



# “AU Small Finance Bank Q1 FY23 Earnings Conference Call”

**July 20, 2022**



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*AU Small Finance Bank*  
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**MR. PRINCE TIWARI – HEAD OF IR**  
**MR. ASEEM PANT – VICE PRESIDENT, INVESTOR**  
**RELATIONS**



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**Moderator:** Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q1 FY23 earnings conference call. As a reminder, all participants' 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 now hand the conference over to Mr. Aseem Pant – Vice President, Investor Relations. Thank you and over to you, Sir.

**Aseem Pant:** Thank you Faizan. Good day to everyone and welcome to AU Bank's Earnings Call for the first quarter of FY23. We thank you for joining the call today and we hope you are 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 assets and liabilities performance for the quarter. And finally, we will have Mr. Gaurav Jain – Head of Tech Initiatives who will discuss about the progress in our digital initiatives. 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 two 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. Hope you are doing well.

Quarter one of the FY23 marks the completion of our 21st quarters of our banking journey and I am happy to see the progress that we are making as a team. In these five years, we have been strengthening our foundation for building a sustainable and scalable bank. During this time, we established a retail and granular deposit franchise and grew our deposit at a CAGR of 60%. We also have reduced our cost of borrowings and maintained our margins. Our assets grew at CAGR of 35%. We have established new franchise business like business banking and agri banking, developed our digital business and continued to deliver returns and ratios even during the pandemic.

Today, I would like to take you through some key aspects of what makes our business model sustainable and scalable, what are the key focus areas for us, and what are the challenges that we envisage. To begin, let me articulate the key principles that makes our business model sustainable and scalable. We, as a team have clearly identified target market with differentiated

approach of garnering deposits from urban market and lending into core markets, which are primarily semi-urban and rural areas, and we see a large potential in both the markets.

Our current market share in the banking system deposit is just 0.3% and we have a long way to go. Our deposit franchise is becoming more granular by each quarter. Our CASA ratio has now reached 39% and our Retail TD and CASA mix is at 70%. We have diversified products and geographic mix serving customers across individuals, senior citizens, homemakers driven by specific teams like Current Account, NRI, TASC, Enterprise Salary, etc.

In terms of assets, we have robust franchise stitched around four SBUs namely Wheels, SBL, Housing and Commercial Banking, each with a vintage of more than a decade. I believe that all our asset SBUs have a great potential in coming 10 years to grow as our total market share is just 0.4%. Individually, our market share is 2% in wheels, 0.4% in MSME, 0.1% in housing finance and negligible in commercial banking.

Over the years, we have also built a secured retail asset franchise crystal asset quality. 94% of our portfolio is secured. 90% of our book is retail and 64% is less than 25 lakhs. Lending in rural areas has been mainly for income generation and liability purposes which also gives us opportunity to cater to the priority sector which is a core objective as a small finance bank. More importantly, our asset quality has remained resilient since the beginning, and we are committed to maintain specific asset quality. Even with the pandemic cycle, we were able to demonstrate resilience with our detailing, customer connect and solution focused approach. I am proud of my team effort, right from sourcing to underwriting, to collection with ownership at every level. This is the hallmark of AU. The entire book whether it is a current book, the NPA book or the restructured book, everything remains well in shape, as the existing stress is well provided for with a PCR of 72% and additional provisions for contingency and restructured assets.

It is important to note that over the last five years, despite the pandemic our NCL has remained in the range of 0.3% to 0.4%. What we are able to achieve is fantastic given the markets we operate in, the customer segment we serve and the yields we command. I would like to reinstate that our sustainability will be strong because we want to follow the same course.

Further, our growth in deposits and asset is supported by expansions of our distribution. We have entered newer markets like south and east India. The instant support and the accessibility in the regions also reflect the recognition of our growing brand. You will hear from Uttam on the progress made in the last quarter in each of these points.

Now let me share with you the current focus areas for us. The first one is towards building operational excellence and the formation of SBU structure is a step in this direction. The new structure is now well settled with identified leadership at every level and each SBU has its own P&L. This brings more ownership and accountability thereby increasing effectiveness and scalability. Second, to drive sustainable growth from existing segments, we are working on tapping the cross-sell potential of our customer. We are focused on increasing the product per

customer metrics. Currently our cross-sell is a mix of insurance, mutual fund, credit card and personal loans. We are working on building the transaction banking, wealth management, merchant app, and other digital projects. We are also working for building our central data warehouse and analytics capability to support all our businesses with better insights.

To make most of the opportunity which will be presented by the market in the coming years, we need to raise growth capital. In this regard, we have taken enabling more resolution in the current quarter. However, we will take the call at the right time as our capital adequacy remains north of 19%. Recent credit rating upgrade will make our tier two bonds rated at AA level and we will explore tier two opportunities as well.

Further, we continue to invest in building a tech led ecosystem to ensure that we remain competitive in the future. And I am very happy that the way our credit card, Video Banking, UPI and AU0101 teams are shaping up to stick together are tech priorities. I think Gaurav will cover this in further detail.

Being in the service sector, human capital is our most valuable asset. As we manage public goods on the banking platform, we are focused on developing a highly empowered and capable team led by the guiding principles of “Samajhdari”, “Zimmedari” and “Imandari”. We have built a strong team and continue to invest in them. We are working towards furthering diversity and informed the committee on diversity and inclusion last year and which is progressing well. I am also happy to share that senior management team is very stable with an average vintage of 7+ years in the bank. We are becoming an employer of choice and our ability to attract talent has significantly gone up. Last year as we hired 80+ for senior roles in VP and above positions.

Last but not the least, we are working towards strengthening our ESG commitments. So, to lead our sustainability mission, a senior industry professional has just joined us. Our 25 years of vintage in core markets and sustainable business model gives a very strong ESG proposition, while we work towards making ourselves more inclusive, sustainable and diverse.

In terms of challenge, inflation remains a key variable for us which can impact the interest rate cycle as well as increase our OPEX. The last quarter reversal and interest rate cycle led to MTM and treasury losses in our liquidity book basis current outlook and our portfolio mix, we believe that major impact of the rate movement has already been absorbed. Our endeavors to manage our cost of fund and NIM around the same level as last year, in quarter one we were able to pass on the increase in our cost of funds to our asset customers by increasing our lending rate by 55 to 60 bps. The market segment that we operate in continues to provide us enough room to pass on any incremental borrowing cost to the customer by increasing our lending rates. Another adverse impact of inflation has been our higher input cost leading to an increase in OPEX. We are taking immediate measures to keep the full-year cost to income ratio around 60% or 62%. The impact of inflation on credit demand was not visible in Q1. Rather it remained one of the best quarters in several years. Further, a good monsoon and festive season in quarter three and quarter four are likely to support our annual business plan.

