, Kunal, to your earlier question that we peg we pegged our cost deposit cost to the mid-sized banks. If they react, we will necessarily be forced to react, given the platform disadvantage that we currently have.

Now, as far as the yield of advances is concerned, I think and that was your question, that ~30% of our book is floating rate and 70% is fixed rate. So this 30% floating rate book, the recent repo hike that has

happened of 25 basis points, that'll get transmitted over the next 3 to 4 months. Typically takes about 3 to 4 months, or one full quarter, so full impact will be visible next quarter, but it will start happening from this month onwards.

In case any future rate hikes happen, then that will further go on to support the yield on this 30% of the book. As far as the 70% of the book is concerned, which is fixed rate, I think there we'll have to just go with the market, and if there could be any pick up in the disbursement yields in the market, then I think that should start reflecting at our end as well. We'll follow that competitive pressure.

Otherwise, it's a function of what the asset mix is going to be, and as you know that this time, I think unsecured book is also available to us, which was not really there last time, and it has started to come off the cycle and started to do well. So, if you ask me a very point-blank question that are we better prepared compared to the last interest rate cycle, the answer is yes.

And why I say that? I say that because of two or three reasons, and I think we talked about some of them in the call. One, the overall the floating rate book, which is now 30%, provides some cushion. Second, if you look at the deposit rate tenure itself, what we have done is we had elongated our deposit rate retail deposit tenure, the peak rate from 18 months to 36 months. So that should also help.

But the biggest point that I want to highlight, or the second biggest point, is the interest rates in the system haven't gone down to the extent the repo rate cut has happened. If you look at the last three quarters since December quarter last year, even though the RBI cut the repo rate by 125 basis points, the deposit rates haven't really reacted that strongly. And we do believe that when the rates start to go up, probably some of that is already baked in into the market pricing.

And the last point, I think as a deposit franchise, we are in a much better position than we were in 2022 when the last interest rate cycle kicked in. The franchise is much bigger, we are investing in our branches, we are a pan-India franchise and obviously, there could be a tailwind from the platform transition as well. I would say all in all, we do think that we're in a much better position to traverse this NIM cycle as compared to where we were last time.

Nitin Aggarwal: Got that. Thanks for such detailed explanation. And second question was on the gold loans.

Vivek Tripathi: Yeah. Hi, Nitin. Vivek here. On Gold loan, if I have to just look at the year-on-year growth, it is pretty strong. More than 100%, though we are starting from a very small base. It remains a highly attractive franchise for us, and there is a whole lot of distribution available as for now available to us to grow this book.

Whatever moderation we are seeing in the near term is just because it's a reversal of gold loan prices, which has impacted two things: one, the renewal, the second, the BT portfolio from the industry. I don't think that we have to read too much into it.

There is a whole lot of distribution which is available for us, and our focus remains on this product where we see that we have a strong headroom for growth available to us to grow this book. We'll continue to keep on investing in the distribution of this product.

Nitin Aggarwal: Right. And Vivek, possible to share any color around the LTVs in this product?

Vivek Tripathi: LTVs remains range-bound. There is a proper mechanism if there is a breach happens of the margin call, etcetera. So it's well-defined. At a portfolio level, it's about 75%, and that that remains, which was there in the last quarter, which is there in this quarter. So there's hardly any

difference. But what it does, if the metal prices are not increasing, the opportunity for you to renew that customer, or take the top-up loans, or do a BT from somewhere else, reduces, and hence you're seeing industry-wide little slowdown, right?

Nitin Aggarwal: Got that. Got that. Thank you so much.

Vivek Tripathi: Thanks, Nitin.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi, team. Good evening. A few questions from my side. I'll just list them out here. Firstly, on the CASA deposits, the bank has seen a very commendable acceleration in the last few quarters.

Prince Tiwari: Sorry. Ashlesh, can't hear you properly. Can you just pick up the handset?

Ashlesh Sonje: Yeah, I'm just listing out a few questions. Firstly, on the CASA deposits...

Moderator: Sorry to interrupt you, Mr. Ashlesh, but your voice is breaking in between.

Ashlesh Sonje: Okay.

Moderator: We would request you, Ashlesh, to please come in a proper reception area. And if you we would request you to please rejoin the queue because we are unable to hear you, sir.

Ashlesh Sonje: Sure, okay. I'll do that.

Moderator: Thank you. In a meanwhile, we'll move to the next participant, Mr. Piran Engineer from CLSA. Please go ahead with your question.

