



# “AU Small Finance Bank Q3 FY22 Earnings Conference Call”

**January 28, 2022**



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*Au Small Finance Bank*  
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**Moderator:** Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q3 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aseem Pant - VP, Investor Relations. Thank you and over to you, Mr. Pant.

**Aseem Pant:** Thank you Nirav. Good day to everyone and welcome to AU Bank's Earnings Call for the third quarter of FY22. We thank you all for joining the call today and we hope you and your dear ones are safe and well. For approximately the first 30 minutes of the call, we will have brief remarks by few members of our senior management followed by 30 to 45 minutes of Q&A.

Firstly, we will have our MD and CEO, Mr. Sanjay Agarwal share his thoughts on the performance and overall outlook for the bank. He will be followed by our ED, Mr. Uttam Tibrewal, who will share his thoughts on business outlook and asset strategy and then by our Group Head Liabilities, Mr. Rishi Dhariwal who will share his thoughts on liabilities outlook. Finally, we will have Mr. Vikrant Jethi - Head of Collections who will discuss asset quality for the bank. Besides them, we also have few other members of our senior management to answer any questions you might have.

For the benefit of everyone, we would humbly request that the number of questions per participant be restricted to a maximum of 2 and to join back in the queue or mail us in case you have any further questions. With that I will request our MD and CEO Mr. Sanjay Agarwal to share his thoughts on the bank's performance and outlook.

**Sanjay Agarwal:** Thank you Aseem, good evening, everyone, Namaskar. Thank you for joining in. We hope that you and your dear ones are doing well and keeping safe. While I want to say happy 2022, we all know that this year started with a bumpy ride. Unlike the previous days, the mortality rate of Omicron variant is low, so it seems like that we are already on the road of recovery. In terms of business impact, there are small continuity issues. People, be it our employees or customers are getting infected, but are coming back with the shorter cycle of 5 to 7 days. That said, till now, for the January, largely our business momentum around asset growth, its quality and other business parameters remain on course, but to give you on overall sense of quarter 3, we saw a near normal operating environment with the improvement across all key parameters aided by a strong passive season and resilient customer sentiment. Hope you have seen our recently declared quarter 3 results, we have shown a strong performance in the last quarter ranging from deposits to asset, to payments, to digital, sharing key highlights as follows:

We launched 69 new touch points in this quarter. We hired 2000 plus people taking the total workforce over 25,000. We have delivered the highest ever growth in deposits, that is 49% year-on-year. Continuing our focus on low-cost stable fund, we have reduced our cost of money by 89 bps in this year. We have maintained ample liquidity throughout the quarter. We disbursed

close to 8000 crores of loans in the last quarter, the highest ever in the history of AU. Our balance sheet size grew by 26% year-on-year, net worth grew by 32% year-on-year and our capital adequacy ratio is 22% including 9-month profit. Generated the highest ever operating profit in this quarter. ROA stood at 2% plus and ROE at 17% plus. The asset quality is getting back to pre-COVID levels. GNPA reduced to 2.6 from 3.2 quarter-on-quarter. Net NPA has also reduced from 1.7 to 1.3 and important RBI circular on potential norms has brought the NBFC asset recognition on par with commercial banks. This will provide a level playing field for bank like us which operate in similar customer segments. We can confirm categorically that the recent changes have no impact on AU bank as we have been following NPA recognition norms since 2017 and daily NPA tagging since 2019. More on this will be covered by my colleagues.

An important update is that I would like to thank to our brand ambassadors for their great brand appeal . We have seen extraordinary response for our digital bank whether it is in terms of increase in brand awareness and the brand consideration score or increase in ETB and NTB registration on AU0101 app. The key highlights are around this. All our digital properties have done phenomenally well with 1 lakh plus credit card issued out of which 53% credit card holders are first time credit card users and we have also installed 3 lakh+ UPI QR. Initial trends from the video banking experience have been quite encouraging in terms of enhancing reach, acquisition and engagement. AU0101 continued to see strong traction with 39% quarter-on-quarter growth in user registration, 2 lakh plus nonbank customers also got registered on AU0101. I would like to congratulate the team and our customers for this achievement for this time. I also take this opportunity to welcome Shri. H. R. Khan Saheb, ex-RBI Deputy Governor on our board as an Independent Director. I believe bank will immensely benefit from regulatory experience of Khan sir spanning for over 4 decades and I personally look forward for his mentorship.

I would also like to share that we have taken a step towards strengthening our business model by introducing 10 SBUs of which the details are shared in the presentation. Each business unit will have its own vertical structure supported by a common horizontal across bank support architecture. This will sharpen the focus, enhance the ownership, support the bandwidth management and lead to the development of new level leadership for the bank. In the coming times, we will arrange the calls with individual business units to give you more call around their working and their strategy. We plan to hold the first of this session on 10th of February 2022. The IR team will share more details in due course.

The very foundation of AU Bank was laid for empowering the economically weaker sessions by providing them better access to credit. We work on the unique formal Robin Hood model by garnering deposits from urban markets and disbursing in core markets. 76% of our liabilities are coming from urban market and 65% of our lending happens in core market. Our purpose of being SMB guides us and drives us every day. Continuing our legacy, we had exceeded the requirement of key vaccination guidelines with 86% loan to the priority sectors, 63% loans with ticket size less than 25 lakhs and 30% of touch point present at unbanked rural centers.