In the end, personally I think that the period we faced during the pandemic was much more challenging, and we are far more hopeful about the coming times and more confident about our business model delivery and agility. Our endeavor is to ensure that we continue to deliver over a long period on a sustainable basis.

In the end, I am very thankful to all the stakeholders, the government regulators, customers, my team, and all our investors for supporting and believing in us. On this note, I now hand over to Uttam to share on the operational details for the quarter. Thank you so much.

**Uttam Tibrewal:**

Thank you, Sanjay. Namaskar and good evening, everyone. Hope you all are in good health. I feel happy to share that despite of the turbulent environment, AU stood strong and delivered a strong performance in Q1 and one of the best first quarters in the past five years, which illustrates the growing strength of our business model which Sanjay spoke about earlier. We have delivered healthy deposit growth in improving granularity, stable spreads, strong disbursements and collections.

Some key operational highlights for the quarter are as follows:

We have made further progress on having a pan India presence and made our debut in Jharkhand and have also forayed in Northeast with a branch in Guwahati. We added 2000+ employees this quarter and as on 30<sup>th</sup> June 2022, we were a strong team of 29,883 bankers. Our deposits grew by 48% year-on-year to close the quarter at Rs. 54,631 crores. We continue prioritizing retail and CASA led growth over bulk deposits and achieved CASA growth of 124% year-on-year to reach at a CASA ratio of 49%. Asset AUM crossed the critical milestone of Rs. 50,000 crores growing by 37% year-on-year. Collection momentum continued to be positive with over 100% collection efficiency in each of the three months. Out of total gross advances of Rs. 49,349 crores as on 30<sup>th</sup> June 2022, 73% of book has originated after March 2020 and 92% of this book is current with only 0.48% of GNPA. Of the NPL resolved in Q1 FY23 excluding write-off, 62% resolution happened through normal collection efforts and about 38% resolution happened on account of security enforcement and settlements wherein there was Pos loss of approximately 34%. Similar trends have been observed during FY22. This clearly illustrates the secured and small ticket nature of our book as well as zillions of our borrower base. Furthermore, it makes us confident that our provisioning coverage of 72% is quite robust. Additionally, there is provision of Rs. 170 crores against standard restructured book. Furthermore, bank continues to carry contingency provisions of Rs. 144 crores. The performance of restructured book has also been quite positive with slippages remaining at 15%, much lower than our estimates of 30%.

Under our flagship Royale product program, we launched Royale business for current accounts and Royale salary variant for saving accounts. We continue to attract talent across senior management levels with 32 recruitments this quarter of VP and above, including Head of Wealth and Head of Sustainability.

I will now briefly cover some key aspects of our liabilities business:

We continue to focus on building liabilities through granular, retail, individual and transacting customers which we denote as GRIT. This is predicated on high quality account technicians through better sales efficiency, urban driven branch extension, and a priority on cultivating an engaged customer base. Our increasing vintage, brand campaign and digital properties are significantly growing our reach and acceptance in new markets which is resulting in strong deposit traction in our branches in new states. For enhanced customer engagement and deepening, we offer a large fleet of value-added products and our product per customer has been improving and stands at 1.6 for SA customers and 1.9 for CA customers. Here I would like to highlight that we sold 1.13 lakhs new policies in Q1 covering life, health, motor and on assets of our customers through our bancassurance partnerships. A 66% year-end growth and corresponding premium growth of 60% year-on-year for our well regarded and comprehensive AU0101 super app as well as attractive running offers from leading platforms and e-com channels, both on our debit and credit cards have contributed to our transacting days at around 57% in savings and 69% for CA customers.

Now, coming to our core asset SBU, let me start with the wheels business. As an industry, vehicle sales for Q1 FY23 has grown by 27% and semiconductor availability seems to be easing which goes well. Our average ticket size around is Rs. 5 lakhs on disbursements and Rs. 2.7 lakhs at AUM level excluding two-wheelers. During the quarter, we disbursed Rs. 3,351 crores with an IRR of 13.9% which was an increase of 50 bps sequentially. This also illustrates the ability and strength of our business model, to transition price volatility. As of 30<sup>th</sup> June 2022, the AUM of wheels stood at Rs. 18,614 crores through 7.5 lakh loans which comprises of 53% new vehicles, 36% used, 9% tractors and 2% two-wheelers. Asset quality of our wheels business was stable in Q1 and gross NPA stood at 2.4%.

Moving to secured business loans, Our SBL product is uniquely positioned with low ticket size and lending to unorganized MSME for business purposes. We expanded our agro product in 60 new branches in Q1 FY23 and have a widespread network of over 450 branches across 8 states and two union territories. On the demand side, despite inflation, we continue to witness good demand in segments like FMCG, skilled and semi-skilled services, Laghu Udhog, household goods traders, agriculture related equipment traders, etc. SBL AUM stood at Rs. 16,912 crores as on 30<sup>th</sup> June 2022. We crossed around 2 lakh loans and our disbursements during Q1 were Rs. 1,281 crores with an IRR of 14.6%. The book is predominantly priority sector with average ticket size is Rs. 10.4 lakhs, LTV at 48% and it remains one of our most stable and resilient products with a gross NPA of 2.7%.

With respect to our home loans business, strong momentum expected to continue supported by rapid urbanization changing customer behavior, regulatory reforms, and many influence of COVID-19. At present we are operating in eight major states in home loans available across 240 branches. Our disbursement in Q1 FY23 was Rs. 433 crores. Total AUM as on 30<sup>th</sup> June 2022 stood at Rs. 3,004 crores crossed approximately 30,000 loans with an average ticket size of around 10 lakhs. Our GNPA was stable at 0.45%. Notably, being an affordable housing book, much of our book is also eligible for long-term refinance from NHB.

Finally, on our commercial banking businesses, all of our core products are shaping up well, commercial banking business saw a disbursement of Rs. 1,811 crores within which business banking and agri banking accounted for 70%. We have an enhanced focus on scaling up these two products as they also help us enhance our banking franchise as well as in growing up CASA. As on 30<sup>th</sup> June 2022 asset quality for our commercial banking book remains stable in Q1 with a gross NPA of 0.5%. We have an enhanced focus on scaling up these two products as they also help us provide holistic solutions to business customers and help build granular CASA.

