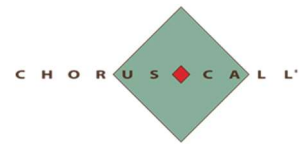




“AU Small Finance Bank Limited
Q4’FY25 Earnings Conference Call”

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**MANAGEMENT: MR. SANJAY AGARWAL – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER
MR. UTTAM TIBREWAL – EXECUTIVE DIRECTOR AND
DEPUTY CHIEF EXECUTIVE OFFICER
MR. RAJEEV YADAV – DEPUTY CHIEF EXECUTIVE
OFFICER
MR. DEEPAK JAIN – CHIEF RISK OFFICER
MR. VIMAL JAIN – CHIEF FINANCIAL OFFICER
MR. YOGESH JAIN – CHIEF OPERATING OFFICER
MR. GAURAV JAIN – PRESIDENT FINANCE AND
STRATEGY
MR. PRINCE TIWARI – HEAD OF INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to AU Small Finance Bank Q4 FY '25 Earnings 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 of Investor Relations. Thank you, and over to you, Mr. Tiwari.

Prince Tiwari: Yes. Thank you, Renju, and good evening, everyone, and welcome to AU Small Finance Bank's earnings call for the financial year and quarter ending March '25. We thank you all for joining the call this evening. On today's call, on behalf of the management, we have our Founder, MD and CEO, Mr. Sanjay Agarwal; our Executive Director and Deputy CEO, Shri. Uttam Tibrewal Ji; our Deputy CEO, Mr. Rajeev Yadav, and other senior members of the management team, along with the IR team.

Like last quarter, we'll start today's call with a 15 to 20 minutes opening remarks by Mr. Gaurav Jain, President Finance and Strategy, highlighting the bank's performance, positioning and outlook. We'll follow the opening remarks with 40 to 45 minutes of questions and answers from the participating analysts and investors. For benefit of all participants, so that we can take everyone's question, we would humbly request everyone to keep the number of questions restricted to two and join back in the queue in case you have further questions.

For any data keeping questions, you can always reach out to the IR team post the call, and we can always come back to you. With that, I'll now request Gaurav Jain, President Finance and Strategy, to share his opening remarks. Gaurav, over to you.

Gaurav Jain: Thank you, Prince. Good evening, everyone. I extend a warm welcome to all participants on this call. We thank you for your continued trust in AU as we close FY '25, a year marked by continued transformation and resilience. FY '25 unfolded against a backdrop of challenging macroeconomic conditions, India's GDP growth, while still among the highest globally, moderated to around 6.4 % as per latest RBI estimates.

The monetary policy environment remained tight for most of the year with the RBI maintaining a cautious stance amidst persistent core inflation pressure. Elevated interest rates weighed on both credit demand and cost of funds. Additionally, systemic liquidity remained tight for most of the year, leading to increased competition for deposits across the banking system. Evolving regulations also added to the complexity of the operating environment.

For a young and relatively smaller bank like AU with a growing but still maturing liability franchise on SFB platform, these conditions are particularly demanding, testing our agility and strategic focus. Yet, despite these macro and structural headwinds, AU delivered a strong and well-rounded performance across key financial and operational metrics, reaffirming the strength of our retail-centric and granular business model and execution discipline. We delivered strong growth with our deposit book growing by 27% year-on-year versus banking sector deposit

growth of 10.1% and our loan book grew by 20% Y-o-Y versus banking sector loan growth of 10.8%, despite degrowth of 18% in our unsecured book.

We delivered an ROA of 1.5% despite significantly higher credit costs in MFI and credit cards and after strengthening our provision coverage by making an accelerated provision of INR150 crores. Our EPS grew by 19% and book value per share grew by 23%.

Now let me talk about our business in some more detail. Our deposit base crossed INR124,000 crores this year, growing by 27% year-on-year. If we take into consideration the fact that we also replaced Fincare deposits of around INR4,000 crores, which were at higher cost, underlying deposit growth comes to 30% plus.