Our commitment to financial and digital inclusion remains unwavering. We are working towards building a society where every individual has access to financial services irrespective of his/her socioeconomic background. Through our efforts in digital and digitization, we have been able to positively impact the environment by reducing our carbon footprints. Our digital customer onboarding journeys have led to the positive excellence in terms of reducing paper and fuel uses. We have progressive approach on accepting diversity of all kinds of demographic experience; We have formed a committee on diversity and inclusion and the committee is working towards making the AU a more inclusive work place. The strong governance has been the back bone of our growth in the start of our journey, which has been validated time and again by market's regulatory rating agencies. I am happy to share that CRISIL's ratings has revised our credit rating outlook from stable to positive during this quarter. This is a strong validation of our banking franchise and asset quality despite the pandemic induced challenges.

Quarter 3 FY22 marks the completion of 19 quarter as a bank, what a rollercoaster ride, full of excitement, sustainable growth and resilience. The last 8 quarters remained under the weather due to the pandemic, I am very grateful to the government of India and RBI for their wholehearted support in terms of relief, reforms and packages. We will continue to invest in our 10 strategic business units and shall always be promising and a likable franchise to be joined by people. Today, we are serving 23 lakhs plus customer as the largest small finance bank offering over 30+ project at 80+ banking touch points across 15 states and 2 union territories with a team of 25,000+ employees. While our journey as a small finance bank was fraught with headwinds like demonetization, NBFC crisis, bank crisis and the pandemic, we believe that whenever things normalize, then this country, this economy, this platform and this team will do wonders. So, we remain optimistic with cautious approach while continuously working towards our purpose of developing the largest retail franchise. So, this marks the end of my narration. Thank you and stay safe. Handing over to Uttam for his business outlook and assets category. Thank you.

**Uttam Tibrewal:**

Thank you Sanjay. Namaskar, good evening everyone. Hope you all are healthy and happy. As Sanjay mentioned, our performance in Q3 FY22 has been consistent and stronger. I personally see it as a reflection of continuous efforts of our team to reposition the bank since the onset of COVID. Several quarters ago, we took the challenge to take COVID as an opportunity to further strengthen our foundations by redefining our distribution strategy to gain reach through branch banking and density through digital. Continuous engagement with the customers as solution providers reinforced and re-stitched the team to focus and effectively build a more retail and general bank. As we have shared in the past two quarters, by gauging the situation early on, deliberating and tweaking our strategy and displaying agility, we have managed to track the market and deliver performance on all business and financial practices. Our efforts on building a strong retail tech-led franchise had started to deliver results on all the parameters, be it our focus on CASA ratios, CD ratios, our brand visibility, video banking, our digital bank AU0101, our credit cards or expansion of our leadership capacity. Aided by a good festive season and strong demand across wheels, home loans and business banking, We recorded our highest ever quarterly disbursement for the quarter at 8152 crores up by 33% year-on-year.

In line with our narrative in Q1, Q2, we got the benefit of working on the ground and our customer connect and were able to further reduce our gross NPA to 2.6% and net NPA at 1.3% from 3.2% and 1.7% respectively. Wheels business financed 80,000+ vehicles during Q3 FY22, amounting to a total disbursement of Rs. 3045 crores, registering a growth of 14% year-on-year and 60% quarter-on-quarter. Personal segment contributed 46% of disbursement of which 20% were farmers. Tractor contributed 10% of wheels disbursement in Q3. Total AUM of wheels is now Rs. 15,525 crores across 6.7 lakh vehicles and 5.8 lakh customers, registering a growth of 15% year-on-year and 9% on a quarter-on-quarter basis. At AUM levels, 60% of the financing is for new vehicles, 25% is used vehicles, 13% is cash on wheels and 2% is two-wheelers. Limited supply of semi-conductors continued to constraint the growth for new passenger vehicles, despite strong demand order backlog, however, underlying demand remains robust and used vehicle segment continue to be direct beneficiary of supply shortage in new vehicles. Long waiting periods in new cars, affordability, and discontinuation of diesel vehicles by major OEMs will keep used vehicle demand buoyant in coming months.

In SBL business, demand is still to reach the pre-COVID levels. In Q3, the business saw a year-on-year disbursement growth of 10% with disbursement of Rs. 1629 crores to 15,546 MSME businesses. Total AUM of SBL business had now reached to 15,283 crores across 1.8 lakh MSMEs, registering a growth of 19% year-on-year and 6% on a quarter-on-quarter basis. Our housing business currently operates out of 241 branches across 8 states and financed 4500 plus houses during Q3 FY22 amounting to a total disbursement of Rs. 473 crores registering a growth of 55% year-on-year and 26% quarter-on-quarter. Total AUM of housing business is now 2099 crores across 22 dwelling units, registering a growth of 113% year-on-year and 24% on quarter-on-quarter basis. At AUM level, the average ticket size is 10 lakhs and average LTV is 50% at the end of Q3 FY22. The bank has been able to add 9000+ customers to avail subsidy under PM Awas Yojana wherein 4600 plus EWS LIG-MIG customers have already availed subsidy of Rs. 100 crores. Our commercial banking business comprises of 4 business segments namely business banking, agri banking, NBFC lending and construction financing. Together these businesses account for 15% of our AUM and primarily balance sheet-driven lending where we extend working capital, financing to MSMEs and SMEs.