To sum up, we are firmly committed to our philosophy of building a low-cost GRIT portfolio of liabilities customers. We have identified wide spaces in segments, including small businesses, merchants, supply chains, traders, and retailers, where we can play an active role in enabling them in their journey towards formulization and digitalization. And we aim to target this segment's required CASA deposits. Demand across asset verticals look resilient with Q1 doing well and second half generally being good quarter for retail aided by festive season. Supply chain and chip issues are easing up, essential and nondiscretionary businesses are seeing higher inventory and CAPEX demands which goes well for wheels and SBL. Housing is benefiting from a low base bank platform and revival in the real estate market. Each of our commercial banking businesses are reporting better cash flows. This is being aided by clearly for MSMEs in terms of trickle-down impact of government policies and favorable monsoons and NBFC are easily coming out of a subdued cycle.

Having said that we acknowledge the prevailing uncertainties related to macro and geopolitical situations. As always, we remain highly engaged with the customers on ground to gauge demand and dynamically calibrate and optimize ourselves. All in all, I remain excited and confident about our business model and executional capabilities, optimistic about the opportunities and potential and yet watchful.

I look forward to sharing more with you in the coming quarters. Stay healthy, stay safe. Thank you. I now invite Gaurav to share his thoughts on our different initiatives. Take care.

**Gaurav Jain:**

Thank you, Uttam. Good evening, everyone. I will now provide an update on our tech initiatives, including credit card and UPI QR. Tech is an area of key focus for the bank and we are investing across all aspects, digital, digitization, data, infra and security. We are developing our digital proposition with the objective of growing our deposit franchise, developing unsecured lending capability and building out our digital distribution. In order to make our digital proposition more exciting for the customers, we added a number of new innovative products and features in this quarter. Highlight was the launch of LIT credit card, India's first customizable credit card aimed at millennials and gen Z. LIT card gives customers the power to customize card features as per their spending pattern and maximize the benefits by using only one credit card. For example, a customer who loves traveling could choose the airport lounge benefits for the holiday season and switch to the cash back offer benefits for the festival shopping season. Response from the market has been highly encouraging with over 10,000 cards sourced in the first 20 days of launch.

Other notable product additions were launched of corporate credit card, digital personal loan for non-pre-approved customers and sachet health insurance policies to AU0101. For customer engagement, we launched deal of the day proposition on AU0101 where a curated offer valid only for a day is shown to customers on login to the app. For customer servicing, we enabled video banking service for NRI customers which together with our Royale world product makes our NRI proposition really powerful.

There are a number of other initiatives that our team is working hard on, including digital banking app for merchants, with a comprehensive range of features, integration with Okin and where we are a wave one implementation partner and a stronger wealth and personal finance management proposition.

Our mobile app AU0101 and video banking continue to gain traction and are scaling well. At the end of Q1, we had 11.9 lakh digital customers with 6.7 lakh monthly active users. 98% of customers financial transactions, and 88% service requests were executed digitally. Our digital products and acquisition channels are helping us expand our distribution capacity. 43% of new customer acquisition in Q1 was through digital channels or products. In this quarter, we added over 55,000 savings accounts which was 37% of total savings accounts sourced at the bank. We are taking a calibrated approach to focus on quality of acquisition which is reflected in customers' average balances. We have also added over 80,000 credit cards and over 1.7 lakh UPI QRs. We disbursed personal loans of Rs. 120 crores, 100% of which were sourced digitally.

During the quarter, we also expanded our pre-approved offers program with over 20 lakh pre-approved offers provided to 10 lakh customers across credit card, personal loans, and wheels. Around 1.6 lakh customers have availed these pre-approved offers since the launch of AU0101 in June 2021 and around 43,000 customers took up the offer in Q1. Personalized offers like these are an important tool for us to engage our customers and improve customer stickiness over time. Over the last 15 months, monthly transacting customers as a proportion of total active savings account customers has increased from 46% to 57% and average monthly transactions per transacting customer has increased from 18 to 26 an increase of 44%.

Video banking as a service channel continues to improve with the aim of making 0101 plus video banking, a complete replacement of a branch from a customer perspective. In Q1 video banking RMs received around 50,000 servicing and engagement calls and increased total relationship value of digitally sourced savings account customers to Rs. 720 crores. This was an increase from around Rs. 460 crores in the previous quarter, an increase of 56%. One of the metrics we track is the branch visit data for digitally acquired savings account customers. Only 6% of these digitally acquired customers visited branches in the six months to May, compared to 34% for customers sourced through physical channels.

Moving over to credit card. We have issued over 2.4 lakh credit cards and are at a monthly run rate of 30,000 cards putting us amongst the top 10 card issuing banks in India. Of the total cards issued, over 60% were issued to existing bank customers and around 42% were issued to first

time credit card users. Our key credit card metrics are in line or better than industry average with 83% of our customers having activated their cards and 51% customers being 30-day purchase active.

Now a brief update on our merchant solutions business. At the end of the quarter, we have 6.6 lakh UPI QRs installed at merchants. During the quarter we installed 1.7 lakh UPI QRs including around 46,000 new customers. With over 1.25 lakh daily transactions, UPI QR continues to help us in engaging and deepening our merchant customers. Average monthly balances in CASA have increased by 76% post UPI QR install. We are also cautiously building out our digital unsecured lending program for merchants. Total unsecured loan disbursement to merchants amounted to Rs. 50 crores in Q1. We have been investing consistently in order to maintain cutting edge technology. To further strengthen our technological capabilities, we have taken a number of initiatives this year, such as upgrading our core banking platform to the latest version, cloud migration and application modernization and implementing data platform to drive business intelligence and analytics.

Cybersecurity remains an area of key focus. We have a comprehensive security framework to ensure that customer data remains safe and secure, and this framework is constantly reviewed and supplemented with new tools and technologies as required.

Finally, to execute in all these initiatives, we have a 600 plus strong tech team, which we continue to build. We onboarded 250 plus lateral hires in last one year and 50 new graduates from premier institutes in the last quarter.

To conclude, tech is a top strategic priority for the bank. Our initiatives have shown a good initial traction and we continue to build on the strong foundation that we have created.

With this, I will now hand over to Aseem for Q&A.

**Aseem Pant:**

Faizan, we can now go to Q&A.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.

**Sandeep Agarwal:**

Sir I have one question or comment that we have not seen that any company takes two days board meeting to consider of financial results. What message you want to give the investor community.

