



“AU Small Finance Bank Limited  
Q2’FY24 Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q2 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prince Tiwari, Head, Investor Relations. Thank you and over to you, sir.

**Prince Tiwari:**

Thank you, Michelle. And good morning, everyone. And welcome to AU Small Finance Bank's earnings call for the second quarter of FY24. We thank you all for joining the call early in the morning. As some of you may have seen, we made a major strategic announcement yesterday evening. And we appreciate that you all might want to hear from the management on the strategic thinking and the road ahead.

We thus have tweaked the format for today's call a bit. After providing you with brief commentary on the quarterly results, I'll invite our founder and MD and CEO, Mr. Sanjay Agrawal, to share his thoughts on the proposed merger and the way forward. In the interest of time, I have requested Uttamji to kindly skip his business highlights for the current quarter.

And post Sanjayji's comment, we will straightaway jump into the Q&A session with the participating analysts and investors. Apart from Sanjayji and Uttamji, we also have a few senior

members of our management team on the call today to answer any questions that you may have. With that, let me start by sharing some of the key operating highlights for the quarter.

The overall operating environment for the quarter continued to remain challenging with uncertainties around geopolitics, interest rates, and inflation. We all know about it. While India looks quite good, the overall festive demands holds, and consumption in the rural and urban looks quite okay, supported by government capex.

However, on the liability side, we continue to see competitive pressure amidst tight liquidity and higher inflation, leading to higher interest rates and persistent interest rates. In this backdrop, our second quarter performance remained consistent with the expected outcomes, and we are navigating the headwinds quite deftly. Some key highlights for the quarter, we onboarded 3.6 lakh new customers during the quarter, and our total customer base has now reached around 44 lakh lakh customers.

We have crossed a landmark of INR75,000 crores in deposits and INR1 lakh crore in asset book or balance sheet size, if you include securitized book. On our overall deposits, it grew by 30% year-on-year basis and 9% quarter-on-quarter basis, supported by a CASA growth of 6% on a quarter-on-quarter basis. However, as I talked about, due to tight liquidity and higher pressure on the interest rates, a good credit offtake, there is pressure in CASA mobilization, and our CASA ratio is down by 4% since March 23.

We are navigating the challenges and focusing on optimizing the liquidity and managing the cost of funds. We'll continue to lay strong emphasis on CASA and retail deposits. And one key thing we have changed is during the quarter, we have created a new banking unit called Swadesh Banking to maximize organizational effectiveness and focus on the upcoming semi-urban and rural areas to unlock the potential.

During the quarter, our peak deposit rates increased by 25 basis points across savings and term deposits, taking our FD rate to 8%, the peak FD rate for non-senior citizens to 8.5% and peak savings account bucket at seven quarter. Consequently, there was an impact on the cost of fund, which increased by about 12 bps from the last quarter, reaching to 6.7%. On an average cost of fund for the first half of the year was 6.64, which is 87 bps more than the September 22. While our costs have gone up, our overall yields have remained flat.

And this obviously has some pressure on margins. But what we would like to emphasize is that this flattishness in the yield is more structural in nature as we move towards lower credit cost businesses and better risk profiles customers. Our NIM for the quarter was 5.5% and 5.6% for the first half of the year. Now, this changing mix where we are moving towards lower yielding franchise businesses like business banking, agri-banking, home loans, will continue to put pressure on margins. As I said, it's structural. However, these businesses are also better credit quality and offer savings in terms of credit cost and opex vis-a-vis our traditional businesses of Wheels and MBL (erstwhile SBL).

On the overall NIM, we continue to remain within our guided range for this particular year. Our advances growth for the quarter stood at 2% and on a year-on-year basis, we grew about 24%. However, we did securitize INR2,922 crores of loan assets during the quarter.

Gross of securitization, the loan book growth stands at 5% on a quarter-on-quarter basis. 63% of our loan books is now fixed rate and 37% is floating. So, our fixed rate retail book will be advantageous once the interest rate cycle turns.

A key thing to note is that we continue to see uptick in our disbursement yields. After increasing our disbursement yields by about 28 basis points last quarter, our disbursement yields have gone up by 27 basis points in the current quarter as well. Taking the total disbursement yields up by 41 basis points for half year compared to FY23.

The wheels business which saw disbursement about INR3,689 crores, the disbursement IRR was upwards of 15% at 15.06%, an increase of 77 basis points on a year-on-year basis and 40 bps sequentially. This is expected to help the margins in the coming years as our lower yielding book created during pandemic in some of these businesses starts receding. Additionally, we have expanded our traditional MBL (SBL) business to add newer products like business loans for micro-entrepreneurs in rural and semi-urban areas offering cash flow-backed loans without collateral and under the government guarantee program.

We have also rebranded our SBL function as micro-business loan as is synonymous with the growing requirements across MSMEs. The asset quality trends continue to remain normal and within the range. While during the quarter, the gross NPA increased by 15 basis points to reach 1.91%. Almost 8 bps of this increase can be attributed to the base effect due to higher securitization volumes of INR2,922 crores during the quarter.

We assure you that this is our feedback from the ground. There is absolutely no pocket of stress in any particular segment or sector and the increase in GNPA and consequent credit cost can solely be attributed to seasonality and we hope to see a strong performance in the last quarter of this financial year as has been the case over the last 20 years. Our quarterly slippage ratio has remained similar to last few quarters at about 2%.

However, as we exhaust our contingency buffers which was created during the COVID time, our credit cost has started to get normalized. We have a conservative policy in our unsecured lending where we provide 100% on 180-day past due. So some amount of increased credit cost is on account of write-off from credit card book as well as that book grows and as is expected in the normal course of business.

The PCR on the overall book continues to be at 73% including technical write-off and banks still have about INR 96 crores of additional provisioning or provisioning in the form of contingency and standard restructured assets. In a nutshell, we expect the asset quality to remain within our range with no specific pocket of stress or any early warning signals. So far with recovery expected in the second half of the year.

Coming to our cost to income, our overall cost to income for the quarter was 61%, down by 4% from Q2 and we continue to focus on efficiency. Our cost to income ratios remains a key

monitorable and for the full year, we expect to land somewhere very similar to last financial year. Our NII growth for the quarter was 15% on a Y-o-Y basis and that's net profit increase to INR402 crores, an increase of 17% on a Y-o-Y basis.

The resulting ROA and ROE stood at 1.7 and 13.9% respectively. The bank remains well capitalized with a capital adequacy ratio of 22.4%. The core PPOP growth, a key measure which has been monitored by analysts and has been one of the biggest concerns has surged to 28% on a year-on-year basis and 20% on a quarter-on-quarter basis. And this is supported by other income from credit card and distribution of third-party products and we believe that this is structural in nature and not a one-off.

To prepare ourselves for our next phase of growth, we have also reorganized ourselves into five businesses group which will support the existing SBU structure. The first one is Urban Branch Banking which will focus on catering to urban affluent market and customers. Second, as I said, Swadesh Banking which is clubbed with government and wholesale deposits which will focus on rural banking, financial inclusion and impact banking strategy.

Small and marginal farmer lending and financial and digital inclusion has been embedded along with the Swadesh Banking. The third large group which we have formed now is Retail Asset Group which continues to have our key retail lending businesses which is wheels, micro-business loans and home loans as they are all mapped under one umbrella for building synergies and leveraging benefits as they share similar geographies, customer profiles and behavior. Fourth is Commercial Banking which continues to operate four lending books across business banking, agribanking, real estate and NBFC lending.

And we are expecting that with the operationalization of our AD1 license by the end of this financial year, trade and transaction banking will be the newest addition to this group. The last but not the least is the Digital Banking Group where all the digital businesses initiatives of the bank like credit cards, UPI credit cards, QR codes, merchant lending, personal loans, video banking, AU0101 have been brought under one umbrella and one leadership to align strategy and bring synergy under the leadership of Mayank. Notably, our digital products continue to scale.