In Q3 FY22, commercial banking business saw a disbursement of Rs. 2215 cores, a year-on-year growth of 139% with strong growth coming in from business banking and agri banking. We saw year-on-year increase in disbursement by 76% and 136% respectively. We issued more than 50,000 credit cards in Q3 and have achieved a run rate of 20,000 cards per month, taking us closer to top 10 credit card issuers in the country in terms of new card issued per month. I am happy to share that 31% of all saving account opened in Q3 has been sourced digitally via AU0101 by our video banking channel. Video banking is emerging as an alternate distribution channel with 35% of accounts acquired from non-AU bank locations and 78% customers are urban with 49% salaried profile. In terms of servicing, video banking channel can provide 400 plus different services and is now handling 750 calls per day. Similarly, AU0101 continue to see strong traction with 39% quarter-on-quarter growth in user registration and active customers measured as monthly active users has gone up by 38% over quarter 2.

Our strategy to build up banking ecosystem around merchants and traders by using UPI QR code as an entry strategy, opening their current accounts and using transaction data to develop analytics-based lending is progressing well. Our QR codes are now deployed at 3 lakhs plus merchant points, Apart from providing visibility to our brand, this has also helped us to retain merchant's accounts and we have already seen Rs. 1300 crores of throughput via these accounts. Our special focus on asset side has been automation, digitization of processes, so we can reduce TAT and improve productivity. We have piloted end-to-end onboarding solutions in SBL and Wheels business and solutions are being developed for other business verticals. Our objective is to digitize the entire on-board journey of the customer from sourcing to disbursement and maximize the use to digital in servicing the customer. We remain committed to increase our product for customer and are strengthening our products, processes, and channels for achieving greater cross sell using data analytics.

All in all, I remain excited, optimistic and look forward to sharing more with you in coming quarters. With this now, I invite my colleague, Rishi Dhariwal to share his views on the liability side of the businesses. Thank you. Stay healthy, stay safe.

**Rishi Dhariwal:**

Thank you Uttam and good evening, everyone. I sincerely wish you good health as we navigate these unprecedented times. I will speak about our liabilities; branch banking and product initiatives which are being built to make a long-term sustainable retail business. We continue to execute our strategy of boosting the retail mix of our overall portfolio and strengthening the deposit base while achieving an optimal CASA mix. This has been made feasible by enhanced efficiency in the branch banking channel and constant digital innovations which have made banking with us convenient for our customers. We are driven to build a predictable stable and scalable liability franchise. We have made targeted efforts to build a high quality retail CASA book.

To provide some context, our monthly Royale and Platinum account acquisition, our premium savings account offerings has increased 89% over 6 months from June 21 to December 21 while our monthly current account acquisitions have increased 38% during the period. 60% of the savings account customers acquired in the year are active on our AU0101 app and over 76% of the current account customers acquired in the year are active on internet and mobile banking. While expanding our liabilities book, we have been prudent in staffing our branches based on the potential of the geography, thereby optimizing our frontline sales team. While doing this, we have been extremely focused on increasing productivity expectation from every single resource which has taken our productivity to 6.2 RPC per employee in December 21 as we like to abbreviate Royale, Platinum and current accounts in the bank from 3.5 RPC in June 21. In the quarter, 1.8 lakh unique debit card holders made over 11 lakh transactions amounting to 320 crores, reflecting an increasing trend of customers using our bank card for making their purchases and thereby transitioning to use of AU bank account as the primary account of the customer. Our customer bought close to 25,000 insurance policies through our partnerships with ICICI Prudential, Future Generali for life insurance and Aditya Birla Care, Tata and Chola for general and health insurance. We have more than 51,000 cumulative 3-in-1 trading accounts

through our partnership with Motilal Oswal Financial Services. The AUM of our mutual fund investments done by our customers has grown by 13% during the quarter.

Number of transactions being done by customers with us is a clear measure of the engagement as well as indicator of potential to buy further products from us. We have 68% and 52% of our CA and SA customers respectively, regularly transacting with us with 60 and 23 average customer-initiated transactions for CA and SA accounts respectively for the transacting customers. To ensure that the customers are fully embedded with us, we provide them with full range of payment, investment and insurance solutions, namely Debit Card, e-com and POS activation, UPI, bill payments, FASTag, SIP, pay-in-one asset products, Life and Health insurance. We have 59% of our current account and 36% of our savings account customers use two or more of our products. PPC has risen to 1.93 in December 21 from 1.34 in March 21 for CA customers and to 1.5 from 1.37 for savings account customers. Of the 9.6 lakh registered users on the AU0101 super app as of December 21, over 6.9 lakh plus customers are liabilities customers. We recorded over 37 lakh transactions in Q3, a 30% increase from Q2. We launched AU Shopping Dhamaka Campaign in October 21. Over 1.2 lakh customers participated and made 6.85 lakh transactions spending close to 260 crores. We observed significant improvement in customer balances during the campaign and thereafter as well. We have initiated our expansion to geographies where our presence was lower previously, so that we can cater to customers across more and more geographies and serve them with our twenty first century banking services. We will provide you more update in the coming quarters on the same.

Next, my colleague Vikrant will provide an update on asset quality. Thank you.

**Vikrant Jethi:**

Thank you, Rishi. Good evening, Everyone. I will be giving a brief perspective on asset quality. Most of the businesses saw increased activity during the quarter which resulted in better customer cash flows. We saw collection efficiencies north of 100% during the entire quarter. In quarter 3, we saw a conducive environment and all restrictions imposed by various state High courts were lifted and this aided in faster implementation of legal recourse. Average collection efficiency in quarter 3 was 106 compared with 109 in quarter 2. Customer activation improved to 91% in quarter 3 compared to 90% in quarter 2.