**Sanjay Agarwal:**

Sandeep, this is our track record from last five years and we are actually based out of Jaipur and so every director has to fly here, and we want to cover lot many agenda items, so which don't get over in one day. So, that is why historical from last five years, the day we got listed, the board meetings are generally here for two days in Jaipur.

- Prince Tiwari:** And the agenda, Sandeep, if I can add to that, the board meeting as Sanjay ji said, is spread across two days with the agenda divided over two days. The financial discussions as well as the audit discussions happen on the second day and accordingly the results get declared today.
- Sanjay Agarwal:** Which is today, yes.
- Moderator:** The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.
- Praful Kumar:** Just two questions, one, in terms of now universal banking license, what are you thinking, sir? It's been five years. What are the plans today? How is the interaction with RBI? And what's the feedback, that's question one. And in terms of the CEO tenure what's the RBI stance now, when do you apply for an extension for yourself? These are two broad ones.
- Sanjay Agarwal:** I think the first question is difficult to answer because the regulator needs to notify with all the rules or the methods where they will allow SFB to transit to universal bank. So, whatever we have discussed that is under the discussion with internal RBI. So, whenever they will notify it, we will see it and the board, and the overall mechanism will take their own course to decide whether we want to apply or not. But as of now we are very happy the way we are building our SFB and that's the sight on universal. In terms of my tenure, total is allowed 12 plus, so next extension, right? So, I have the approval till next April, '23 and then I need to have extension for another three years. And the overall I have nine years to work with.
- Moderator:** The next question is from the line of Mayank from InCred Capital, please go ahead.
- Mayank:** So, first request is to avoid call with other bank for currently and at the same time, you need a very troublesome for the analyst to manage both the calls.
- Prince Tiwari:** Again, you'll appreciate that so many banks have to announce their results with between two or three weeks. There is likelihood that some calls will clash, but yeah, when we make the announcement and when we make the decisions, because you would realize that the board members schedules is pre-blocked month in advance, because as Sanjay Ji said earlier, they all travel down to Jaipur. Honestly, it's kind of difficult to reach out to other banks, but we'll try and do our best.
- Mayank:** My question is basically what I am trying to understand is on technology front we are trying to provide the services as some big banks are providing, which are basically 10 times, 15 times larger than us on both the P&L and balance sheet front. So, how are we planning our status on OPEX front because our OPEX would definitely be more driven towards the technology we are trying to get in, so how we try to manage that?
- Gaurav Jain:** I can't compare about the other banks, but I'll talk about what we are trying to do. I think one thing is, we are highly focused on what we are trying to accomplish through the digital initiatives. As I mentioned, the number one priority is to grow our deposit franchise through that. We are very calibrated in terms of where our investment dollars are going and what kind of outcome are

we are expecting. Just to reiterate as an example, we have invested money in UPI QR, and the benefit that we are seeing there helps our liability franchise, because the customers where we have invested, where we have installed the UPI QR have ended up increasing balances significantly to us. That's how we are stitching it together. In terms of your overall investment side, we do take into account the overall budgets and stuff and the return targets and then calibrate where the investment goes to the highest to IT items within digital.

**Sanjay Agarwal:**

Just to add on, because I don't think that there is a choice to ask that whether we want to invest or not, because if it don't become a tech led bank or you don't create a tech led ecosystem internally, I think after 10 years, we won't be able to survive and it's not more about cost. It's about the capabilities of vendors, your own internal team, your purpose, how you want to really design everything. So, there we have done a decent job because the kind of reception we have got on our 0101 app, the kind of credit card performance is coming, our video banking is doing very well and internal digitization, the kind of data and data analytics you want to do. So, we are making ourselves future ready. Having any restraint to do all those things is worth doing that.

**Mayank:**

One final question, if I can ask what kind of change in AUM mix, we are expecting in next 3 years, because you are currently focusing on all our non-traditional products.

**Sanjay Agarwal:**

We are not projecting any change in our asset mix. We are very well on course to build our wheel book, SBL, housing which remains our part of retail story. Next year also, all three will command around 70% of our total asset and followed by commercial banking around 20, 25%, unsecured should be around 5 to 10% range. I think largely we are seeing that; we will be on course of our very traditional product and the way we have performed last five years, that is the testimony that we won't change in future also.

**Moderator:**

The next question is from the line of Hiral Desai from Anived PMS, please go ahead.

**Hiral Desai:**

If I look at the repayment number for this quarter. In Q4, our AUM was about 48,000 crores, we have disbursed about 8,500 crores in this quarter. The AUM is still at about odd 50000 crores, right? So, the repayment rate seems to be like almost 50% in this quarter. Is that some kind of idiosyncrasy in this quarter, which is causing that and on a long-term basis, what should the repayment number be, given that most of the secured businesses are lets say about 3 years or thereabouts, mortgages would be slightly longer, so just wanted to get...

**Prince Tiwari:**

I don't think the repayment pattern per se has changed. We generally see a runoff of about 40% every year. So, that continues and is continuing this year as well. What has happened was last year we had, because of the entire liquidity scenario in the country that it was, we had some surplus liquidity available on the balance sheet at a very lower cost and to that extent we had deployed in certain short term products on the lending side and which actually had to impact as you saw last year, our incremental yields were also down a bit because these were very clearly tactically deployed short term liquidity on which we are making a spread as we move into a higher interest rate regime, we have kind of slowed down on some of these assets. That's why

you would see, even though the traditional assets have done well in terms of disbursement the AUM hasn't really gone up that much but going forward because those assets have run out or we are running them down, you'd start seeing the normalized increase in terms of AUM.

**Hiral Desai:** Generally, on the MSME side, some of the stress sectors which were there earlier, things like school, retail apparel, and those kinds of businesses, how are they coming back, and have we started fresh lending to some of these businesses?

**Vikrant Jethi:** As far as the repayment of the education sector is concerned, we've seen normalcy resuming in the sector. Even with regards to the wheels business, when we had a portfolio of school buses there also the repayments have been pretty normal.

**Sanjay Agarwal:** Largely both the sector has recovered well. The tourism, the school, the school related activities, school buses and everything has become as good as pre-COVID level. We have also started doing new funding, but with lot of credit underwriting standards reinforced around it. It's not that free way to do that, but yes, if there is some merit in doing business, we are doing that.

**Hiral Desai:** Lastly, on the OPEX, obviously the number is a bit elevated since we are investing on the digital capabilities, but just wanted to understand, let's say post this year, which is a FY23, is there an absolute number that you're looking at as we go along into a FY24, FY25, because our cost to income gets a bit difficult to assess? Is there like an absolute growth number post FY23 in OPEX?