Our credit card business has now reached 7 lakh plus live credit cards with monthly expense of INR1,350 crores. Additionally, we opened 54,000 savings accounts via video banking. We went live with our wheels origination lending system in collaboration with Salesforce and FICO and so far in the initial phase, our STP rates on the card loans have gone to about 30% and decline rates have reduced by 50%.

In line with our philosophy of badlaav humse hai, we did launch our new brand campaign “Soch Badlo Aur Bank Bhi”, featuring our brand ambassador, Ms. Kiara Advani. This campaign was strategically designed to align our objectives of catering to evolving aspirations of our customers and role of women in financial decision making.

We also announced our partnerships with Max Life Insurance, Bajaj Alliance Insurance, Bajaj Alliance Life Insurance, Star Health Insurance as bank assurance partner to further strengthen

bank's third party products offering to its customers. After the super success of IV Premium League Banking Program, we have introduced Zenith Plus Credit Card, a super premium metal credit card program offering luxury and convenience, accompanied by a range of exclusive benefits.

We also, on the world sustainability day, the bank became one of the few first banks in India to launch a green fixed deposit fully compliant with the RBI's latest framework on green deposits. And this had been assured by CRISIL. We request all of you to kindly open green deposits and make your contribution to the environment. So, all in all, we continue to focus on executing on our strategy for March 27 by emphasizing on building a brand by providing complete suite of products and gaining trust of all our stakeholders.

Our latest announcement is a step in this direction and will make us complete as a retail bank across products, geographies and customer segments. To talk more about our announcement, I now invite our founder and MD and CEO, Mr. Sanjay Agarwal, to share his thoughts on the merger announcement.

**Sanjay Agarwal:**

Thank you, Prince. Good morning, friends. And thanks for joining us early in the morning. Prince has already spoken about last quarter's performance. I strongly believe we remain on course in our business in terms of deposit growth, asset growth, people and technology. And are putting our best foot forward to handle challenges, uncertainties due to macroeconomic environment.

Now, I would speak about the transformative merger we announced last night. As an institution, we have come a long way from our humble background of being NBFC to becoming the largest small finance bank in the country. Throughout our journey, we have believed in our vision of becoming one of the world's most trusted retail bank and have been governed by our dharmas, which are a true reflection of who we are and what we stand for.

Another institution which started its journey in a similar fashion and has built up, ground up, is Fincare small finance bank. Fincare has witnessed remarkable growth while pursuing an inclusive business model and created immense impact on lives of millions of people at the bottom of the pyramid. I'm absolutely delightful and thrilled to announce the coming together of these two strong, established and well-governed SFB franchise with a common charter of promoting financial inclusion.

This is just not a merger of two entities. It is a union of shared values, common goals and a vision for the future. This is an all-stock merger with Fincare small finance bank merging into AU small finance bank and shares will be issued to all Fincare small finance bank shareholders as per the agreed share swap ratio.

The merged entity will have around 2,300 touch points serving over 98 lakh customers through 43,000 plus employees. I want to share my thoughts on why this merger makes a lot of sense for our bank and what capability it would bring to the AU franchise. First foremost reason is around Fincare's extremely strong and experienced management team led by Rajiv. The team has been

around for many years since Fincare's NBFC days and has shown remarkable resilience while building the business from grounds up.

Fincare team have a deep understanding of the MFI segment along with a strong connect on the ground, a trait which we share and value very highly. This has helped them face multiple industry level challenges over the last few years.

Second point is around the complimentary nature of business both in terms of geography and the product. The addition of Fincare's touch point would accelerate build out of our pan India distribution network through doubling of touch points from 1,000 plus to now 2,300 across 25 states and UTs. This would significantly increase our presence in South where 49% of Fincare's touch points are located and add significant presence in Tamil Nadu, Karnataka, Andhra and Telangana along with UP and Bihar.

Post merger, over time we would convert Fincare's smaller MFI focused branches into AU asset centers and expand product offerings. Merger would help diversify our product portfolio with access to rural, impact and inclusion focused MFI business and gold loans. Let me first admit that I had a different view on MFI business previously.

However, the industry has proven its resilience over economic cycles. It has emerged stronger with reforms and regulation and having faced multiple challenges over the years. So, promoting financial inclusion by catering to unserved and underserved segments of society is our key objective as an SFB.

Lending to small and marginal farmers was a gap in our offering. Merger with Fincare would provide us this capability. Merging with an MFI on a bank platform made more sense from our perspective given common regulatory and compliance requirements.

Fincare is a well-governed bank with a strong board and marquee private equity investors. MFI has grown at CAGR of 32% over the last year, last 10 years actually. With a strong, India's strong and widespread economic growth and I believe that industry is poised for a sustainable growth and profitable nation. Hence, we took this decision.

Finally, in my opinion, Fincare is one of the most experienced MFI in the country with a strong collection expertise and ability to sustainably grow the business. Post-merger, MFI would be 8% of our balance sheet and we would intend to keep it around 10% of our balance sheet going forward.

We have also looked through our cyclic profitability and credit cost in the sector and we believe MFI can sustainably produce ROI of 3.2% on a through-the-cycle basis with credit cost of 2.5% to 3%. We will provision the business conservatively on through-the-cycle basis. Along with MFI capability, we also benefit from Fincare's gold loan capability which has a gross advances of INR1,100 crores and gain further scale in HL & micro business loan.

The merger also brings multiple synergy opportunities from funding cost and scale-driven cost synergies over time. This is not a cost-cutting but benefit that accrue from scale and reduction in future hiring requirements. Fincare has a strong IT team of 200 people and has developed in-

house development capabilities around process digitization.

This would further add to our tech capabilities and complement our strong customer-facing applications. Finally, I think Fincare's size is ideal in terms of integration, neither too small nor too big to integrate. Rajiv will be appointed Deputy CEO of AU SFB post-merger. He will continue to lead the Fincare unit within AU.

Additionally, he will jointly lead the IT and digital unit of AU SFB along with me to ensure smooth IT integration post-merger. Detailed plan of operational integration would be worked out post-completion of merger.

We have onboarded Aon to help us with the HR aspect of integration too. As always with M&A, there could be some challenges as we integrate the two businesses, but I feel there are more knowns than unknowns. So in the end, I just want to assure you that we'll make everything in terms of a better integration, a smooth transition, so that we emerge as a very strong franchise in the coming years. And also I want to assure that we are absolutely on course and remain confident of delivering our March 27<sup>th</sup> strategic agenda.

Thank you so much. Good to go, Prince.

**Prince Tiwari:**

Yes. So Michelle, we can now open the call for question and answers.

**Moderator:**

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

**Bhavik Dave:**

Sir, two questions. One is on the merger. And sir, you alluded to the thought process behind this. If I just wanted to understand a little more on how would you think about this merger, how long you evaluate it? And also, sir, because there is a size wherein we are like trying to build up our deposit and we're growing very healthy at 25%. Was there in the journey, isn't it too early to get into a merger? It takes time.

Maybe the deal is really good in terms of size and geographical opportunity and the product that bring in and with the management team is so strong. But doesn't it like derail the process that the way we were going about since over the last 3, 4 years and having 20,000 more people, very different culture maybe. How do you think about it and now unsecured becomes a reasonably large part of our business versus the way we used to run a more secured franchise. How do you think about it?

And second question is, sir, on the competitive intensity -- on our main business. And when we look at this quarter, the yields have remained quite stagnant, and we have like delivered a reasonable size balance sheet over the last 3, 4 quarters as well. So is there a competitive intensity that is leading to yield not getting fast on to the customer? Or if you can just throw some light on what's happening on the yield front, wherein your margins are like down to 1.5%? So these two questions, one on AU and second on merger.

**Sanjay Agarwal:**

Yes, Bhavik, let me answer the first one. So as you know that we are -- in my opinion, we are - one of that franchise which has become lot much stable, lot much confident in last, what now,

6 years. You know that our overall deposit franchise or asset franchise or digital franchise, overall governance, everything remains in shape, and I'm very happy the way we have built ourselves in the last 6 years.