Piran Engineer: Yeah, hi, team. Thanks for taking my questions and congrats on the quarter. Just going back to one of the earlier participant's question. I

understand slippages can be seasonal, and you should not compare Q1 with Q2. But if I take this year's 2Q and I compare it with, before MFI crisis, let's say 2023 or 2022, it is still slightly higher. Now, again, is there something to read into it? Is it just transitory? How do we read this, especially in an environment where all banks are reporting very low slippage numbers? How do we read this?

Vivek Tripathi: I think the comparison of 2022 when you're coming out of COVID, a very different cycle where most of the NPA is already recognized, and then the acceleration of the asset quality happened. This is very different. Second, the composition of the book, right? We had a very small -- some of the book, like tractor, which I said that it has a it has only two cycles of representation, right? This is a six-monthly billing, right?

If you have a billing in June, the slippages would happen in September, right? So that book today is about 12%, 13% of my wheels book, right? So that will have cyclical impact, right? Whenever there is a representation. June and December, both are the cycle when the billing happens. And so subsequently in September and as well as March, you will have tractor slippages, right? There is no comparison, actually.

Prince Tiwari: So I think just to conclude on this topic, because we have already answered

Moderator: Mr. Piran?

Prince Tiwari: Hi, Piran. Sorry, I missed your name. Piran, we have already answered this slippages question, I think, on couple of occasions. I will just say one last point on this, and then we will probably not be able to take any further question on this topic. Very simplistically, I think there is nothing to read here. Our asset composition has changed in the last three or four years, right? The numbers are not really comparable. We should compare what Vivek said, year-on-year.

That's a more relatable trend, because there is always an element of seasonality in our portfolio. We do not and again, it's unfair to compare with the banks. Banks lend to a completely different segment in a completely different yield curve. Our segment is entirely more self-employed and earn-and-pay segment, right?

I would say, when we looked at our internal data, when we look at year-on-year comparison, adjusting for seasonality, there's nothing underlying there which points out any early warning signal. I hope that answers.

Piran Engineer: Okay. Yeah, that that does. Secondly, in your initial comments also you mentioned that you are not chasing affordable housing finance due to higher cost of funds. But just wanted your thoughts on two things. One is, yes, your cost of funds are not comparable to a regular big bank, but…

Prince Tiwari: Not only cost of funds, we said competition as well.

Piran Engineer: But how do you think about the total, like the cross-sell potential of that customer, and let's call it the customer lifetime value? It's a large market, affordable housing. In fact, you all started one of the largest NBFCs a decade back.

Sanjay Agarwal: Piran, you are right. Our communication would have been taken wrongly. What we said that on an isolation basis, we do not want to build more housing book, and that too in affordable housing book. But if our existing customer who's having a good bank balance with us, or relationship with us, we want to provide them a mortgage loan on the current market rates, or maybe lower than that, and we already started that.

But that cross-sell of the book won't give you a large mortgage book because we are not attempting on a very secular basis. That was our commentary. It was not based for our existing customers.

Piran Engineer: Got it. Okay, and just one last question, if I may

Moderator: I'm sorry to interrupt, Mr. Engineer. We are unable to hear you, sir.

Piran Engineer: Okay, sorry. My question was, a commercial banking book, what's the mix between fixed and floating rate loans?

Prince Tiwari: Almost all of it is floating rate.

Piran Engineer: Sorry, could you repeat that?

Prince Tiwari: The entire book is floating.

Piran Engineer: Okay. Got it. Yeah. Okay, that's it from my end. Thanks, and all the best.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yeah. Hi, good evening. Thank you for giving me the opportunity. My question is on the mortgages piece and mortgages book, which is a large book, but the growth there has been slow for a while. How can the growth revive there? And second is on the wheels portfolio or the wheels segment, which is your auto loans and commercial vehicle loans.

How has the festive period gone in terms of demand, and what can be the growth outlook? Are you seeing that the growth can actually come off on a on a larger base? And since these two segments do not really grow well, can we then sustain this 25%, 26% growth momentum in the coming quarters?

Sanjay Agarwal: Okay. So wheels business, absolutely in good shape and performance there is in shape. They are growing by 27%, 28% year-on-year, and the

festive demand is strong there, and it will only go up from here because Diwali is coming up next month and all those stuff. So I do not think there is a challenge for us to grow in that sense, and we do not want to grow above our level also.

And we have a large bucket, from two-wheeler to entire commercial or a personal range. So that is largely sorted, and we want to become one of the most prime lenders in this segment, right? As far as mortgage is concerned, it has three parts to it. One of it is MBL/LAP, North or the older market of us is growing in the north of 15%.

We do not want to grow our housing book much, but there also the growth rate is around 10%-12%. But in Southern markets, where we acquired business through the Fincare Bank, we really want to again rebuild in that market with the strategy of AU as one unit. So it may take some time in Southern markets because we want to build with our own culture and values and our own strategy.