**Sanjay Agarwal:** To tell you honest, it's very difficult to predict two years from here. What I can tell you is this that and we have shown in our presentation also that all our assets with cost to income ratio is below 50%. Where we are investing is only branch banking and you know that it takes some more time to stabilize that. We are investing in our digital capabilities. Maybe from here next two years, you will see credit cards coming up and making money for us. You will see UPI QR code making money for us. Video banking become profitable for us. I think in the longer run, if you ask me as a CEO, I will say that our cost won't be so high, but to give a number around it is difficult in this kind of environment, but I'm pretty sure that the whole investment we are doing, we are doing with lot of sense around it. Every penny we're spending is well thought out. So, I think I would just want to assure everybody on this call that OPEX little bit high for this quarter and the reason is that, we had a MTM loss which was also elevated our cost of operations, but overall it has just passed our comfort level, but we will see that in our overall year, we remain around 60 - 62% and in long run of course we need to maintain it below 60%.

**Moderator:** The next question is from the line of Ashlesh Sonje from Kotak Securities, please go ahead.

**Ashlesh Sonje:** If you talk about the experience on recoveries and up gradations during last quarter, first quarter. How are we seeing it evolve during the second quarter?

**Sanjay Agarwal:** What's your question? You said, you asked about the upgrade during the last quarter, right?

- Ashlesh Sonje:** Yeah, recoveries and upgradations. How was the experience there? Which segments are we seeing recoveries coming from?
- Prince Tiwari:** I think we had mentioned that in Uttam ji speech that the recoveries that we have seen during the quarter, 65% of them has been normal resolution, primarily through customer coming in settling down or repaying their debt obligations whereas, the balance 30% odd had gone through the asset reinforcement route. If you ask specific segments, I think Vikrant can probably answer that. Roughly it has been same for both wheels and SBL segment.
- Ashlesh Sonje:** Can you just break up the reductions into write-offs, recoveries and up gradations?
- Aseem Pant:** We have not given that data, Ashlesh we will get back to you. We've written off around 34 crores during the quarter, in terms of recoveries and upgrades I'll get back to you with that data point.
- Deepak Jain:** I am Deepak Jain this side. So, reduction during the quarter is Rs. 164 crores across all the products as this told, 34 crores will go in technical write-offs and 10 crores principle written-down due to repayment, this is the total amount.
- Ashlesh Sonje:** My second question is on the slippages; can you give us some color on it specifically how much of the slippages are coming from the restructured book and outside of restructured which segments are contributing to?
- Aseem Pant:** From the restructured book the slippages were around 80 crores out of total slippages of 260 crores.
- Moderator:** The next question is from the line of Ankit Bihani from JM Financial, please go ahead.
- Ankit Bihani:** I had only one question. What explains the decline in net interest margins by 40 bps quarter on quarter, because we are seeing the net interest income grow 4% QoQ, we see that NIM has declined by 40 bps?
- Prince Tiwari:** That's generally because quarter on quarter NIM is not really comparable, because there is the seasonality factor in Q4 and Q1, generally you realize that we do a lot of business in Q4 and to that extent, the base impact comes into play. Seasonally, if you see Q1 would always be lower than Q4, but as we had said that for the full year, we are looking to maintain our margin similar to full-year FY22.
- Ankit Bihani:** But when I back calculate the net interest income has grown 4% QoQ, but on that if I calculate the average interest earning asset that has grown by 12% QoQ, so could you explain that?
- Prince Tiwari:** Interest earning assets have grown, right?
- Ankit Bihani:** 12% QoQ.

**Prince Tiwari:** Yes, that has kind of subdued the margin. That's what I mentioned that typically what happens is you do a lot of business in March, if you go back and see Q4 generally the disbursements are very-very high and to that extent and last quarter was very good for us. So, to that extent the denominator grows much faster as compared to the numerator. It is seasonally not being comparable historically, even last year if you see our first quarter margins had come at about 6%, whereas our overall for the year margins were about 5.7%.

**Moderator:** The next question is from line of Ronak Ajit Jain from Jetawat Advisor LLP, please go ahead.

**Ronak Ajit Jain:** I just want to ask you regarding the revenue plan, your plan of future next five years to increase your revenue? Are you going to open the branches?

**Prince Tiwari:** He's asking five years. He's asking what's the plan for the growing revenue for next five years? Is it by opening more branches?

**Sanjay Agarwal:** I think it's business as usual to be very honest, if we need to grow ourselves, we need to have more states, more geographies, more branches and of course the digital will also play a very important role there. I think that strategy remain very solid or very straightforward that for deposits, we want to go in urban markets and that will be pan India. For the lending, we want to really focus more on the core market. So, existing space more deeper and deeper. Of course, digital, allows us to expand entire country, without much opex around it. I think we have sorted out strategy of growth very well, and we are on that path only.

**Moderator:** The next question is from the line of Bhavik Dave from Nippon Mutual Fund, please go ahead.

**Bhavik Dave:** Couple of Questions, one is on very granular but we've started to disburse digitally personal loans at 122 odd crores that you mentioned in the presentation. Who are these customers, are these liability customers or what exactly and what is the ticket size? What is the yield that we charge here? How does this book work and how is the experience been? We have just started just want to understand how we are going about it.

**Gaurav Jain:** This 120 crores book. This is hundred percent existing liability customers. We have only personal loans for our existing to franchise customers and mostly around deposit customers. The average ticket size is just north of 1 lakh. The yield would be around 18 odd percentage. In terms of the customer profile, that reflects largely the profile of our deposit franchise. Which obviously most of the money is from the urban market, but in terms of the customer slated it's 50:50 between core and urban. It reflects sort of that split and then finally rights or in terms of asset quality it's still early days, but it's been very very strong so far.

**Bhavik Dave:** Second is on the deposits. Just want to understand, you are already offering a reasonably high interest rate on the savings account. Is there any thought of maybe going up further from here to garner deposits or we are comfortable with the kind of deposit growth that we have considering our asset is reasonably strong?