And there will be, in my opinion, in my journey of the entrepreneurship, we can't time yourself. It is about the availability. It is about the opportunity of that time, which we need to understand and decide. And as you know, that the overall objective of at SFB is also to create an impact in the overall customer across segments.

And we were missing the micro finance as a subject from last maybe now 28 years. You know that I had my own stand around the MFI business and, of course, the overall unsecured piece, but we need to evolve ourself, we need to understand the risk around it. And we have seen that through cycles, the last 10 years, the MFI business has cost of around maybe 3% kind of credit cost, including the one-off events every 5-years.

So, I think if you understand that, we being a bank franchise, we have a cost advantage, you know, Fincare is more of a south-based franchise, we are more of a northwest franchise. So, it's complement, right? So, it's complement in terms of geography, complement in terms of product. It's nothing overlapping. And as I already commented that, you know, size is amazing. Because the size of Fincare is around, what, 20% of us.

So, I think if this is the way I want to sum up that, it is one of the most – I am very excited and thrilled because it will add on to our product range, it will add on to our geographies, you know, it is well-governed, it is bank, you know, and we as a team also have to learn how to do all this kind of integration, all these kind of challenges, how you should manage these kind of challenges, the communication and everything.

So, and you know that, what we have already done over the years, should give you people a confidence that this team has the ability to manage this kind of transaction also. And, of course, we haven't took lot much time to decide this, I started – we all started understanding this business from last maybe two quarters. And I think I should give my team and the Fincare team and entire people who handle this transaction so swiftly and so smoothly that we are able to announce in this month only. So, that is there.

But I think I would say that a lot much around operation data we share, but I am absolutely sure that, you know, AU team will deliver along with the Fincare team maybe next six months an amazing franchise which can last forever. And so that is there. Of course, the overall competitive space remains, I would say, more challenging in a terms that, of course, there is a huge credit demand there, but there is an intense competition around deposit franchise.

Every bank is looking to build their own, and we as a bank are also in the same course. We are also putting our best foot forward to raise money at a decent rate, but sometimes, market doesn't allow you. But I think in terms of our product, offering, communication, customer focus, ability, so that is there.

So, I think it's a testing time for us. And I strongly believe that we will sail through it. You know, there would be some couple of more quarter challenge, but in the long term, I strongly believe

that we are in the course of our March '27 agenda where we believe that our first 10 years should be very noise-free.

We should remain focused on our execution. We should remain on course in terms of achieving everything in terms of asset growth, asset quality, digital, digital franchise. So, overall, I'm very happy the way we are building us. There are little hiccups, but we should manage it because it is beyond our control.

**Bhavik Dave:**

Right. on yield front, we've not been able to price the asset higher. So my question was more on that. Is there a competitive intensity too high? Or are we going towards better quality customers. In fact, in to yield dropping. I see every segment yields have increased on a Y-o-Y basis, but the overall yields tend to not increase. So just on that perspective, it you can through some light.

**Prince Tiwari:**

So, Bhavik, Prince here. Again, what you are seeing today on an overall basis, like as I said in the call as well, in the opening remarks as well, that we have been able to increase the disbursement yields in some of the core businesses. The vehicles have gone up by 77 basis points over the last year.

Similarly, in the SBL also, while we have not really been able to increase the disbursement yields, but the profile is changing. But I think fundamentally what you have to appreciate is the structure of the business. The commercial, the overall business construct is changing a bit and which we have articulated in earlier calls as well.

If you go back to March '22, our overall lower yielding businesses, which we are calling commercial banking and home loans, which yield about 11%-11.5%, that used to be about 23%. As on date, as in September, it has now reached to about 31%. And consequently, there is a mixed change that's happening in the business.

The higher yielding businesses of Wheels and SBL or MBL are coming down, whereas home loans and commercial banking has gone up. But we have also articulated in slide 30 of Q4 FY '23 that the lower yield doesn't necessarily mean a lower ROA. The credit cost in these businesses is much, much lower. The opex in these businesses are much, much lower. And to that extent, if my retail business gives me a ROA of about 3.8% on an advances basis, the commercial banking also gives us about a 3.3% ROA and which is already there.

One last thing I'd like to articulate is even within the existing businesses like in Wheels, our personal car segments have gone up. In MBL, our ticket sizes have gone up post-COVID. So earlier, if you look at March 20-21 data, more than 10 lakhs ticket size loans used to be about 56%. And that's a lower yielding book compared to less than 10 lakhs, where you have more options to price better. This book we have now increased in the new disbursements as on March of 23. 71% is more than 10 lakhs ticket size, and lesser than 10 lakhs is only ~30%.

So what we also realized during COVID is the vulnerability of the customer who is over leveraged and has a smaller business tends to be more risky as compared to, people who have a higher borrowing and thus have a more settled business. So I think structurally, you will find that our credit cost, which used to be about, 80 basis points to 1% through the cycle, will now

probably stabilize at about 50 to 60 basis points as we move forward.

–So while we might not be able to increase the overall cost, yields, but definitely there's a saving in the credit cost. Last point that I will make on that is also the wheels and SBL, mostly wheels. Some of the business that we created during the pandemic time because there was abundant liquidity, and that business did get created at – because we were very cautious, the credit filters were too tight.

We did create a business which was slightly lower yielding as compared to historically where we have been. And that book is ensuring that even though the newer disbursements are happening at a higher yield, that book will slowly start receding now. And probably going into next year, you'll start seeing some uptake in the yields. So hope that's comprehensive, Bhavik.

**Moderator:** We'll take the next question from the line of Renish from ICICI Securities. Please go ahead.

**Renish:** Sir, just two questions from my side. One is on the fee income part, wherein the general banking fees, has seen a very sharp jump in Q2 from INR55-odd crores to almost INR130 crores in Q2. So can you please throw some light on what is driving this sudden jump in this income line and whether this is sustainable or not?

**Vimal jain:** So it's a sustainable basis only. It's related to insurance, where we have the other insurance partners and our insurance business is also increasing. So it's a sustainable basis.

**Prince Tiwari:** If you see, Renish, the credit card fee I mean we have been saying this all along. Almost for 2 years.

**Sanjay Agarwal:** Yes Sanjay this side. So I think this is well laid down strategy of last maybe couple of years where we have focused on our insurance business, we really want to build a wealth proposition for our customers. We really want to build our credit card business. And as we move forward, once we get our AD-I operationalise, you will see lot much other income coming in. And you know that once we get customers on board through our branch banking franchise, you need to cross-sell them so that the relationship become more deepen and the addition also become more fruitful right.

So I think as we move forward, and there is a rationalization around the other industry also in terms of the governance and the compliance. That is also helping us. So you will see not much other income coming up and it will be sustainable and more predictable.

**Renish Bhuva:** Got it. Got it. So I mean, this quarter, there is nothing new, which we have done it is just the past investment has started to be seen in the results, right.

**Sanjay Agarwal:** We haven't sold any PSL also. So there is no one-off. And as we move forward, post this merger, we will have an ability to have more PSL book and then we'll have the ability to have more PSL income, too.

**Renish Bhuva:** Got it. Sir, actually, my question is on the one line item, which is general banking and deposit-related fees, which has gone up from INR55 crores to INR130, which is where things online.