Our gross NPA reduced by 57 bps from 3.2 in quarter 2 to 2.6 in quarter 3. In absolute value, there was net reduction of 94 crores from 1151 crores in quarter 2 to 1058 crores in quarter 3. Net NPA reduced by 1.7% in quarter 2 to 1.3% in quarter 3. We saw a gross reduction of 343 crores in quarter 3 from quarter 2 closing NPA of 1151 crores, resulting in 30% resolution during the quarter wherein 70% resolution happened through repayment, about 20% resolution happened on account of security disposal and 10% was on account of technical write-off. If we further introspect the current NPA pool of 1055 crores, we have enforced security on approx 10% pool and asset is in bank's position. As on date, we have initiated legal recourse, either separately or section 17 arbitration on 84% pool. On balance 5% pool, we will be initiating legal recourse soon.

In nutshell, all the underlying loans are granular and secured and we expect recoveries or security enforcement in due course of time. As we had communicated in our Q2 commentary, basis on-ground feedback, we have identified nonworkable pool, wherein all collection efforts have been exhausted and bank has done technical write-off of 39 crores. Here, collection efforts have been abandoned and future recovery may happen through ongoing legal proceedings. We shall continue to evaluate such nonworkable pool in future as well and take appropriate measures. Out of total gross advances of 40,700 crores as of 31st December, 61% of book was originated after March 2020. I reiterate that 61% of the gross advances have originated post onset of pandemic and 92% of this book is current and contributes only 0.44% of our GNPA. The resilience of this book has validated our approach of underwriting and customer segment we cater. As on 31st December, standard COVID restructured book stood at 1263 crores which is 3.1% of our gross advances. Billing has started on 92% of the restructured book and 9% of bill book with NPA as of 31st December. Asset quality performance in the billed pool has been within expectation

ECLGS gross advances as of 31st December stood at 873 crores. On the provisioning coverage, bank is carrying provision of 537 crores against gross NPA of 1055 crores with PCR of 51%. Additionally, base provision of 205 crores against standard restructured book. Furthermore, bank continues to carry contingency provision of 300 crores with standard 75 bps of our advances. This further strengthened the balance sheet and makes us better prepared for any unforeseen events. Keeping NPA resolution trend of first 3 quarters where 65% of NPA resolution has happened through normalization with no POS loss incurred and only on remaining 35% pool security enforcement or onetime settlement was done wherein there was POS loss of 32%. Therefore, we feel confident that PCR of 51% is quite likely to be more than sufficient to cover any credit loss arising from this portfolio. Over and above, this bank is also getting contingency provision for any unforeseen slippages and specific provision against standard restructured assets. However, we continue to remain cautiously optimistic as there is still little uncertainty on the situations which might emerge post third wave. Thank you.

**Aseem Pant:**

Nirav, we can open for questions now.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

**Bhavik Dave:**

My question was regarding the incremental spread that we see that it has come off by 20 basis point during the quarter, however, the margins have remained flattish at the 6.3% mark, wanted to understand what is the sweet spot that we look forward considering the cost of funds incrementally has normalized at 5.3% incrementally, What should be a comfortable margin run rate that we would be happy to work, like is it 6 to 6.3 or will it be okay to work in a lower margin as well, just wanted to understand that?

**Sanjay Agarwal:**

Bhavik, Sanjay here, so this time I think because of our cost of money going down and investment also getting moderated, we got an upside around NIM, but I don't think that 6.3 is a sustainable NIM for us. We want to target around 6%, 5.8 to 6% in a longer run and we also

have to see that how the interest rate cycles also moves from here, so there is a risk on it, but we have the ability to lend on a higher rate too because we are into retail assets, so I hope that AU can manage this NIMs around 5.8 to 6% range in the long run.

**Bhavik Dave:**

And second question is regarding the operating cost, the slide 21 is very useful wherein the 157 crores that you are doing for investments for future, just wanted to understand at some part of the 50% of it seems to be towards the newer businesses that you are incubating, so that might sustain for may be few more years because that is a growing business, but out of this 150 odd crores, it might be like 180-200 odd crores for the year, how should we think about it for the future, like FY23 or like going ahead, will this number will be around 150-200 odd crores or this will relevantly increase with our investments because the businesses that we are trying to grow?

**Sanjay Agarwal:**

Bhavik, completely understand, as an executive, we need to take lot many decisions around your metrics, right, and as already commented earlier that we are looking for higher NIMs, reducing our costs, dwelling retail deposit, so this one Opex we are not so much focusing as of now because of the one because we were going through the pandemic and the quarter 1 was completely washed out, there was capacity built up in the organization which was not used. We also want to try, lot many things around digital because if we don't do digital initiatives, we might not be there after 10 years, right, so I strongly believe that AU needs to invest in more in Tech, more in distribution, more in other digital initiatives and of course building the brand. So, I presume that on the scale this amount will go up, may be around, like this year around 150 crores, may be next year around 200-250 crores, but we want to keep this investment going on because ultimately this will make AU's journey a journey forever. So, I am not too worried about the cost of income here.

**Moderator:**

Thank you. The next question is from the line of Amarnath from Ministry of Finance. Please go ahead.