This growth was delivered whilst optimizing a number of other variables, including managing our cost of funds, which came in at 7.07 % versus our initial guidance of 7.2% to 7.25% and controlling our opex and marketing costs. Our branch profitability improved with 49% of our branches, which were in existence in December '23 becoming profitable in Q4 versus 25% a year back.

And all the other parameters like CASA ratio, LCR and CD ratio remain in good shape. We have also reduced our peak deposit rates by 25 bps, both on term deposit as well as on savings deposit post the last rate cut by RBI. I think this performance by our deposits business in a tough environment is a testament to the potential of our growing deposit franchise, which we have developed over the last 8 years.

We have invested in all the key aspects. We established a strong segmented product proposition backed by cutting-edge digital channels with all the cross-sell products capability, including our recently launched AD-1 remittance products, and comprehensive wealth and insurance distribution platforms.

We have pan-India distribution with the inclusion of Fincare deposit branches in the South. In FY '26, we plan to open around 70 to 80 new branches, mostly in the top cities and enabled around 75 existing asset centers in district and tehsil headquarters to start taking deposits. Now moving on to our asset franchise. Credit demand was slower during the year, and the banking system credit growth dropped to 10.8 % in FY '25 from the highs of 16% last year. In this backdrop, we have performed well with our loan portfolio growing by 20% year-on-year, reaching INR115,000 crores, which is around 1.8x of the system growth rate.

Our growth was led by continued strong traction in our secured segments, which include retail secured assets and commercial banking and form 87% of our total loan book. Retail secured assets grew by 21% and commercial banking grew by ~32% year-on-year. Both these businesses performed strongly in FY '25 with continued strong growth and sound asset quality and we have a long growth runway as we expand these businesses to South India, utilizing Fincare touch points.

Our retail secured assets book, which includes wheels, mortgages and gold loan has a vintage of over 2 decades and is a unique combination of scale, growth, high yield and strong asset quality. We have a very strong right to win in this business with our deep distribution and underwriting

expertise in informal segments in semi-urban and rural areas, strong operational processes and collection framework and robust people practices.

In Commercial Banking, we have developed a full product suite and tech capability over the last 8 to 10 years and book has scaled consistently with strong growth and asset quality. Commercial Banking business is important from a liability franchise perspective as well and generated around INR12,000 crores of deposits. We are moving this business to Mumbai this year, which will provide an opportunity to stitch this business even more closely with our deposit franchise and other asset businesses.

On the unsecured book front, our unsecured book de-grew by 18% for the year. Microfinance segment continued to face industrywide deleveraging and our MFI book declined by 17%. However, we believe we are nearing the end of this corrective cycle with continued improvement in collection efficiency, which touched 99.2% in March and 98.7% for the full quarter.

There could be some impact from MFIN guardrails coming into effect. However, the industry has been tightening for almost 3 to 4 quarters now, and it's a short tenure loan. So we expect positive momentum to continue in the next year. On the regulatory front, the MFIN guidelines around responsible lending practices and borrower indebtedness caps are structurally positive for the industry and will increase industry discipline.

Additionally, the CGFMU credit guarantee scheme provides a critical backstop for eligible MFI loans, enabling us to lend more confidently to the underserved segments whilst mitigating downside risk. Nearly 100% of our Q4 disbursements would be covered under the guarantee, taking our overall portfolio covered to ~36% by the end of this year.

Going forward, we will aim to have most of our incremental disbursements covered under the scheme, and coverage on the overall book will increase to more than 75%. This will greatly reduce volatility of credit costs. MFI remains an important book fulfilling our SMF obligations. While we will remain disciplined in growing this book, we see potential to cautiously scale as the operating environment improves.