- Prince Tiwari:** Yes, captures the cross-sell third-party distribution as well.
- Renish Bhuva:** Okay. Got it. And sir, secondly, again, on the merger part. So the employee addition is close to 20,000 wherein, I will say, which is similar to our size as of now. So once we start the integration process, there will be a lot of management bandwidth, which will go into this integration part, whether it is HR or tech integration. I mean, does that poses a risk of some growth derailment at the standalone entity?
- Sanjay Agarwal:** So no, I think good question, Renish. So let me address two things first. Like, Prince just announced that we already built five business units, which is around urban banking, Swadesh banking, digital bank, retail asset and commercial banking. And we have built it not yesterday. We are doing it from last six years. And the whole purpose to build these business units are to bring more effectiveness, more focus. And the leadership itself takes care of their own bandwidth and their own agenda and their own commitment towards an overall organization alignment.
- So I don't think that there would be any derailment because Rajiv and his team is also very capable. You know, they are doing this business for last, what, now 20 years. And the more I meet them, the more I get confident that this team has also not only performed in good days, I think this team has actually built their businesses through bad days and from lows of the industry, right? So they bring that resilience, the fighting spirit on table, which AU is known for.
- And I think we don't want to integrate them, in the sense that it will be like a Fincare unit in a bank which will take care of their own business. Of course, there would be some necessary alignment, right, around liability franchise or maybe around the control functions. But I strongly believe that Fincare bank will become Fincare unit and they will continue to work as usual. So I think there won't be any such bandwidth issue with the business heads of AU. You know, of course, the back-end people, me and the other leadership need to give them some time to have that belongingness, to have that communication, that coordination so that it becomes a very smooth integration.
- And just for a data sake, it's not about 20,000 people. It is about around about 15,000 people and we are at 30,000 people. So they are one third of us. And most of them, most of the 15,000 people, maybe around two-third of them are in MFI segment, which we don't have. So I think that is why I'm saying that it's more known than unknown, complete complementary in terms of geography, product, people and the way we have thought through, you people will have, I know, the anxieties and because of the track record of so many M&A.
- But I can assure you that, again, AU will try to build or will try to show that, this integration, this M&A can be so different from the previous ones, and that's our commitment. That's our commitment to ourselves. And I think me and Rajiv are bent upon to execute on those lines.
- Renish Bhuva:** Got it, sir. Just last thing. So does this merger will have any impact on cost, maybe over the next couple of quarters?
- Sanjay Agarwal:** No, so I don't think that there would be any additional cost, as I commented that there would be some synergy, but it will be only in the next maybe two years to three years. But I don't think there will be any additional cost. There will be one-off cost like, transition around, stamp duties,

maybe a retention bonus and all those things. But it will be taken by, we have built it in our future ROE expectations.

**Renish Bhuva:** Got it, sir. Okay, that's it from my side and best of luck, sir.

**Sanjay Agarwal:** Thank you, sir.

**Prince Tiwari:** Thank you, Renish. Thank you.

**Moderator:** Thank you. We'll take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** Yes. Hi, sir. Thanks for the opportunity. So, sir, if we look at AU Bank, it has had certain strengths in its business model, which has enabled it to deliver strong performance over the years. So I just want to understand when you were evaluating this transition with Fincare, what, as per you, were the key strengths in the business model of Fincare other than the complementary geographical presence and MFI book that comes in? So on the core business understanding perspective, if there's something which differentiates Fincare? That was one.

And second, sir, associated question here is that we have been following a continuous expansion strategy as we were expanding geographies. Now with Fincare, while south geography gets added, but the product profile was relatively different. So we probably don't have that understanding of the geography. So does this expansion, will it take time to drive operating synergies or how should one look at it from that angle? This was the first question.

**Sanjay Agarwal:** Yes. should I reply now? Or do you want to ask a second one?

**Rohan Mandora:** So maybe you can apply that and then I'll take the second one.

**Sanjay Agarwal:** Yes. Okay. Fine. So I think a brilliant question. So I think you're absolutely right that we had a longstanding position that we don't want to do microfinance as a subject. But we also have gone through our own evolution mindset in terms of what we should do or what we should not do on a bank platform. And microfinance also has gone through all those up and downs in the last maybe 15 years.

But I think, if you see now, the whole regulation framework, the focus, the kind of support the entire ecosystem is giving to this segment, it's tremendous, right? And we as a bank also have to have some objective around priority sector norms, the inclusion norms, the inclusion impact. So I think microfinance is one product which can fulfill all these things. So I think we changed our mindset that we have to relook this strategy of not looking towards microfinance business at all. And in the last maybe two quarters, I commented that we really want to build more organically.

And we started on that path. But once I met Rajiv and the team maybe two quarters back and figured out their own experience around building this business from grounds up, and this team has really managed their remarkable growth in spite of so many challenges over the years, be it 2008 challenge, 2010 challenge, maybe around 2016-'17, and then, of course, again in 2020

post-COVID. But they have always become more-stronger, and they have emerged better from every crisis, right?

So you need to have the best team to handle this kind of business, right? And that remains our core in our whole ethos, right? It's people who matter, right? And that is why if you see our journey, whether it's being now credit card journey or a commercial bank journey or maybe retail assets, we have done phenomenally well because we back people, right? So we as a bank back people, who has done so much hard work, who has a fighting spirit, who understands his business in and out, and they have shown their entrepreneurial mindset to come out from all those challenges, right? So I think first the business segment itself and then the team which we are getting is tremendous, right?

I think these are two things which, in my opinion, made us more in favor to merge the entity with us. And, of course, then the complementary nature that, you know, they are more South, they have maybe 49% touch point in South, which we don't go naturally. You know, we need to understand people's psyche. We need to understand, overall psyche of people who want to join us. It gives us in an easy way or maybe a foot in door to understand those markets emotionally. And it's very important to understand markets and people more emotionally, because that's the way we operate in India. So that's Second thing.

And third, I think they are banks, right? So they are well-governed. You know, there's a lot of transparency. There is a strong board, strong private equity players who are with them from last maybe now 10 years, 12 years. So they have shown that they can be with the company for maybe it's a long time to be in for the private equity player to be in the company, right? So I think these are three, four things, which really impressed us a lot. And we could turn around, right, because there was a lot of purpose on the both side that they really want to make this deal happen.

And of course, I strongly believe that it is the price is also very right. You know, it was generous from the other side that they accepted our offer. But I strongly believe that price is also very good. And of course, then the size is not too big, not too small. So I think there are four or five things which we believe that is in favor to do this business. So very happy, very happy. I know there would be some questions around you people, but we will answer it as we move forward, right? So that's one. And any other question?

**Rohan Mandora:**

Sir, on that continuous expansion piece?

**Sanjay Agarwal:**

Yes, so that is there. So I don't think that we are changing our stance. Rather, we have around 130-odd liability branch like AU in Fincare, which will add-on to our overall growth strategy. And we rather want to have more rational growth strategy at AU distribution now, because if you're getting around 1,300 touch points, how we can leverage it, how we can make it more effective, right? How we can have these well-rounded distribution built around those centers.

So I don't think that -- so that's why I'm saying again-and-again that there are more knowns than unknowns. And we have gone through very thoroughly in terms of overall understanding and then want to build very patiently. So I think the bandwidth issue or the cost issue or the things which we may not control, I don't think as of now we are able to understand that and I'm sure

that there won't be none. But small here and there, we should manage it. And we should learn also to manage it.

**Rohan Mandora:**

Sure. The reason I was asking the question is that, like, if you look Fincare, SFB, they have slippages that are up around 7%, 18%, and 7% in FY21, 22, 23. Whereas if you look at AU, historically, we have had category-leading performances. So nothing stands out. It's what I got as the initial feel in Fincare, the microfinance business. So that's where I was asking this question.

And second thing, in the presentation, we have made a comment that the management continues to focus on seamlessly executing our strategy till '27. So does that mean that we are comfortable operating as an SFB till '27? How should we read that statement?

**Sanjay Agarwal:**

So, brother, one at a time. So again, I can only say this because it's difficult to comment everything so upfront. You know, we'll cross maybe now INR1.25 lakh crores of balance sheet by next March. So the size and the scale and the width will allow us to take a better informed decision. But what I'm saying is this, that, like, just now 6.5 years of us, we being an SFB, we had one agenda. You know, we have fulfilled that, there are nothing as such, where we should be worried about. You know, our asset quality is amazingly well in shape. Our digital franchise is now building up very well.