**Amarnath:**

Mr. Agarwal, I just need to understand the rapid speed of increasing of this credit card issuance, last quarter, say around 50,000 cards have been issued and we all know that this credit card is an unsecured business, can you by fundamentally, say generally targeting the secured kind of business, just try to understand what is the business strategy of increasing this credit card which is mostly unsecured in a highly populated area where lot many big banks and other institutions are there, what is the strategy there? That is my question.

**Sanjay Agarwal:**

Good question, I think the detailed presentation is being done on 10th of February on our strategy around credit card, but I will give you some brief highlight around it like for me personally credit card is one of the most important digital payment method, right, so if you don't have a credit card in system, then many people don't like you as a bank and we witness it in first 3-4 years of our journey, so it was a kind of compulsory for us to launch credit card to make people believe that we want to really become a digital bank in that sense. Second, this is more of an acquisition strategy for us because lot many customers don't want to bank with SFBs, but credit card gives us that advantage that we can offer them a better credit card and then they become our customer

and then we can become their primary banker and third your understanding of this subject that we can't handle unsecured, somehow from there we need to start that and credit card is relatively better product to start and secure because there may be only 5 to 10% of your outstanding book becomes an EMI book, otherwise customer generally pay on time and we charge around 36% if customers revolve the line, so there is enough question available to us, in case any default comes, but as of now last about 6 months onwards, our data says that we are absolutely on track and one more data point- we are issuing around 70% card to our ETB customer, who has a travel card or who had some data point with us and 30% is only around the NTBs, right and one more data point for you that 70% cards are issued into the semi-urban and rural areas where there is no leverage. So, 70% credit cards are given in the core markets of ours, where we have the lot much collection efficiency, right, so I think these are real point which makes us more comfortable and we really want to invest more and more in this credit card because as we move forward we also have seen that people generally want to use credit card over the debit cards because debit cards open up their risks on the cyber where the credit card has been limited risk on their hand, right and we are more bullish on this subject, it has been built by one of the finest professionals in AU Bank with our ex-CRO Mayank Markanday, and he is handling, he is building the team very beautifully, so I hope that this will become one of the most important business in times to come.

**Amarnath:**

And my second question sir, see as we all know that the entire world and of course the India will now move towards the higher interest rate regime, today or tomorrow RBI will have to increase the rate, but one would think AU has done that in the last few months and quarters they built up a very huge CASA franchise and I am sure they will be all at a kind of a permanent customer, now what is your thought process as the interest rate increase, our lending size yield probably will increase whereas my cost of borrowing if it is mostly coming from CASA, especially the old CASA up to December 21, my net yield is supposed to increase going forward, why did the interest rate cycle really takes off some time in this 2022-2023, so what is your thought process here? Just to add on this, I mean to say why is this, before we transfer this, will also be having the increase in interest cost if the interest cost will be increased, net-net how the bank is going to get benefit?

**Sanjay Agarwal:**

Yes, I think lot many questions in one question, so I would say that everybody is predicting that there will be an upside in our interest rate cycles, but you will appreciate that AU is into the markets of lending where generally we have the ability to pass on the interest rate upside to the customer, right, we have actually reduced our lending rate by close to 150 basis point in last 3-4 years because we were getting the advantage around interest rate, right and these markets are being dealt by NBFCs who lend them at a higher rate, so that is the whole advantage with us that in case interest rate cycles move up, we have that possibility to transform the rate to the customer and make ourselves on a similar NIM number and further you will see that our interest rates, still we are offering around 7% on our bracket of 25 lakh to 1 crore. That can also be adjusted to really make your cost of money less or cheaper and of course at a scale because this may happen in next 2 years, the scale will also help you in managing your operating expense. So, I think these are 3-4 reasons where we believe that AU still is protected around any interest rate cycle upside.

**Amarnath:** Maybe I will take one last small question, sir, absolute though the GNPA percentage has been reduced, but the absolute value of the GNPA has reduced from 1151 to 1058, I think 94 crores reversal only, if I take it the last quarter, the GNPA was reduced sequentially by 345 crores, compared to that in this quarter it is reduced by only 94 crores in absolute value, now what does it indicate in terms of the recovery from those GNPA?

**Sanjay Agarwal:** No, I think we would appreciate that last quarter, the quarter 2 and quarter 3, quarter 2 you know we commented in our call that it has a lagged effect of good 6 quarters, we started doing the enforcement of security last quarter itself and people were coming up and paying up, so that was a phenomenal quarter for us in terms of risk of an NPA, but you will appreciate that our retail assets are around 14% yield and we are also in the similar customer segment where other player also operate, if you compare our NPAs to them, you will see that how better we are doing in terms of our asset quality, right. And slowly in pre-COVID level also our gross NPA is around 1.6%-1.7%, right and we are now thus away in terms of that number just 1% away, right? So, in my opinion next two quarters if everything remains good, we will be tapping that number again. So, I think we are slowly we are getting at that level and that is good enough for us to remain happy and see how well we are progressing in that term.

**Amarnath:** And are you happy with this net PCR of 50%-55% or you want to target that provision coverage by more or you have any specific reason?

**Sanjay Agarwal:** You will appreciate that if you really see our net credit loss historically, it remains around 15% to 20% of our gross NPA and we are keeping around north of 50% in GNPA and plus we have a contingent reserve around 300 crores for any unforeseen. So, we are very well comfortable in keeping PCR around this number.