Our credit card book has gone through a period of recalibration in FY '25, declining by 19%. We believe the corrective actions we have taken - tightening underwriting, rationalizing credit limits and sharper portfolio monitoring have laid the foundation for more sustainable growth. The segment offers strong product economics and cross-sell potential as we scale our deposit customer base. We see the credit card business as a strategic lever for both fee income and long-term customer stickiness and remain committed to building it sustainably over the medium term.

However, we need to be patient as it will take 1 to 2 years for our credit card franchise to turn around. In terms of our strategic initiatives, we continue to stay committed to our strategy of building a retail-focused bank, primarily serving self-employed and MSME customers, with a largely fixed rate book and a strong deposit franchise.

We have consolidated all the businesses, except credit card under the leadership of our Executive Director and Deputy CEO. Both Commercial Banking and MFI business will now operate out of Mumbai, which will become the base for all our key businesses lines over the next couple of

years, with Jaipur focusing more on back-end operations. We will continue to focus on branch expansion, attracting urban deposit customers and driving cross-sell. Tech and digital will continue to be an important driver, both as a channel as well as a tool to drive productivity.

Over the years, we have already built Tech Infra to process customer data available through various digital public infrastructure like Account Aggregator and DigiLocker. We are now working on adding AI layer on top of our data lake to roll out various use cases at scale to drive workflows, automation and cross-sell. This will help drive long-term structural increase in efficiency.

Finally, as you know, we have applied for universal banking license in September. Our application is under review by RBI. We remain in regular touch with the regulator, and we are hopeful for a timely evaluation.

In terms of profitability, we delivered profit after tax of INR2,106 crores for the year and ROA of 1.5% despite significantly higher credit costs driven by stress in MFI and credit cards book. In Q4, we also made an accelerated provision of INR150 crores primarily in unsecured to strengthen our provision coverage. This provisioning was over and above our provision policy and our coverage on unsecured businesses is now almost 100%.

We also did a lot of work this year in improving our operating efficiency, and our cost income ratio reduced from 64% in FY '24 to 57% in FY '25. This was driven by tight control on overheads and marketing costs, lower credit card issuance volume and synergies from Fincare merger.

As we look towards FY '26, we see benefits of policy tailwinds with interest rate cuts, better system liquidity and change in policy stance from neutral to accommodative. Credit growth outlook is also improving and stress in unsecured segment is reducing. However, we are in a new normal environment where post COVID gains are over, GDP growth is likely to be range bound and some sort of macro or geopolitical uncertainty could be business as usual. In this uncertain environment, we are watchful and are not providing any specific guidance for FY '26.

That said, based on our performance in FY '25, which was a really difficult year, we are confident of continuing to do well next year. Second half of the year is likely to be stronger than the first as credit costs in unsecured subsides and cost of funds begin to move downwards. Over the medium to long term, we believe our franchise has the potential to sustainably deliver ROA of around 1.8% with business growth of 2x to 2.5x of nominal GDP.

In closing, FY '25 was a tough year, but we stayed the course. We grew, we corrected where needed, and we continue to strengthen the foundations of a forever bank. As we have said earlier, it takes about 10 years to build a bank. We have completed 8 years and are confident that the foundations we are laying today will create a stronger and more sustainable AU tomorrow.

As a young bank, our business model is well established. Our team is vintage and stable, and we are present across the spectrum for our retail and MSME customers. In this uncertain macro environment, we may have small hiccups here and there. But we will navigate these challenges and continue to do what is right in order to build a strong and sustainable forever bank.

Sanjay Ji, would you like to add anything?

Sanjay Agarwal:

No, Gaurav. Thank you, Gaurav, Good evening actually. So no, I think you have summarized well. I will only add that tough time. Maybe we did well. Throughout the year, last financial year, GDP was under pressure. Inflation was there, the broken momentum, liquidity issues, I would say, very low business confidence. And at AU, I would say, our deposit franchise really done very well in terms of building up the liability, the cost around it, the opex around it.