- Rishi Dhariwal:** The branch network that we have added in the last couple of years and we've given some details for urban and core markets in the presentation this time where the urban market branches have almost doubled over a period of two years and we have gone to new geographies that we have been updating earlier also, we are getting good traction in those markets and the addition of branches will largely keep pace with the requirements of the asset business. So, yes, the growth of branches will not really be very linear because video banking adds to our ability to grow our footprints significantly. But yes, this year also we should be able to add a few more branches given the thin presence that we have so far established in UP, South and East. So, a few branches will come in those markets and the branch expansion will depend really on the asset growth required and therefore whatever, the retail deposits that we need to mobilize for the bank.
- Bhavik Dave:** My question was more regarding the savings account rate. Do we intend to do we need to increase that rate even further, if need be, for growth or even only branch addition is good enough for meeting the advances growth requirement?
- Rishi Dhariwal:** I think savings rate is fairly optimized and you would know that we offer different rates across different buckets, which then helps us to optimize our overall savings rate around 5.5%. We don't think that we will need to revise this at any point of time. We don't need to change the savings rate at this point of time.
- Bhavik Dave:** One related question to liabilities is like I see your video KYC. I have seen number of average balances that you have there is reasonably good, right? Like 35,000 to 40,000 average balances.
- Rishi Dhariwal:** What is your question?
- Bhavik Dave:** Sorry. I was trying to understand like the video KYC your average savings balances are quite healthy at Rs. 35-40,000 odd which is very healthy, just want to understand what's leading to this and are incremental customers addition totally digital and via this video KYC route?
- Gaurav Jain:** In terms of the healthy average balances, that's a reflection of our acquisition strategy where we've been, highly focused on acquiring only quality customers and especially for the channel the digital marketing channels through which we acquire those customers. That's, reflecting in that average ticket size. The profile is again, I think we've given out that on slide 34, but it's largely I think 80% is urban and around 50% is salaried and around 75% is sort of young between 20 to 35 years of age.
- Bhavik Dave:** Last question is on the PSLC this time around PSLC scenes have been a little muted, what's your outlook on this? Because I think the growth in the system was quite strong, so I thought requirement of PSLC would be reasonably high. How do you think about it that the number is quite small versus than last year first quarter?
- Yogesh Jain:** So, PSLC has a seasonality factor. So, we have excess portfolio available and last year first quarter also it was around 18 crores. So, this quarter we have 13 crores. But this quarter we feel

that premiums were subdued, and demand was also subdued, so we will time ourselves maybe next quarter we will see the position in premium and accordingly we'll figure out our PSLC.

**Moderator:** The next question is from the line of Shibani Kurian from Kotak Mutual Fund. Please go ahead.

**Shibani Kurian:** My question is more in terms of margin, again just delving a little deeper in the margin trajectory. Just wanted to understand what is the share of floating rate loans and fixed rate loans in our mix. Related to that, if you look at our loan growth, our loan growth has been extremely healthy and that has been matched by deposit growth. Incrementally for us, again, this is a possibly a repetition of the earlier question. Do we see the need for interest rate hike, especially where deposit mobilization on the retail side is concerned? On CASA levels do we have scope for CASA to move up from here on?

**Shantanu Prasad:** I am Shantanu Prasad here Head of Treasury from Mumbai. So, with regard to the pricing of deposits and if you see that we had taken about 90 basis increase in our deposit rates from February onwards and the last high we took was 15 basis and our present deposit rate is about 690, which is standing good as against the peer competition. As what Rishi also mentioned around the SA that we have 7% as a peak rate and we don't intend to change. Our cost of funds which was about 5.95% last year, as we have mentioned in the slide, we endeavor to remain around those levels in this year, we are aware that rates are on the rise, but our deposit accretion is largely driven by the CASA growth which you will see that last year, year on year, our CASA was 26%, which has jumped about 39%. Major incremental growth in the deposit is around the SA balance. We are also driving the CA now with a very focused approach. I think with this overall cost of money should be under control.

**Shibani Kurian:** Do we envisage further improvement in CASA ratio in the current interest rate environment or do we think that CASA would remain largely stable at the present levels?

**Rishi Dhariwal:** If you actually look at the kind of customer who place retail deposits and the customers who have transacting accounts, like what Uttam had mentioned that we acquire what we call as GRIT customers, which is granular retail individual and transacting customers. What we have seen is that the customer who place deposits is slightly different segment than the customers who actually open a savings account with you. Likewise for current accounts, we've mentioned that there are small traders and merchants who love to bank with us and that's the wide space that we understand that is there in the market. Now we are very comfortable in our ability to drive our teams to four specific types of business. If I want to drive CASA, I will drive CASA, if I want to drive deposits because the volume of money required is more than I drive deposits. In the current environment, our priority is to ensure that our cost on deposits is maintained and therefore our drive will be to push more of CASA. Therefore, we should see, I mean, we do see a lot of headroom to, I mean that will automatically lead to increase in the CASA ratio. The incremental growth in deposits should largely happen through CASA is what we would strive for.

**Sanjay Agarwal:**

I think your first question that our fixed book is around 70%, let's say 74% and our variable book is around 26%. Last quarter, there is around 90 bps in Repo rate change, which has resulted us by cost of AUM going up by 6 basis points. Our start rate was around 5.68, which has now gone to 5.72, and we are envisaging that there might be 100 bps more Repo going in next six to seven months. So, that also has been accounted, and we strongly believe that by building more CASA, which Rishi was just explaining, and it depends on the whole competitiveness around the other banks and the peer bank how they perform. So, I think our CASA rates are absolutely on track, I think we need to play around with our FDR rates which Shantanu Ji just spoke. So, largely, we were able to manage our cost of money to the last year level, and in our assets side, on the 25% book, we have already increased the rates, as we move forward and incrementally also, we have increased our rates by 50 to 60 basis points, right? So, in a year term, I think our sense is that there will be a level where our AUM will start going up, on the asset the rate will be going up, and cost of money will get stabilized at around 5.85 to 5.9, so we will protect our NIM.

**Shibani Kurian:**

Sure. Thank you Sanjay Ji, that's a really helpful. One more question is, of course your loan growth so far has been extremely strong, and you have exhibited your ability to grow faster than other bank so in a medium-term, do we continue to expect similar sort of a loan growth trajectory, and of course, given the fact that you have new product lines that you have added. So, this kind of loan growth trajectory is possible for us, at least for the next few years.

**Sanjay Agarwal:**

So, our stated growth rate is around 30% Shibani, and you really want to be on that course. So, where are it happens more than that because of certain reasons, but I strongly believe that we need to protect our margins. So, the idea is to really build an asset at a decent IRR, right? So, we don't want to build in a book where we don't have a decent IRR or decent yield. So, I think we will play our balancing play where we have a higher AUM and it can manage a little bit of higher cost. But I think I would say 30% here and there is there.