**Moderator:** Thank you. The next question is from the line of Hiral Desai from Anived Portfolio. Please go ahead.

**Hiral Desai:** Thank you for slide #21, additional disclosures on operating expense. Appreciate that. So, I had couple of questions. One was fees, net of the processing fees. So, if I look at the non-interest income net of the processing fees, how should one look at that number over next couple of years because you know we have now started issuing credit cards. We have scaled up distribution partnership on insurance. MF DEMAT, and franchises obviously expanding. So, how should we look at that number, because obviously the loan processing will obviously pickup with the disbursement but net of that just wanted your thoughts on all the other pieces?

**Sanjay Agarwal:** We are building franchise around cross seller on insurance, investment, you will appreciate that two quarters back we got our merchant again classifying as priority sectors and we got the PSLC income last quarter 2 and before quarter than also. So, I think the PSLC income, the gross selling around insurance investment and trade, these are the 4 things which we are working on and of course there is still issue of continuity around it because of pandemic. So, how much the fee can go up, we would love to only comment when things become normalized, right? And as of now,

in whatever quarter we get the opportunity we want to use that. But on a larger traction that how much it can be a part of our total income, we really want to go back to drawing board maybe in the month of April once the stability is there, right and of course loan processing and other income is directly related to the business numbers. So, that will go up if the business goes up.

**Hiral Desai:** The other question that I had was, in the housing where you had 900 crores odd disbursement in 9 months, what would be the split between new loans and balance transfers?

**Uttam Tibrewal:** So, balance transfer is very marginal around 7% to 8% only because the new franchise it is largely NTB customers or cross-selling to my existing customers. Branch transfers is not too much here in this.

**Hiral Desai:** What will be the percentage of existing AU customers within this. So, let us say your Wheels and MSME customers were been given housing loans?

**Uttam Tibrewal:** No, largely as I said is NTB. Again, ETB would be around 15% around, largely to NTB only. That is since the new franchise, new team.

**Hiral Desai:** Just had one request, since you are sharing so much of information on the liability side, if you could sort of put it in the PPT. It is difficult to track on a call. So, just had that one request.

**Uttam Tibrewal:** Surely, we will add. Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Nanavati from Nomura. Please go ahead.

**Amar Nanavati:** Question on credit cost outlook. 9 months basically in these three quarters and this is way impacted, we kind of average around 60% to 70% basis point of credit costs and provision cover of upwards of 50% versus 15% to 20% kind of NGDs that you experience. So, to that extent and now NPA is also back to near normalized level, where do you think credit cost hasn't bottomed out here, it will be 50 basis points to 60 basis points or you can see some reversals also at least for the next one year?

**Sanjay Agarwal:** Difficult to answer, whether because still we are going through COVID-3. If you ask me that if there was no COVID-3 I would have said that we would have bottomed out. In terms of gross NPA and the kind of losses we have which is around 0.3-0.4, we are talking about 0.5, but ideally it would have been 0.3-0.4, in the pandemic it has reached not more than 0.5. So, I would say let us wait for this quarter more, so have more clarity that how can we do next year in terms of NCL, otherwise I am very hopeful that we have largely covered our any kind of risk in asset buy creating lot much contingent provision buffer and by providing any kind of losses we are debiting to P&L, right, we are not using provisions. So, largely we are covering ourselves in a way that no one posing circumstances to challenges us. But I would say, around 0.4-0.5 is the amount I am looking at.



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- Aseem Pant:** So, that is the net credit loss, Amit. I think from credit cost perspective that would be in line with our historical range of 70 bps to 90 bps.
- Amar Nanavati:** Secondly, if you can just point out the new customers addition in Wheels and SBL portfolio in the last 1-1.5 years that will be helpful?
- Rishi Dhariwal:** Was your question the new customer additions in the Wheels and SBL portfolio?
- Amar Nanavati:** Yes.
- Prince Tiwari:** So, I think Uttamji's speech covered that. Broadly given that there has been a pandemic and business has been good, I think the growth in customers could be in line with the growth, we don't have that specific number as of yet in terms of growth. But the number of customers is already articulated who have SMV. I think around 5.5 lakhs customers, 5.8 lakh customers on the Wheels business and around 1.8 lakhs merchants on the SBL business.
- Amit Nanavati:** Maybe I just wanted to understand on the incremental disbursements that we have done in the last 1.5-2 years now, right, 61% is originated in the pandemic era, how much of that would be existing customer, how much of that would be new customers please?
- Uttam Tibrewal:** Broadly it will be NTB and data keeping question, if you can write to us we can respond back to you, if there is anything specific.
- Amit Nanavati:** I will do that. Thank you.
- Moderator:** Thank you. The next question is from the line of Arvind from Kotak Mahindra Bank. Please go ahead.
- Arvind:** So, my question is on the next triggers for ROE. Now that we are in the high teens and given that we are already **north of the** targeted leverage which is 5% to 6%. The cost to income is not going to moderate in the medium term at least and credit cost over the last couple of quarters have been broadly in range. So, where do you see the ROE going from here, is perhaps we achieved where we wanted to be or are there other triggers that we can't reach there?
- Prince Tiwari :** So, Arvind, you were not very audible. But if I understand your question correctly what you are saying is that we have reached the ROE of 17% in this quarter and where do we expect it to be in terms of our long-term average. Is that the question?
- Arvind:** Yes, given that your 3 triggers for an upwards re rating, NIMs, cost-to-income and credit cost are broadly in stable territories.
- Sanjay Agarwal:** Arvind, you have to wait for one more quarter. Because as we are commenting that this quarter was one or two exceptional items because of lagged effect and we need to have one normal quarter in terms of our investment book, in terms of our credit cost, in terms of our productivity.