But we are really focusing on our mortgage business, and we are hopeful that with the distribution we have across country, we should touch in the range of 20% by next year. And we are pretty fine with that range because other book, which is commercial banking or unsecured piece, is growing more than 25%. Overall, we are targeting, again, in the range of 2x to 2.5x to nominal GDP rate side. So we have enough bucket available with us, and we can grow any of them to maintain that growth rate.

Rajiv Mehta: Got that. Any comments on collection efficiencies in October in spaces like microfinance, small business loans, and tractor finance? And one more related question is on the PCR. We have seen a PCR decline. So when you guide for a credit cost of say 90 basis points for the whole year, are you also looking at restoring the PCR a bit, raising PCR in the coming quarters?

Vivek Tripathi: So, Mr. Mehta, PCR, we don't actually target PCR. It's all about the policy on the provisioning, right, which we have become actually more stringent. If you look at the end of Q1, we have given the disclosures as well that we have become more stringent on as well as provisioning, as well as on the write-off. And it is not function of targeted PCR.

The PCR had come down because we had written off some of the book which the alignment, because there was an unsecured book, there was a two-wheeler book. Within the unsecured piece, there were 3-4 books which had a little differentiated write-off policy. So we aligned everything, all the books in one line, hence you had more of that.

Second, as your security guaranteed book is increasing, which is about 7%-8% of the total overall book, it would look lower. But when you add back the guaranteed portion, it would be actually much higher. It would be about 67%-68%.

And in terms of, you know, giving the colors of October, that's something which in the middle of month wouldn't be possible. As we said that till 30th September, we had no impact. But a certain thing to watch out for the whole country, we are also watching out, and there is nothing to read in between that.

Rajiv Mehta: Got it. Thank you. Best of luck.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi, team. Good evening. Can you hear me now?

Moderator: Yes, you are audible, sir.

Ashlesh Sonje: Okay. Sir, just a few questions from my side. I'll list them out. Firstly, on the CASA deposits, the growth has been quite commendable in the past few quarters. It would be great if you can share the cost of SA deposits

and term deposits for this quarter. I believe the last quarter's disclosure was 5.05 in SA and 7.27 in TD. That is one.

Secondly, if you could talk about the trend in slippages in the mortgages business specifically on a Q-o-Q and Y-o-Y basis? Third one, general banking fees have declined Y-o-Y in this quarter. Can you explain the reason there, and also remind us if there is any seasonality in the booking of any of the fees inside this item? And lastly, CGFMU, if you can call out the rupee cost in this quarter and the previous quarter.

Prince Tiwari: Sorry, what was the last one, Ashlesh?

Ashlesh Sonje: CGFMU premium cost.

Prince Tiwari: Some of these are very descriptive questions. I don't think we disclose some of these data, right? So I would suggest whatever is already publicly disclosed, we'll keep our answers to that. Savings cost, we don't disclose it, but I think you had asked this question last quarter as well. The rates continue to be similar to what we had told you last quarter, so there's no material change there. Then as far as the mortgage book is concerned

Vivek Tripathi: Yeah, so mortgage, I'll not quantify, but can give you a directional answer that it's better off quarter-on-quarter, it's better off year-on-year.

Prince Tiwari: And on the fee side, I think it's just seasonality. There's nothing else to read into it.

Ashlesh Sonje: Okay. Can you just elaborate a bit more, because on a Y-o-Y basis, I'm wondering what is the seasonality here?

Prince Tiwari: No, no. Last year same quarter, we probably had some more income on insurance on a full year basis, our view is that that should get adjusted. There's nothing more there. I think if you see all the other

lines, in terms of processing fees, that's up 17%. If you look at the credit card fee, if you look at the transaction fee, both are up more than 50%, right? I think it's only the banking fee where largely the cross-selling income goes. And there again, our view was that this quarter was a bit slow, and we remain on track to deliver on a full year basis. So nothing much to read there.

Ashlesh Sonje: Understood. Perfect. Thank you. Those were all the questions I had.

Prince Tiwari: Thanks so much, Ashlesh.

Moderator: Thank you. Ladies and gentlemen, as that was the last question for today, I now hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari: Thank you, Rutuja, and thank you, everyone, for joining the call today, and for your questions and for all your support. In case you have any further questions, kindly reach out to the IR team. This is Prince signing off on behalf of AU management and thank you so much. Look forward to joining you next quarter.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of management of AU Small Finance Bank, we conclude this conference. Thank you all for joining us and you may now disconnect your lines. Thank you.