You know, of course, deposit franchise is not where things come very easily. But we have well-rounded it through the other product range, be it wealth, be it insurance, be it payments, be it credit cards. So I think, we are working on that path where this franchise will become a formidable force in coming years.

**Prince Tiwari:**

Yes. And just on your point, Rohan, around the slippages, of course, we all know that the entire MFI industry has gone through a cycle, right? And the pandemic was relatively much harsher on them as compared to a secure lending business. And that's what we have also factored in when Sanjay ji talked about in his opening speech that through the cycle, if you look at the MFI business with adequate provisioning, you can generate a high-teen ROE.

So honestly, while one year or two years, it is prone to event risk. But the trick that we figured out in the last 10 years, given that it has become much more regulated, the players are much more accepted, the overall practices have evolved over a period of time, is to make a very consistent provision even in good times. Because that'll take care of you when the event risk strikes.

**Rohan Mandora:**

Sure, sir. Thanks.

**Moderator:**

Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

**Nitin Aggarwal:**

Yes, hi. Good morning, Sanjay ji and team. And congrats on the merger. A few questions I have, like, first is on the securitization. We have been going for higher securitization. This contributed around INR2,900 crores. So what is your strategy on the same going forward?

And the second one is on the stronger growth that we have reported in commercial assets, along with the securitization, again, that we are doing. How will that impact the PSL compliance? So if you can share some color as to where the bank stands on the overall PSL compliance, and how do you see that going forward with the strategy that we are adopting on the securitization front?

**Sanjay Agarwal:** Thanks, Nitin. But I think I will ask Prince to reply on this.

**Prince Tiwari:** Yes, Nitin. So again, securitization, as we have been saying, that it serves multiple purposes. One, obviously, it diversifies my funding profile. And to that extent, it helps me on the liability side, puts lesser pressure on the team, especially in an environment where the interest rates is high. And we don't want to load up ourselves on the bulk deposits. So securitization obviously proves a way to generate liquidity.

Second, it obviously frees up capital, I think. But that's not the main reason. I think your last point, or the second part of the question, is very apt. Where you said that the overall PSL, so our strategy this year is more to sell non-PSL as compared to priority sector assets. And again, so far, whatever we have securitized, bulk of it has been on the non-priority sector lending book that we have. So that also helps me achieve a higher percentage of PSL achievement against the regulatory compliance requirement. The purpose is dual. One is liquidity. But at the same time, also ensure that my PSL compliance goes up.

**Sanjay Agarwal:** You want to add on, Vivek?

**Vivek Tripathi:** Yes. So on the second question on the commercial banking assets, most of the business banking and agri-banking, to the extent that 90% of our agri-banking and almost 85% of our business banking assets are PSL. The only book which is financial institutional lending, NBFC lending, that's largely a PSL book. And within the real estate also, almost 40% of our advances are actually PSL because we lend to projects which are classified under affordable housing.

**Sanjay Agarwal:** Is that the questions are answered? Is the answer you're questions?

**Nitin Aggarwal:** Yes, that answers. And then how do you see the overall loan growth, the on balance sheet advances growth with the securitization approach?

**Prince Tiwari:** So I think we have already guided, Nitin, that for the full year basis, we are looking to see anywhere around 25% to 26%, right? I mean, our overall stated ranges stand is that liabilities will drive our asset growth. And when we speak with our liabilities team and given whatever we have been able to do in the first half of the year, of course, Q1, we chose not to grow our deposits because of the liquidity. But I think on the liability side, we can see that we can grow anywhere between 25% to 30% on an annual basis with the constraints around the cost of funds that we want and the kind of deposit mix that they want. So that basically will ensure that we should do our asset business anywhere around 25% to 26%.

**Nitin Aggarwal:** Okay. So that basically is not changing because if I look at the first half, we have grown around 10%. So we are looking at a 15% growth in the second half now, broadly around that?

**Sanjay Agarwal:** It's around 10%.

- Prince Tiwari:** 10%, yes.
- Nitin Aggarwal:** Yes.
- Management:** You're absolutely right. And if we have assets, we will securitize.
- Nitin Aggarwal:** Got that. And one more question that I have is on the universal banking license plan. And so now after this merger, what are our thoughts on that? Will that get deferred? And any comments around that?
- Sanjay Agarwal:** Nitin, again, I repeat one at a time. So the idea is to, to be very honest, the idea is to really build a bank with all round capabilities, right? I think universal is one word, which is just comes in every discussion. But if you see AU, maybe in April '24, you will see, with around 30 product lines and with the cross-selling ability of wealth, insurance, ADML license, that means FX, the payments, the entire credit card, UPI code.
- So I think, I would sincerely believe that we should be viewed by the people as such that we have that all round capabilities in terms of product, in terms of customers, because once we start micro finance, it will add on to a customer range, which haven't served at all by us in last maybe 28 years, right? So I think the kind of width, the kind of, I would say, depth we are building our franchise, it's very good in my opinion. And then, of course, once we settle down, we will look for the next thing, but I would only say that, as of now, one at a time.
- Nitin Aggarwal:** All right. Sure, Sanjay. Thanks so much. Wish you all the best.
- Sanjay Agarwal:** Thank you, Nitin. Thank you.
- Moderator:** Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.
- Anand Dama:** Sir, thank you for the opportunity. What is the reason for the INR700 crores funding incursion by Fincare SFB? Is it more to do with that, basically, you want some cleanup act before the merger happens?
- Sanjay Agarwal:** No, Anand, I think everybody knows that Fincare was about to launch their own IPO and they were supposed to raise capital and they're high leveraged in that sense. So, and they and merger will take some more time, right? It is not happening today, tomorrow, right?
- So, and they need a capital for their own business as usual. So their own team has, or their own investor has committed to the team that, they will put this money and we accepted that. So is that simple, in my opinion?
- Prince Tiwari:** Yes, and Anand, on the GNPA side, again, on the cleanup act, the book is already fairly clean. As on 30th September, this is the audited financials, the gross NPAs are in the range of 1.6%. And if you see, over the last three years, or at least last two years, definitely, they have written off a lot of COVID related NPLs.

And in fact, this is whatever interactions we have had and the due diligence feedback that we have got, they have been recovering almost, quite a decent chunk out of that written off portfolio. And the expectation is they might be able to recover more than 10% in the current financial year.

**Anand Dama:** But, basically, the HDFC limited kind of issues also basically had its own issues, when it got merged. So just wondering, basically, if this is true for the subplot, which is the cleanup. So secondly, what will happen about the holdco structure, whether the holdco will exist for the SFB? And secondly, what is your view that, RBI would take, particularly given that we are acquiring a very healthy SFB?

**Sanjay Agarwal:** What's your second question? The RBI view?

**Anand Dama:** RBI view on acquiring a healthy SFB?

**Sanjay Agarwal:** Healthy SFB. Okay, no, no. So I think, thank you for this compliment. So that's not the whole purpose, because we strongly believe that this is a very healthy, very well established, well governed SFB. And we would go to a regulator to really allow us to do this. And so, but we strongly believe that the kind of complementary position we have to each other, the regulator would be, I would say, would only support this. But it is their own decision. But we will put our best foot forward to convince them. That's one thing. Second?

**Prince Tiwari:** On the point that you made around past merger between Disha and Future, I'm guessing that's the question.

**Sanjay Agarwal:** Yes, holdco. So no, I think the holdco structure, I think that is their own decision to be made once we get to that level. But initial understanding is that the holdco investor will get the shares of AU by liquidation. But I think they will take their own decisions. So it's early to comment as of now.

**Anand Dama:** So I was just wondering about, if RBI would take any objection to the merger, because there is an acquisition of a healthy SFB, whereas I think RBI has given a license for these entities to operate separately?