**Moderator:**

Thank you. The next question is from the line of Naman Garg from WestBridge Capital. Please come ahead.

**Naman Garg:**

I just want to understand two things. First is I want you to understand the breakup of our OPEX maybe four- or five-line items, and in terms of percentages and how they revolved probably year-on-year, that will be very helpful to understand to get a deeper sense on OPEX.

**Sanjay Agarwal:**

I would give you some breakup of this quarter. So, this Sanjay this side. So, we have around 741 OPEX for this quarter, out of that 41 crore is depreciation, 100 crore is around investment on our initiatives, 400 crore odd is around employee cost, 200 crore is around the other expense, which includes travel and other things, right?, so, this ratio remains pretty same for maybe last three to four quarters, because we started investing on our digital properties in last 18 months only. So, having the ratio makes it similar right? So, digital as I told you is investment for the future, and we will want to continue that. In terms of the other OPEX, which is close to 200 crore, there is an impact of inflation there. It might have, maybe a 10% impact there, because of inflation, the travel has gone up, the rent has gone up, the other consumers has gone up, so that has

impacted this year too. But overall, of course we are retail organizations, so we need a lot many people on the ground to manage our whole activity. So, the pay bill is a little high, but that is that is there, right? So, this is overall OPEX commentary for the last quarter, but if you need more detail around it, then you have to be in touch with the IR team for any kind of data around previous years, right?

**Naman Garg:** Understood, okay, that's helpful, and second I wanted to understand a bit about that treasury income that has been decreasing over the last four to five quarters. So, what's the commentary around that?

**Sanjay Agarwal:** Shantanu can you help?

**Shantanu Prasad:** Hi. I am Shantanu again here. You see that normally in the first quarter treasury has the opportunity to book one-time gains in SLR portfolio. So, that is what we did last year, and as you would appreciate that this year has been different, where we have seen that there has been an increase in repo rates, and which has a consequent impact on the market yields, and hence, we did not have that opportunity to book that one-time gains. Now on the mark-to-market, I would just want to give you a wider perspective as to how do we kind of manage this is, is that as a bank, we maintain a sufficient liquidity cushion, and that is generally parked in our SLR and non-SLR instruments, which is obviously in the AFS category, and the endeavor here is to have an optimal mix, which will give us a better return and have a positive carry. Now, our investments in the SLR generally is in G-Sec and T-Bill whereas in non-SLR, we really I would say emphasize on the quality and hence we invest in this AAA/AA rated corporate bonds CDs and CPs, and the liquidity cushion that we really managed, obviously is out of experience that we still have a new franchise of five years, and we have also witnessed a lot of shocks in terms of the NBFC, the bank crisis, etc. Now, in this first quarter, we saw that the repo rate was hiked by 40 to 50 basis points and CRR rate was also hiked and that really led to yield spiking up, as a result that we had a loss of 55 crore broken into 24 crore of crystalized loss and 31 crore of MTM. Now when this action happened, obviously we were as a prudent strategy, we liquidated whatever is was the thin position in our SLR and booked our loss, and we also booked some non-SLR losses. Now, the first quarter as what we see is that the portfolio is fairly now okay. SLR we do not have any mark-to-market instruments on the non-SLR we do have, but we believe that the frontloading of the rate hikes has happened and going forward with our duration of the portfolio just being around one, we do see that this book will progressively rundown and the future impact of MTM would be limited from here on.

**Yogesh Jain:** Naman just to share some data points. Our overall Treasury yield now is more than our cost of fund.

**Moderator:** Thank you. The next question is from the line of Prakhar Agarwal from Edelweiss. Please come ahead.

**Prakhar Agarwal:** Just a follow-up on the previous question, could you give the breakup in terms of what is the quantum in AFS and HTM book, and related question to that is that have we made a one-time transfer this quarter from AFS to HTM or vice versa which was allowed and then third related to this again is on one hand we are saying that probably we are anticipating a further 100 basis point rise in repo, and in that sense if there are mark-to-market which is still left in corporate or even if the duration is one year then also there could be some mark-to-market...

**Shantanu Prasad:** Yeah, so, on the SLR part you see, most of our holdings are in HTM, and you will be aware that RBI does permit a sizable holding in HTM, and we are investing in HTM which is at a good yield these days. On the AFS as obviously, the interest rate views is slightly heavy, we do not know which way it is going to go up. But I think our holding is mostly in the non-mark-to-market treasury bills so there would be no mark-to-market risk there. On the non-SLR side, we do have a mix of a non-mark-to-market and mark-to-market instruments. We have here on the cautious mode in the light that the yields were likely to rise. Our purchases have been mostly in non-mark-to-market for a significant period of time. However, our existing book of corporate bond, which is mark-to-market is there, and we have done some amount of work in terms of assessment, and we believe that most of the rate hikes are already there priced in and any incremental increase because the book will automatically rundown the impact on that portfolio will not be that significant.

**Yogesh jain:** Prakhar just to add, we have not done any transfer from HTM to AFS or AFS to HTM this quarter, and totally we have around the 18,000 crores kind of SLR and non-SLR book including regulatory requirements. Out of that non-SLR book is around 2000 crores having bonds, which we keep normally for liquidity, and what Shantanu mentioned that duration is less than one for that book. So, we feel that the rate hike has already seen so we don't envisage much impact there.

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

**Renish:** Yeah. Hi sir and congratulations on a great set of numbers. Just one question on incremental AUM, which Uttam Sir has shared some insights on it. So, I just missed some numbers. So, Uttam Sir has said that 73% of the AUM is sort of originated post March 21 and I missed the subsequent number so can you please repeat that?

**Uttam Tibrewal:** The NPA, you are asking for the NPA number Renish?

**Renish:** No sir, actually sir has said that 73% AUM was originated post March 20, and 92% of the book was current and there was some other numbers, so I just missed those numbers.

**Vikrant Jethi:** So, NPA number on the book which has originated post March 20 is 0.48 and 92% of the book is current and the overall contribution to our book is 73%.

**Moderator:** Thank you. The next question is from the line of Nilesh Jethani from BOI AXA Mutual Fund. Please go ahead.

**Nilesh Jethani:** Hi sir, thank you for the opportunity. Sir my question was on the competition side for last two years with competition focusing on the secured asset and now more comfortable in giving out loans to unsecured or probably the high yielding assets, which is our wheel, SME, etc. How are we as a competition is shaping up for us and how are we confident to continue to keep growing our book at similar run rates for next year two-to-three-year perspective?