So, I think and let us get this COVID-3 also over from our side and then only we can comment because very uncertain environment with very unpredictable messages around us. So, please bear with us and we will come back by April to figure out what is the right ROA and ROE for us.

**Arvind:**

My second question was on the credit-to-deposit ratio and the high liquidity coverage ratio that you are hitting on. Given these comforts and the fact that you yourself pointed that you have headroom to reduce the cost of deposit in some buckets, do you see, can you guide us to some glide path on the rate of interest, the cost of funds going forward. We understand there is an environment of increasing interest rates but keeping that aside, do you have any targets for some kind of assumption quarterly reduction in the SA rates in particular?

**Sanjay Agarwal:**

So, we actually decide every year, but this is very unpredictable. It is not in your hands. It has to be market driven approach. So, I would say the team has reduced the cost by both 90 basis point in one year and in total 18 months we would have reduced by 150 basis points – 160 basis points. So, in that sense we are absolutely on track and because we had that hike of money which got paid during the year, during the period. So, I would say if interest rates cycles don't go up, you will see some sort of reduction but if interest rate cycles goes up, we have to price our deposit again. And the best part in AU is this that we have the ability to transform to the end customer because again our customer are retail, those are more in co-markets and in those markets we compete with NBFCs rather than formal banks. So, that is our advantage, right?

**Yogesh Jain:**

So, Arvind, Yogesh here. And one additional point that my incremental cost of fund is around 5.3 as of now where as AUM cost is 6%, right. So, still, I have 70 basis point runway going forward, right, where my AUM cost maybe in medium to long term can be around my incremental cost. Despite if we take incremental interest rate, so if we take that into picture, still I have some cushion in my cost of fund going forward.

**Moderator:**

Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:**

So, firstly are there any plans to raise capital given we have reached tier 1 of around 18% and what is the threshold level of tier 1 beyond which we raise capital?

**Sanjay Agarwal:**

That you know, we appreciate that. This year profit, if we add on that, then our capital adequacy is around 22% and by April. It will be hanging around 20% plus, with largely supported by tier 1. So, we will take the call at appropriate time because once we complete this quarter and we see how the environment is at that time, how much you can go next year and how much money we have, so I think larger call will be taken maybe around April. But as of now we are absolutely very comfortable around our capital adequacy.

**Nidhesh Jain:**

Secondly, what are the plans to apply for universal bank license, any timelines, indicative timelines?

**Sanjay Agarwal:** No, honestly because we will become eligible by next quarter. But I think it is more of a board and shareholder decision. Ultimately the regulator has to approve it. So, we are not in hurry. We are taking quarter-by-quarter. So, let us finish quarter 4 first and then think what we should do for in coming years?

**Nidhesh Jain:** The question is around what has been driving the Wheels growth in terms of segment of customers as well as segment of cars, specifically in the context that the new car sales have been weak from an industry perspective?

**Bhaskar Karkera:** So, essentially what has happened is, what has given us volume is the personal segment because that is where, that was something where we had in the past, we were not very strongly present in that segment and obviously with the Bank platform you get that opportunity to get into the personal segment. And with the kind of space that was available with the NBFCs being a little slow, that also does give us a little more headroom in the new car spaces, number one. Number two, also the fact that there was some movement with Tatas, there was some movement with Mahindras, so while essentially in the past if you were little more focused on Maruti, the fact that we were able to move ourselves across manufacturers and across dealership also give us an additional room on the upside. On the used car, once again because the distribution network being available, we were able to approach the organized channels a little more, the unorganized channels we did a little more activation. So, all in all it was a strategy where we actually expanded ourselves a little more horizontally, so that we were able to reach out to more distribution points and from there we managed to pick up a little more from whatever we were doing in terms of and obviously we did a little more of tractors, we did a little more of used vehicles and all those, a combination of personal, commercial and tractor yields all of that helped us to get to our number.

**Nidhesh Jain:** And sir just one last question. In terms of distribution expansion, which could be the 3 states that we are thinking about over the next 2 to 3 years would drive growth. I see that UP and Bihar are two large state which is very popular and probably the competitive environment also will be relatively benign. I don't hear any large player operating in that segment, operating in our segment in those geographies, what are the plans to expand distribution over next 2 to 3 years?

**Bhaskar Karkera:** It is on the Wheels side, already getting laid. The plan is getting laid down in fact people are being interviewed and we are positioned to settle ourselves in the next year with the new states as well. So, we will definitely do whatever we have learned over the last 20 years in that business and expand it to the states. And obviously we have the parentage of the Mahinda Maruti Hyundai people also wanting to, they will also support our entry into those states because it just works for them as well.

**Management:** And Nidhesh, if I can just add as Sanjayji announced we will be holding a separate, each SBUs will be coming and presenting to you and all the investors and analysts. So, maybe we can have a more detailed discussion around Wheel in that session.