The only missing item would be around granularity where our CASA would have dipped, but that is a general industry phenomenon. I would say our secured retail asset also performed very well in terms of growth, in terms of ROA, in terms of credit cost, little elevated because of the whole GDP not performing up to the expectation. Opex level is in the range. In everything, I think it's one of the books that we all are very proud of.

Commercial Banking, again, has gone to the size and scale now, and they're also performing well in terms of every aspect. I would only say that microfinance business again a right business maybe at a wrong time. But would say, it's fulfilled our whole inclusive agenda of banking, it gives us SMF book. It has not negatively impacted us. But of course, we had a high expectation around that book that should give us 3% to 4% ROA, but I think it's gone through its own cycle. And so this year, I would say quarter 3, quarter 4, we all are hoping that it will come back to the old numbers.

Credit card we have taken a lot of corrective actions. We want to understand it more granularly. We have hired a very senior guy to underwrite, to understand the portfolio and all those things. So maybe this year, we want to go to that learning curve. But we are very serious enough to build that whole unsecured portfolio, which is a high-yield kind of numbers.

Other than that, integration is going very well. I would say we also want to focus on gold because Fincare has done that business very well over the years. So we want to capitalize on that business. And of course, recent RBI circular and the whole narrative around is that it favors bank. So we want to capitalize that whole positioning.

Our ROA is 1.53, which is maybe lesser than what we guided you last year. But we have done the accelerated provision of ~10 bps. So somehow, we don't want to play around our balance sheet. We want to be very honest on our numbers so that it does not get colored by the whole aspect around it. So idea is to really communicate to you people very honestly that this 10 bps is on the NPA, so that our provision coverage goes up to a ~70% level and its NPA on the unsecured assets gets 100% covered, right? So we don't want to do anything one-off. That's the way we are thinking at AU. We want to treat everything -- we want to communicate everything so that it remains business as usual, right?

So overall, very happy. I would only say that this year, this financial year looks more in control in the sense that interest rate cycles are now coming down. Credit cost, of course, remain around 1.3, including the accelerated provisions, but should be now on a normalized basis this year, which we are thinking in the range of 75 bps to 85 bps. Next year, it may be on the higher side of the curve, maybe 85 bps. So we'll get advantage in our credit cost next year. But NIMs can

be in pressure because still -- the real benefit of interest rates coming down will only get materialized maybe in quarter 3, quarter 4.

So we have to handle that headwind around NIMs. But overall, very happy to see the entire ROA tree. Our opex is well in control. Last year, it was phenomenal. And honestly, we got from 63 to 56. It's not easy. So we had some kind of, I would say, low-hanging fruits but we really want to build more distribution.

We want to do some kind of marketing activity. But idea is to really keep it below 60%. But we'll see how we do it during the course because we are all expecting that this financial year, we should get promoted to Universal One. So there can be a special effort for marketing around that. So -- I would say, tough time, played well. This year, we look more confident.

Thank you so much, Gaurav. Over to you.

Prince Tiwari: Yes. Thank you, sir. Thank you, Gaurav, and thank you, Sanjay Ji. We can go to the Q&A now.

Moderator: The first question comes from the line of Renish with ICICI Bank. Please go ahead.

Renish: Congrats on a good set of numbers in this challenging time. So sir, my first question is actually on the NIM, right? So post the 50 basis point of rate cut, we have already seen large and mid-sized bank sort of rationalizing the SA rates. So are we not planning to cut rates in line with the system?

Sanjay Agarwal: So, Renish, we already have cut on our term deposit rates by 25 bps. We already have rationalized our saving buckets, you know saving account buckets. So we are not giving now -- the peak rate around Savings is now 7% instead of 7.25%. To further go down, we'll require some more actions from some of our competitors because our CASA is below 30% and we are not enjoying a space of around 40%, 45% in that book. So it's not easy for us to cut rate below 7% as of now. But let's see how the entire industry plays their whole game in this year, and then we will take the action around it.