**Sanjay Agarwal:** No, no, sir. There is no acquisition. It's a merger.

**Anand Dama:** Sure.

**Sanjay Agarwal:** Both will exist.

**Anand Dama:** Sir, any concerns that you feel in terms of integration that would come by and any integration-related costs that you see?

**Sanjay Agarwal:** Not much, Anand, because as I already commented that it is, they are more south-based bank, we are more north and west-based bank. Like, 10,000 people work in MFI business, which we don't have, so that they will continue to work with us. You know, the complementary, the function which maybe have the similar kind of job profile would be not more than 100.

We need to sit together to understand those things and how we can align them also with the overall strategy of a bank. In terms of tech integration, as you know, the bank is not that big. The deposit base is around close to 10,000 crores, and we are working more on Oracle and all those things. So it is more of an API-led integration. So that should also help us better transitioning there. So in that sense, and they are well-governed in terms of the overall inspections, overall umbrella of regulators.

So that is there. So I think that's why I'm saying there are more knowns than unknowns. You know, and of course, M&A will throw us some kind of challenges as we move forward. But as a team, we need to have that kind of mindset that, we will understand those challenges. We will sit together and try to resolve it. Because the common interest is now one, the common interest to really build one of the finest retail franchise for this country.

**Moderator:** Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

**Umang Shah:** Yes, hi. Good morning. Thanks for the opportunity and congratulations to the team for this strategic merger. So a couple of questions. One is on the shareholding of Fincare small finance bank. We do understand that there are quite a few private equity players, both at the holdco level as well as the operating bank level. So as per the DRHP, some of them have expressed their intent to pair some of their holdings as well. So as a part of the merger agreement, is there any lock-in for the existing shareholders of Fincare, SFB or the holdco? Or how does that work?

**Prince Tiwari:** So Umang, as you rightly said, there are private equities, but they are all at the holdco level and holdco owns about 80% of the bank. And the merger is between the bank and the holdco is not a part of the entire merger process. And hence, we will be issuing shares to the holdco. And as Sanjayji said in the earlier question, the holdco doesn't – it's a non-operative holdco. They don't have any other assets. So it's up to them to decide.

But our understanding is that even if they go for distribution of this asset or the shares of AU to the underlying investors, they'll have to go through a dissolution or a liquidation process, which will take – I mean, who knows how much, but the NCLT process is expected to take a longer time. So we don't really expect a lot of liquidity.

**Sanjay Agarwal:** And of course, I don't think that there is one of investors who is having a large chunk. Yes. It's a well-distributed. And just all put together, they would be taking around 10%. Some of them. And if they have maybe around 20 investors, so the average out holding would be more than 1% each. So other than one or two. Yes.

**Prince Tiwari:** And also, we have some investors there who are common, and they would like to probably hold on because they already hold AU. So we don't really see a lot of liquidity flooding the market over the next at least 15 to 18 months.

**Umang Shah:** Understood. And sorry, just one clarification. The share swap will work in the same fashion for both the promoter entity shareholders as well as some of the public shareholders?

- Prince Tiwari:** Share swap is for all the shareholders, including the ESOP holders. So it'll work at the same ratio.
- Umang Shah:** Understood. So the second question is, again, in part Sanjayji has already kind of answered it. But typically, the way we have seen in mergers, now we do understand synergies will take some time to kind of show up. But are there any one-off costs which we are foreseeing at this point of time which can hit us maybe next 6 to 12 months?
- Gaurav Jain:** So by one-off, do you mean sort of integration costs? Or I mean, is this deal related or some other business-related aspect?
- Umang Shah:** I mean, deal related. And again, to the point on asset quality, which Prince and Sanjayji has answered earlier. But I mean, if you look at the headline, NPAs and credit costs of Fincare are relatively higher compared to AU. So maybe basis, your due diligence, any one-off expense or stuff like that?
- Prince Tiwari:** So as I said, among the Fincare, again, during the last two years, they have provided a lot and written off a lot of books. In fact, they are seeing recovery from that book. So to that extent, they, in fact, also did a ARC transaction last quarter to sell some of the legacy NPLs in their secured asset book. The microfinance book is already pretty clean. They have a net NPA of about 0.6%. So to that extent, we don't really think there'll be a lot of provision requirement.
- Their policy on provisioning and write-off on unsecured book continues to be as stringent as ours. They write off their unsecured book at 180 days or provide 100% as 180 days. So we don't really see any major material provisioning coming to our book just because of the change in the mix.
- As far as the integration and other costs are concerned, of course, as Sanjayji alluded, there'll be some amount of transaction-related expenses around stamp duty and other things. But that's normal in nature. We don't really see a lot of integration cost because the businesses, as you said, are very complementary.
- The MFI business can continue to run as a MFI business because you don't really have it. Some of the other businesses are very complementary around the affordable housing finance and around the entire small business loans. So to that extent, we are not really envisaging a large integration cost. Whatever minimal that might come in because of system and other things has already been baked into our ROA profile, as Sanjayji said.
- Umang Shah:** Perfect. Perfect. And just one last data point, the 9.9% post-swap equity, which the existing shareholders of Fincare SFB will get, does this include the INR700 crores capital infusion by promoters or that would be over and above this?
- Prince Tiwari:** No, absolutely included in that.
- Umang Shah:** Okay, so this is a fully diluted one?
- Prince Tiwari:** Absolutely. Including the ESOP holders.

**Moderator:** Thank you. The next question is from the line of Shantanu Chaturvedy from BNP Paribas. Please go ahead.

**Shantanu Chakrabarti:** Hi. Thank you for the opportunity. Two questions really. One relates to the merger and the other relates to your own business. The first question related to the merger is one of the calling cards of AU, even in its existence as an NBFC, was that even while it was present in higher yield and smaller customers and so on and so forth, it was always able to deliver NPAs and credit costs which compared with the best-in-class banks and there and thereabouts, something that very few other companies have managed. And we know the stories around how Sanjayji himself was so focused on that the credit culture of the company should remain pristine?

So in that context, bringing in an MFI book where as you guys are yourself admitting that every three, five years there seems to be occasional meltdowns, that is the nature of the business, while it's profitable in good times, it is also susceptible to large drops in sporadic years. How does that fit into your credit culture of where every rupee must come back, that goes out? That's my first question and how do you maintain that sanctity across the organization with this new kind of business coming in?

And the second question relates to your segments of wheels & MSME. Now, you have been talking about this. What I want to understand is that if current cyclical concerns around lot of new entrants, etc, are holding you back a little bit in terms of higher growth in high yield segments, when do you expect that to turn?

How much of this is a cyclical concern versus a structural concern? Because if I look at the opportunity headroom that you still have, even in existing geographies, including Rajasthan, I mean, that seems to be high. So, at what point do you see that turning?

And your thoughts about this, does this change the basis of what is incoming? And a follow on to that question, now that the book composition, the loan book composition is changing a little bit, there's microfinance coming in, etc, are you revising your own thoughts regarding what you consider as leverage thresholds for the overall balance sheet? Because that is so critical to your dilution timeline.

You have been growing in excess of ROE, and therefore, there's been an opportunity to make your compounding engine larger. Investors have benefited from it. Do these thresholds change to the dilution timeline change? This is then evolving new risk parameters within the broader loan portfolio? Those are my questions.

**Sanjay Agarwal:** Thank you, Shantanu. Thank you for the kind words. So, I will answer the first one, because that's very important that, we always discuss that, why AU should not be in a microfinance business or in an unsecured profile. But, again, we'll say that, the world has changed dramatically over the years. The whole economic cycle has changed dramatically over the years.

The whole loan profile, the segment also has changed in India, too. We have got a lot much data available now, and as you would have seen that why we started credit card, why we started personal loan also, that it makes your banking franchise complete. You know, once if a customer

is there, and if you don't offer them credit card, if you don't offer them personal loan, they don't feel that you are complete as a banking franchise.