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- Moderator:** Thank you. The next question is from line of Rinesh Bhuvra from ICICI Securities. Please go ahead.
- Rinesh Bhuvra:** Sir, my question is to Rishi sir, about the PPC number which you shared on the current account holder as well as savings account holder. So, sir basically when we look at the PPC, how we look at, I mean we look at asset-to-liability or we look at liability-to-liability?
- Rishi Dhariwal:** No, we are looking at all the products of the bank, like what I said that we are looking at customer using POS machine or a QR or SIP three in one asset products, life and health insurance. All of these products are included in the calculation of PPC.
- Rinesh Bhuvra:** Right, so when you alluded to this 1.9 PPC for current account holder, what could be the major second product sir over year?
- Rishi Dhariwal:** A good number of customers would actually be using our QR and POS machine.
- Renish Bhuvra:** And on the saving side, sir, you said it is 1.3 now?
- Rishi Dhariwal:** Savings side is a mix of products, so many of them have a loan from us or they would be investing through us, like I said we have more than 51,000 three-in-one accounts. So, some customers would be making their investments, many of them would have insurance with us. So, all of that gets counted for the PPC for savings account customers.
- Renish Bhuvra:** Sir, my next question is on the customer profile for the credit card. So, first I would like to know the breakup between salaried and self-employed and within self-employed if it is ETB then generally what is the strategy? I mean do we offer the credit card to the proprietor or owner of unit or we try to sort of leverage the relationship by offering credit card to the one of the member of the ETB customer?
- Sanjay Agarwal:** So, I will give you some datapoint around it. We are issuing 70% card to the ETB of bank. Largely we are self-employed based customers bank. So, that means that majority of cards are issued to the self-employed people and those guys are more of a proprietor of their own shops and own enterprises and 70% credit card has been given in core markets. That means the customers are not that much leverage, and our card become one of the first card for them. Our average spend is around Rs. 17,000 per card per month. So, that is also showing very well. And that detailed discussion on this is on 10<sup>th</sup> of February where Mayank Markanday, our ex-CRO who is running this business which showcases whole depth on the subject.
- Aseem Pant:** And Rinesh, just that datapoint in terms of salaried and self-employed mix, that mix is 55:45
- Rinesh Bhuvra:** 55 self-employed, 45 salaried, is it?
- Aseem Pant:** 55% salaried and 45% self-employed.

**Moderator:** Thank you. The next question is from the line of Himanshu Taluja from Infina Finance. Please go ahead.

**Himanshu Taluja:** Just firstly, sir one data keeping question. If you can just repeat what is the Wheels breakup

Prince Tiwari: So, that Uttamji already covered in his speech. Almost 60% is new, 25% is used, 13% is cash of wheels.

**Himanshu Taluja:** And sir secondly what is your actual game plan on the credit card because if I look at this product, this product is more a product of a metro or an urban market where most of the other top players are focusing on and whereas if we look our presence or our focus market is more sort of a rural and semi urban. So, what is the actual plan on this? You just wanted to have this product more for our liability customer or how you want to leverage this product?

**Sanjay Agarwal:** We are commenting that on 10<sup>th</sup> February we will get the whole color around it. But to give you some datapoint around is this that this is a very new product for us. So, our focus is on our ETB based. 70% cards are given to the ETB based and 30% are given to NTB. NTB generally are from the urban markets, ETBs are generally from core market. 70% are given to the semi urban and rural areas, so that card is their first credit card and the customer is not leveraged and because of evident of so much POS machines in those area, our card is being used extensively now. So, our strategy will resolve with the time, but as of now it is one of the product where we feel is very important to become a digital bank, right, and credit card is one of the most important medium to do digital payments. So, we are pushing as of now on a very conservative note, but as we move forward, I believe this would be an acquisition strategy for us for a very urbanized customer.

**Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

**Nitin Aggarwal:** Sir, if you could mention in opening remarks about the change in NPA recognition norms for NBFCs, that will help bring a level playing field. So, just wanted to understand like are you already seeing the positive impact from this on the ground, any qualitative comments around this?

**Sanjay Agarwal:** Nitin, you have to help me out to get me the other similar market operator numbers because what we are saying over the year that for us a 90 plus dpd versus an NPA classification was a different trajectory. But we managed this transition very well and this transition very well in last 4 years. And we were tracking NPA on a daily basis. Our NPA rollback was not easy. So, we are seeing other companies now coming and building that similar kind of practice which is actually helping us because previously no NBFC, no HFC were looking to get the whole EMI as repayment, right, at the time of default. Now, it is a level playing field and we are very happy that our practices and other operator practices are now similar and customer is also helping us in all sense



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that this is the way to go forward. So, I think this is for us the level playing field. You can compare now our asset quality through a similar customer segment operator asset quality.

**Nitin Aggarwal:** Second is on the contingent provisions. We have stated that our restructured provisions are good enough and we don't need to provide more there and recovery is continuing to remain very strong. We have like few 20% LGD having it is 51% coverage. So, what do we plan to do with contingent, will we look to like hold them on the balance sheet or would we look to reverse them and increase coverage? So, what is the outlook that we can see?

**Sanjay Agarwal:** Important question, Nitin but, I am sorry, I am not able to give you answer in this quarter because we were doing some calculation in this quarter, but then this Omicron came, right? So, we really want to see how long this can be and god forbid no other unexpected COVID comes back, right? So, we really want to play safe here and we will see how we comment on this in next quarter?

**Moderator:** Thank you very much. I now hand the conference over to Mr. Aseem Pant for closing comments.

**Aseem Pant:** Thanks, Nirav, and thanks, everyone. On behalf of the entire AU family, I would like to thank you for joining us in the call. Please reach out to the IR team if you have any further question. Thank you.

**Sanjay Agarwal:** Thank you so much.

**Moderator:** Thank you. On behalf of AU Small Finance Bank, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.