Renish: Okay. So I mean, is it fair to assume that we might use this scenario, I mean, in terms of affording higher rates to sort of accelerate the CASA acquisition rather than rationalizing rates. I mean, is that the strategy?

Sanjay Agarwal: No. I think -- at AU, we don't want to be driven by a lot many things which is one-off. We want to build CA & SA, basis the product, basis the brand, basis the services which we offer to our customers. So we haven't played last year also, to be honest, because many banks are pricing their saving account better than us, but we played our whole strategy around acquisition, building the relationship, cross-selling it. So we want to be in that zone than anything else.

Renish: Got it. Just a follow-up on that. So maybe cost of fund might not come down, but the 50 basis point of the repo rate cut being eventually affect our floating rate book in near term, right? So broadly, our NIM should sustain between 5.5% to 6% in FY '26? Or how I should look at it from current level of 5.8?

Sanjay Agarwal:

So if you ask me as of now, the next year, the lever is on the credit cost. The challenge is on NIM. So, as of now, it's so difficult to predict whether we'll go down by 10 bps or 20 bps or 30 bps, but there will be a challenge on the NIM. But do you want to add on something?

Prince Tiwari:

Yes. So just because this question is generally -- I'm sure, Renish, this is the top of the line question for everyone. So maybe I just wanted to put some more context into it. So Renish, if you see our Q4 margins, now primarily as far as the components of the margins are concerned, our cost of funds went up by about 7 basis points, right, We started the quarter at about 7.06 and we ended up at about 7.14 on an average from Q3 to Q4. But there was also an impact of number of days, right. So, to that extent, that got negated in this particular quarter, we didn't really see any impact from the cost of funds.

so that's on the cost of fund side. But on the asset side, we did have a mix change that's been going on. our unsecured has gone down by ~17% in the full year and 10% in the quarter. And MFI is typically a higher yielding asset.

So due to that mix change, we had about 5 to 6 basis points of impact, right, on the NIM side, right. As far as the rate cut impact is concerned, as you rightly said, 30% of the book broadly is variable rate book. That impact, we haven't seen as yet. Because typically it takes about a quarter for the entire impact to come through, so maybe 1 basis point, but otherwise. So that's the breakup of the NIM for Q4. So if you see, we have gone down from about 5.85 to 5.79, right?

Now, as far as next quarter is concerned, again, or next financial year is concerned, again, the same factors are going to play out. So 30% variable rate book does get impacted in terms of repricing of the repo rate. Currently 50 basis point cut, if something more happens, it'll have an impact, right? As far as cost of funds are concerned, we have taken a cut on 16th of April, 25 basis points as Sanjay ji said, on savings as well as on the term deposits, right. And you know that we are a price taker in that business given our small finance bank tag, not a universal bank.

So to that extent, we obviously have to depend on how the market leaders are doing. So given that we got some space, we have brought down our peak TD rate from 8% to 7.75%, and we have brought down our peak savings rate from 7.25% to 7%.

Right. Going forward, we'll have to see how the market reacts and basis that we can take a call. So to summarize, one, is there a yield pressure? The answer is, yes, right. Now it also depends on how quickly we can turn around on the MFI side on how the business mix changes on the positive side going forward? And how quickly the flow-through happens through the deposits on the rate cut side, right? When the rates started going up about 3 years back, we had guided that it takes about 12 to 15 months for the full impact to pass through.

Same way on this cycle also. In this cycle also, typically, you will see maybe 6 to 9 months when you'll start seeing the impact, as Sanjay said, Q3, Q4. And for the full impact to go through, obviously, it will take 12 to 15 months. So that's the broad story on NIMs. We don't want to put a number out there because a lot of factors are -- as I said, it will also depend on how quickly the rate gets transmitted through the system on the deposits.