So, I think sometimes it's driven by the customer needs, it's driven by the customer's overall expectation from a banking franchise. And, you also have to believe that the team has done tremendously well over the years to understand the risk and understand the execution capability around, even around the difficult product like Wheels and MSME. Those products are not easy.

But over the years, we have built the overall, I would say, the process, the policies, the overall culture that, how we should learn, how we should collect. And, that is why I'm saying you again and again that once I met Rajiv and his team, and saw their tremendous capability to work under pressure, work under uncertainties, coming out through those times when nobody was supporting microfinance and to remain there. So, I found that they also come with a similar kind of mindset which we have also performed over the years.

And microfinance, of course, is not that secure product, but nowadays, by the overall credit culture coming in the country, I think that those segment is also now addressing to the need of the hour. You know, there is no habitual defaulter. There are no overleveraging.

There's much compliance has come in. There's much clarity on the ground and all those things. So, I strongly believe that by virtue of these changes and by virtue of bringing team with so much of confidence, so much of vintage, so much experience, and again, the overall attitude of AU as a team that we won't lose your money?

You people need to support us for some time that, we at AU, might change this whole perception also that microfinance is a risky business. And, of course, it has its own risk around credit loss and that is why we are saying that we will provide adequately. We don't want to say that this year the market is good, then we just don't provide anything.

So, I think as we move forward, we will sit together and want to understand the whole cyclic challenges and, of course, we want to provide adequately. And I just want to reassure you that so I don't think that it will create an unnecessary challenge on overall banks' continuity or banks' overall approach to a business. You know, it will be just around 10% of our overall book.

It helps us to add on one more customer base. It helps to get, the private sector requirement, because you know that we aspire always to have a very sustainable business model. So, I think this will add on to all those things.

And I think the overall character of AU in the sense that we should have very predictable asset quality will continue, will continue. I can assure you that. Of course, I know that this has its own challenges, different challenges, but I believe that because of our experience, because of the way we have taken the calls, the way we execute ourselves on the ground should help us to maintain similar kind of business as we move forward, right?

And so, overall, I would say that business will evolve because that's the way we should be. Because, if you go back in history, when I started, it was only vehicle business. Then when we moved on, we started SBL, you know, which was not heard in the industry. Then we started

affordable housing again.

So, every time we have done something new and has proven that has proved that we can very well understand the whole business from the grounds up and it can execute very well, right? So, I hope that this time also the story won't be different and we'll be on the same path. Okay. So, you want to add on? Shantanu, I have forgotten your second question.

**Santanu Chakrabarti:** The second question related to whether the core SBL MSME and wheels business, a little bit of slowdown, how much of that is cyclical and structural? And also, I asked that given that the asset mix on a blended basis is changing a little bit because of the acquisition. How does that impact what kind of leverage thresholds you are comfortable with? Does that change? And therefore, how does it impact your dilution timeline? Which have been so value accretive, sir.

**Sanjay Agarwal:** No, no, no. I don't think, Shantanu, so I will allow, I will ask Bhaskarji to comment on our SBL and other business. But I'm not able to understand this dilution piece.

**Prince Tiwari:** 4We will continue to hit the market every day.

**Bhaskar Karkera:** Typically, Sanjayji, whenever you have grown...

**Sanjay Agarwal:** Capital, right. We will be getting around close to 2,400 network -- so it will allow us to leverage maybe another one more year on this money. So -- but it's very -- again, our stated requirement that we don't want to go below 18% kind of capital adequacy. we don't want to leverage more than eight times and so I think it all, the maths will be around this. We'll go. and raise more capital, right?

**Santanu Chakrabarti:** So Sanjayji, I'm asking, is any of that changing because of this?

**Sanjay Agarwal:** **No No, Nothing.**

**Bhaskar Karkera:** Yes, hi, morning, Shantanu. My name is Bhaskar. Just to answer on both wheels, as well as the SBL business, both continue to be on track. It is just a matter of getting our rates adjusted to the cost of funds. And that is the only one reason, because we also do know, during the festive season, we have to come, be a part in the marketplace, which gets competitive.

And hence, we have been building our rate buffer on both the businesses. Otherwise, by design, by structure, by people on the street, we continue to remain, the entire team continues to remain there on the street. And we are doing whatever is in our plan for the year. So, truly, nothing to, no mistake, no mistake. It's all going as per plan.

**Santanu Chakrabarti:** So, Bhaskar, basically, what I'm asking is, see, in this year, these businesses, these core businesses have been doing very well for you. And obviously, as you have also highlighted, and it's plain for us to see, there's a lot of headroom there in terms of opportunity for you to sustain long-term high growth. I understand that because of increased competition, you have to hold back a little bit, as a lot of NBFCs, small finance banks have entered, right, and probably not with as much experience as you. What I'm trying to understand is, at what point do you see that cycle turning? What are the evolving realities of that competitive space? Thank you.

**Uttam Tibrewal:** So, Shantanu, yes, Uttam here. I want to add here that it's not that we are holding ourselves because of competition or because of competitiveness. It's a function of rate. You know, as Bhaskarji has said, that our cost of fund a little bit elevated because of our deposit franchise, as we all know, in the market. So, it's a function of rate for us. We are already funding at 15%, on a mix of used and new and tractors and two-wheelers. My SBL business is around 14.5%. My housing is around 11.5%.

So, as you already said, that there's enough headroom, even in Rajasthan and all the geographies we operate. But we are just holding ourselves because of, it's a function of rate. There's enough, enough potential in our present operating geographies, but because of rate only, we are holding this. Otherwise, we can have any, any number of growth and any number of opportunities capturing in these markets. So, just as, the cycle rates gets evolved, gets slowed down, our deposit franchise is there. We are there to catch on all those opportunities. So, it's not because of competition, all that. It's our own decision, our conscious approach.

**Prince Tiwari:** Shantanu, I hope that answers your question?

**Santanu Chakrabarti:** Yes. Thank you for the opportunity.

**Moderator:** The next question is from the line of Param Subramanian from Nomura. Please go ahead.

**Param Subramanian:** Yes, hi. Thanks for the opportunity. Most of my questions relating to the merger have largely, largely been answered. So, just a couple of questions. Firstly, on this securitization, which you have done, you know, a large amount of securitization in this quarter. So, you've also had a very strong deposit growth, right? So, could you just explain the reason for the securitization?

Your, CD ratio has come down and I'm also seeing the LCR has come down, quarter-on-quarter. So, you explained that securitization is helping you on the liquidity front. But I just wanted to understand, how you're looking at it from the perspective that you, despite having a strong 9% quarter-on-quarter deposit growth, you had to do such a large securitization. That's the first question. I'll come back to the second.

**Sanjay Agarwal:** Yes. So, my friend, we actually plan ourselves for whole year basis, right? So, again, I want to comment that, because it is not that it will be available maybe last quarter and when we need the money, right? So, I think we as executive need to take decision day in day out to really see our sustainable growth. And, if you're doing some transaction in the month of September, like, what Prince commented, it was non-PSL, a better rate, maybe offered you in September only, right?

So, I think it's based on those businesses requirement which we take decisions. Sometimes it doesn't look nice on the balance sheet as such, but, like you're saying that we grow our deposits so well, so why we need to securitize it? But we can presume that next six months, there will be more intense competition around deposits, right? And the cost may go up, right? So, we need to be more smart enough that, what is good as of now and we need to take that kind of decisions. Sometimes it goes well, sometimes it goes wrong, but that's the way the life is.

So, I think that's the one thing which we need to appreciate that whatever we have done over the

years, just has helped AU to become more formidable, more stronger and more sustainable, more reliable, right? So, that's one thing, right? Which I want to say that it's very small decision making which we take every day to remain relevant and to remain sustainable, right? Yes, Prince, you want to add on?

**Prince Tiwari:** No, just on the LCR point, again, Param, as we had articulated earlier, last quarter we had abundant liquidity and it was a very conscious strategy to consume whatever excess liquidity buffers that we had. So yes.