**Sanjay Agarwal:** So, my friend I have already commented in my opening remarks that all our four SBUs be it wheel, SBL, housing and commercial banking, absolutely we are running it from last more than one decade, and the overall market share is just 0.4%, so there is enough runway available for next 10 years also, to build this book, and if you go back by the individual market share, the wheel is just 2%, MSME financing is just 0.4%, housing is just 0.1% and commercial banking we have just started from last five years. So, there is very negligible market share. So, the kind of bank we operate, now, the first preference of customer is to take loans from bank only, and the kind of rates we have, the kind of brand awareness that the AU has got in, I strongly believe that AU will become one of the most exciting retail franchises for the core market in coming years.

**Nilesh Jethani:** Got it, that was my only question. Thank you so much.

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

**Nidhesh Jain:** Just one question is this 100 crores investment impact that you had mentioned, what is the nature of this investment, is it customer acquisition cost, it is employee cost or whatever, what is the nature of the investment that we are doing and what was the number of last year.

**Sanjay Agarwal:** You want the details of 100 crore, we have given the presentation?

**Nidhesh Jain:** I want to know about the nature of the investment, is it employee cost, spending cost or customer acquisition cost, where actually are we investing 100 crore?

**Prince Tiwari:** Nidhesh, Prince here. Hi. So, on slide 15, what we have said is there are 103 crore of total investment that we did undertook, and these are the investments which are outside of our normal business right, and typically, we have given that 48% of that has been towards credit cards, QR codes, video banking, 44% towards distribution and the rest is was a brand campaign.

Now, when we say that, its towards credit cards, QR codes, video banking, it basically involves manpower, the infrastructure costs as well as any kind of... say for example, in credit card, there are acquisition costs as well. So, all of that is kind of built in. So, this is the cost, which is appropriated to these businesses, which is likely to generate a return in the future at some point in time.

**Nidhesh Jain:** Sure, and what is the number last year, full year?

**Prince: Tiwari:** Around last full year, it was about 250 crore close to 250 crore that were given last quarter. Last year, same quarter, I think it was about 25 odd crore.

**Aseem Pant:** It is given in the presentation.

**Moderator:** Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital Pvt. Ltd. Please go ahead.

**Pankaj Agarwal:** How has been your experience on asset quality in new markets compared to mature market?

**Sanjay Agarwal:** I have commented this earlier also that the comparison with Rajasthan is not good for us because Rajasthan remain a very strong market over the years. But if you compare the non-Rajasthan state, we feel the same. Be it in comparison between Gujarat, Maharashtra, MP, Chhattisgarh, Delhi, Punjab largely remain same, and also newer geographies on a bank platform is even better. So, that happens.

**Pankaj Agarwal:** But like your growth is roughly 30% to 35% YOY plus you are growing in new markets plus new prospects, right? Even that back drop you can maintain such quality the way you maintained over the last decade?

**Sanjay Agarwal:** Of course, because we have moved on from Rajasthan in 2008 onwards. So, it is now good 14 years, that we are working in non-Rajasthan space, and we are able to build this kind of asset quality throughout the years and throughout the book, and throughout the seasons, and that said you had complete ownership at every level is the hallmark of AU.

**Pankaj Agarwal:** Okay, so basically I think that next decade in terms of asset quality should not be different from what you delivered earlier?

**Sanjay Agarwal:** Very honestly, next decade, I can't comment but last 10 years shows that. The last 10 years gives us that comfort that the things should manage next 10 years also.

**Pankaj Agarwal:** Fair enough sir, thank you.

**Moderator:** Thank you.

The next question is from the line of Madhu Gupta from Quantum AMC. Please go ahead.

**Madhu Gupta:** Thank you. First of all, congratulations for a good set of numbers. I have two questions. The first question is that you have said that in branch banking, the cost: income ratio is still more than 100%, it is still not profitable, so what is the tenure for the branch banking to become profitable? That's my first question, and the second question is, you have a lot of large players, increasingly targeting commercial banking, rural banking, for example, HDFC Bank wants to now add 1500 to 2000 branches every year, and so they are targeting that segment. So, do you think that the

competition would intensify in that segment, and in that scenario, how do you... how have you prepared yourself to counter that competition? So, those are my two questions.

**Sanjay Agarwal:** Yeah, Rishi you want to answer the first one?

**Rishi Dhariwal:** Yeah. Hi, Rishi here. So, basically branch banking should typically if I look at L1 operating level, breakeven that should in an urban market typically happens at 24 to 26 months. But if you have a look at our fully baked in, breakeven that will typically take four to five years for urban and core market would be slightly more, but they will be not adding too many branches and core markets over the last few years now.

**Sanjay Agarwal:** Yeah. So, in branch banking, the branches become profitable branch banking doesn't, right. So, so I think what Rishi is talking about the branches, right? The older you are it will become profitable, right? and, branch banking typically is very, very different subject. Generally, when we calculate the profitability, we don't see the whole size and the importance of the customer acquisition, right? The transfer pricing is done on the basis of the acquisition, right, rather than in a holistic way, if you can price the whole lifecycle of the customer, then it's a very different game altogether, right? So, I think, branch banking that may not become profitable at all in your journey of banking, right, but branches would, the customer would, and the other asset class, the cross-sell opportunity, will help us to build a very holistic bank, right? So, branch banking is so important to acquire customers, and to give him the lifecycle kind of services to really become a banking franchise, right? That's, that's our sense. So, I think profitability around that is only one sense, but you need to see very holistically around that piece.

Second, commercial banking space, the brand doesn't work, your availability, your product, and how you deliver is more important. Over the years, we have built our wheel SBL, housing in those markets, and we are very known name in those markets, right, and our team knows how to acquire, how to deliver and how to maintain right. So, I think that's our USP over the years, and we will continue on our USP in there. India is so huge, the opportunity, so huge. So, one bank coming or we coming alone, won't take market very competitive, so we need to play around our strengths, and I believe that kind of size we are in our commercial banking, for next 10 years, we don't have to think much around our competition, we shall need to think much about our own product range, our team, our delivery, our management around customer service, so that is a more priority for us for next five to seven years to build a decent asset franchise in those markets.

**Moderator:** Ladies and gentleman, that was the last question. I now hand the call over to Mr. Aseem Pant for closing comments.

**Aseem Pant:** Thanks Faizaan and thanks everyone for joining us and your support. Please reach out to the IR team in case you have any further questions. Thank you.

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