- Renish:** Got it. Sir, just -- I mean, just a broad calculation. Is it 30% of variable book that are repriced of 50 basis points lower. So we'll have a 15 basis point of impact and we have already cut our SA rate by 25 basis points. So in a way, we have already negated that. So then ideally, first half '26, there should not be any major new impact. Am I missing anything here, sir?
- Prince Tiwari:** So it's not a direct calculation, Renish. Obviously, there's an impact of the daily averages, right. How the portfolio is moving? How the deposit is priced. So as we said in the opening remarks also, we're not putting out a guidance because there are variables. We have told you all the constructs of the NIM, right? Now it's up to you for assuming. We'll come back and report to you as we have more data point.
- Renish:** Got it. And just a clarification. So, Sanjay sir has mentioned about credit cost remaining at 75 to 85 basis points. So that number is for FY26 or FY27?
- Prince Tiwari:** So that's the long-term average that we are talking about that as a bank, we want to position ourselves given the change in the asset mix, that 75 to 85 basis points is on the total average assets, right. It's not on loans. It's on total average assets, 75 to 85 basis points.
- And as we said, that's a long-term average. For next financial year, we are expecting that we might be on the higher end of that curve. Given that there is some more credit cost has to flow through on the unsecured business in the first half.
- Renish:** Sir, what is the corresponding number for this year?
- Sanjay Agarwal:** 1.3.
- Renish:** Got it. So basically, we are expecting maybe 30 to 40 basis points of improvement in credit costs in FY '26.
- Sanjay Agarwal:** On a ROA tree.
- Renish:** Thank you and best of luck, sir.
- Moderator:** Thank you. Next question comes from the line of Kunal Shah of Citigroup. Please go ahead.
- Kunal Shah:** Thanks for taking the question. Firstly, sorry, again, on credit cost front, so when we look at the accelerated provisioning that seems to have been done largely towards the GNPA's and making 100% provisioning on the unsecured. But when we look at it overall in terms of the SMA pool as well as when you indicated that MFIN2.0 guardrail is also getting implemented, and there is a proportion of book which is linked to it.
- So would that mean that credit cost over the next couple of quarters will still continue to be elevated? I think you made that comment in Q4 post the Q3 earnings on that credit costs will be elevated in MFI for almost like 3-odd quarters. So any change in that guidance post this accelerated provisioning?
- Sanjay Agarwal:** So Rajeev he is the deputy CEO, I think he can comment on this.

Rajeev Yadav:

Kunal, so fundamentally, no new change as I said last time. We expected that the Q3 and Q4 of last year would be the highest level of credit cost as a quarter basis. And then they will gradually decline from a Q1 to a Q2 perspective. Obviously, some degree of additional provision that we have taken will be helpful in those quarters. But fundamentally, MFI will take two more quarters to reach near normalcy as we would see. And I think that should pretty much come from a credit cost perspective in Q3 to Q4 kind of a time frame.

Operationally, what is the one that we drive as a team is we saw that the Q2 and Q3 were the worst quarters operationally and Q4, as we had expected in a typical cycle of microfinance, which typically goes from 9 to 12 months, we saw Q4 improving. The only delta in the Q4 quarter was Karnataka, which happened out of sequence. First 9 months Karnataka was perfect.

Even that has been handled well and pretty much is now on its path to normalcy. So as you can see from data, we had a very reasonable quarter 4 and with March being exceptional, and we believe that quarter 1 and quarter 2 operationally will be stronger. And from a credit cost perspective, we should see that in Q3 and Q4 of this financial year.

Sanjay Agarwal:

So Kunal, just to add on here. Because what we have done this year is around 1.3 kind of credit cost on total assets. And we are expecting that our credit cost can be around 85 bps for next year. It's basis that first 2 quarters will have an elevated cost on microfinance and credit card. But quarter 3, quarter 4, we are expecting strong pullback. And that is why the overall cost of credit should go down for the year, right. And we expect our real book, the secured asset book, commercial banking, largely in the same range but better than this year -- better than the last year, right.