**Yogesh Jain:** Yes, Param. So, what Prince mentioned, because in first quarter we had excess liquidity and we decided that we will not grow our deposit much. But this quarter, we are on average 125% LCR. So, it was a mix of our decision that we will go for some securitization. This quarter, we didn't have any PSLC. So, it was a mix of some deposit raise and securitization.

**Param Subramanian:** Yes, I get that. Just on this again, so your loan book had just grown 2% quarter-on-quarter, right? But your deposits have grown 9% quarter-on-quarter. So, does that imply, because if the average LCR has come down, does that imply that most of the deposits were back-ended because I still don't get how the LCR could have dropped?

**Prince Tiwari:** No, so again, Param, two couple of things, okay. The first is the entire securitization is typically back-ended, right? So, most of the liquidity impact you will start seeing in the next quarter, right? Because you end up doing securitization generally as a quarter end transactions. That's the way the market works. As far as the entire LCR is concerned, if we had higher deposits, you'll also appreciate that we didn't have any deposit growth in Q1.

So, to that extent, the Q1, the quarter to deposit growth at 9%, it cannot really be back-ended. And we have also given the monthly average numbers as well. So, you'll not find a lot of variation between the month-end numbers or the quarter-end numbers and the average numbers for that particular month. It is given on the slide on the liabilities.

**Param Subramanian:** Got it. Got it. Fair enough. My second question was on the credit cost. I think in your opening comments, you had mentioned something about the credit cost, some amount of the credit cost being led by the unsecured segments. So, now that we are at this credit cost level of 80 basis points, maybe X of the contingent provisions, we reverse 90 basis points of credit cost this quarter. So, sustainably, how do we see this number evolving, going ahead? That's it from me. Thanks.

**Prince Tiwari:** So, I don't think it is 90 basis points. Again, there is a base effect, as I said. But having said that, it is about 60 basis points, 50 basis points for this particular quarter. And on the mean reversion basis, we are saying that it could go anywhere around 60 basis on a more sustainable number. Yes, rather than 20 or 30 basis points that we have been seeing in the last year. The credit card accounted for INR 21 crores of write-offs this particular quarter.

**Param Subramanian:** Okay. Okay. And are we comfortable on that book right now? In the INR30 crores write-off?

**Prince Tiwari:** Yes, very comfortable. I think we -- I mean, we understand that it's a business which has some amount of inherent risk. And to that extent, our provisioning policies and right of policies take

care of that. Mayank, you want to add anything on that?

**Mayank Markanday:** So, on the credit card book, we are quite comfortable on this piece because we normally provide, we do write-offs at 180 DPD. So, that's the reason. And the book is growing. It's a two and a half years old book. So, we are getting the seasoning now, maybe another six months. We'll be as good as any other industry player competition numbers. We'll be there at the NPA numbers. Our book will get seasoned in the next six, seven months.

**Sanjay Agarwal:** Yes, but I just want to add on here, Sanjay, this side that, we run P&L for every product, right? So, Wheels will have its own, the NIM and of course, the own credit cost. And vis-a vis, Commercial Banking will have its own. As we move forward, Micro Finance will have its own. Credit Card will have its own. But I think, overall, we always believe that any asset which gives us a north of 2% ROA, we really want to concentrate and want to build from there, right?

So, I think you will find that, maybe, you know, on a credit card, our NPL around maybe 3%, right? Maybe 4% in Micro Finance also. But overall, I strongly believe that every business, next by March 27, will start giving you a - north of 2% kind of ROA? So, that's our basic principle. I just want to put on the table, right? They might have their own names, they might have their own credit costs, but that's the overall principle, right?

**Param Subramanian:** Thank you so much. I just wanted to understand this INR21 crores, is this something that is recurring? That you see will be recurring going ahead, write-offs? Because if I look at that number on an annualized basis on the credit card book?

**Sanjay Agarwal:** Credit card INR21 crores write-off?

**Prince Tiwari:** Yes, yes. So if you see in last, we have been growing by INR500 crores book every quarter now, in the next two quarters, you will see that INR400 crores we have already grown in the past six months. So it will be INR21 crores will be sought of, which will get -- it will be in line with this only?

**Sanjay Agarwal:** I hope we have answered your question. Param?

**Param Subramanian:** Yes, yes. Thank you so much, sir.

**Mayank Markanday:** It's INR24 (corrected – 21) crores not INR30 crores.

**Prince Tiwari:** Sorry my bad, Param, it's INR24 (corrected – 21) crores not INR30 crores.

**Yogesh Jain:** Overall, it's INR21 crores.

**Prince Tiwari:** Operator, in the interest of time, can we take one last question?

**Moderator:** Sure. Ladies and gentlemen, due to time constraint, this will be the last question for today, which is from the line of Manish Shukla from Axis Capital. Please go ahead.

**Manish Shukla:** Yes. Good morning and thank you for the opportunity. So, firstly, Rajiv and his team, which will join AU after the merger, is there a tenor lock-in for the team to stay with the bank?

- Sanjay Agarwal:** No, nothing like that. It's more basis trust. It's more basis that we want to work with each other. So, I think that bonding is far, far better than any kind of documentation bonding, because those are very highly experienced team. Rajiv is working as an MD of a bank. So, we expect that he should be given the same treatment, same respect. And we really want to make it a very happy merger where people come voluntarily, for the common cause, and put their effort.
- But overall, yes, because we have appointed Aon Hewitt to advise us for a better integration, because people will have their own choices. People will have their own mindset. But the challenge can be to really how quickly we can align them. But I strongly believe the way we have built ourselves over the years, where people really have mattered us most and we will continue to do that. And so, no forceful kind of agreements, but very high on feeling kind of agreements.
- Manish Shukla:** Sure. These 700 cr promoters who would infuse, will it happen at the same valuation that AU is paying?
- Sanjay Agarwal:** Yes, same, same. Everything will even same, right?
- Prince Tiwari:** Yes. Yes.
- Manish Shukla:** No, I'm saying the INR700 crores, which they'll pump into the bank before the merger, that will happen at the same valuation for Fincare as you are paying for the bank?
- Prince Tiwari:** Absolutely, absolutely, Manish.
- Manish Shukla:** Okay. In terms of profits for Fincare, first half is INR220 crores. Last year, full year, it was INR100 crores. So, are there any one-off in first half this year?
- Prince Tiwari:** No, no. I think last year was more, they were still continuing to write off or clean up the book, which was post-COVID. And this year, the normalized operations have come in. So, you can actually take the run rate of the first half year as a more normalized run rate as compared to what happened in the last year.
- Manish Shukla:** So what would be the proportion of recoveries in this INR220 crores?
- Prince Tiwari:** INR120 Crores is -- sorry, Sorry, 120 crores, PAT, you're saying?
- Manish Shukla:** INR220 crores first half profit, right? INR219 crores?
- Prince Tiwari:** INR220 crores first half, PAT. Okay. That's about...
- Manish Shukla:** What is the recovery number in that?
- Prince Tiwari:** They are recovering about INR10 crores every quarter.
- Sanjay Agarwal:** INR10 crores monthly.
- Prince Tiwari:** INR10 crores monthly.

- Manish Shukla:** INR10 crores monthly, okay.
- Sanjay Agarwal:** About INR60 crores of this could be.
- Manish Shukla:** So before tax?
- Sanjay Agarwal:** Right, INR60 crores before tax.
- Manish Shukla:** Okay. Understood. That's clear. Thank you. Those were my question.
- Moderator:** Thank you. Ladies and gentlemen, as that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.
- Prince Tiwari:** Yes. Thank you, Michelle, and thank you, everyone, for participating. We really look forward to this merger. We have really worked hard on this in the last quarter and it was very exciting and a lot of learning experience for the whole team, including myself, and we look forward to your support, give us an opportunity and will not prove you wrong. Thank you so much. And if you have any residual questions, you can always reach out to the Investor Relations team. Thank you.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of AU Small Finance Bank, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.