Kunal Shah:

Yes. Got it. So when we look at it for full year, maybe the MFI credit cost was almost 7.75% and credit card was almost 11%, and now we know that SMA pool is 3.7%, maybe almost like, say, 70 basis points improvement compared to that of Q3, but this SMA pool will still flow through. And if we look at maybe the collection efficiency from the SMA bucket, what is the kind of slippage and if we have to particularly touch upon these two particular segments, not the overall credit cost, then how would it pan out maybe compared to 7.75% and 11%?

Gaurav Jain:

Look, I think we have collection efficiency improving across the buckets, right? And as Rajeev Ji mentioned, March was particularly strong. So, we are expecting this positive momentum to continue in the new year as well, right? So depending on where we end up with that sort of -- that will determine the trajectory of improvement in maybe sort of Q2 onwards.

Sanjay Agarwal:

Kunal just to clarify, credit card, like you are seeing around 11% -- 12% for this year. It should be around 6% to 7% for next year and MFI also should be around 3%, 3.5%.

Gaurav Jain:

And just to add to that, right, another variable in the mix is the percentage of book which is covered under CGFMU, right? So we would probably have about 35%- 36% of the book as on March already under CGFMU with all of the Q4 disbursement being covered under CGFMU, right. So this percentage will only increase going forward. And we expect more than 75%- 80% of the book to be covered under CGFMU. So as I mentioned earlier in my opening remarks, this

will reduce the volatility around credit cost. So where, as we will incur some costs for the scheme, but we will benefit in bad times by the downside protection afforded by the scheme.

- Kunal Shah:** Got it. And one more question if I can squeeze in. Yes. Sorry, yes.
- Sanjay Agarwal:** Go ahead, Kunal.
- Kunal Shah:** Yes. Sir, the other one was on the universal license you indicated that you are in communication with the regulator. So what is the kind of timeline which we can draw? Obviously, now the committee said they are evaluating. So when can we expect the universal bank license?
- Sanjay Agarwal:** I would say this calendar year.
- Kunal Shah:** This calendar year. Yes. Okay.
- Sanjay Agarwal:** Decision should happen in this calendar year.
- Kunal Shah:** Okay, got it. Thanks a lot and all the best.
- Moderator:** Thank you. Next question comes from the line of Piran Engineer with CLSA. Please go ahead.
- Piran Engineer:** Congrats on the performance in this turbulent environment. Just two questions from my end. Firstly, out of this INR894 crores slippage this quarter, how much would be from the wheels portfolio? And what was it versus, say, last quarter?
- Prince Tiwari:** So we don't give individually portfolio-wise data. But having said that, it's -- like we have said in the presentation as well that Q4 was a strong quarter and followed the historical trend. So every business saw reductions in slippages, barring maybe 1 or 2 on unsecured side. So Wheels also definitely saw a very strong fourth quarter.
- Piran Engineer:** Okay. And also just a clarification in the initial comments, opening comments, Gaurav, said it will take 1 to 2 years for the credit card franchise to turn around. So by that, you mean breakeven? Or what exactly did you mean by that?
- Sanjay Agarwal:** Yes. No, no. Of course, I think the expectation around our credit card or maybe unsecured business is to generate at least maybe 4% to 5% ROA, right? So -- and the first level to get to that to have the breakeven. So I strongly expect to break even by next year, which is the 26-27, and from '27 onwards, it will start giving us some money. Of course, not to have a 4% - 5% ROA in '27-'28, but at least give us some kind of positive profit from that year onwards.
- Moderator:** Thank you. Mr. Engineer, please rejoin the queue for more questions. Next question comes from the line of Pritesh Bumb with DAM Capital Advisors.
- Pritesh Bumb:** Sir, two-three questions. One is on the bulk deposits. What I see as a trend is that we have grown strongly on bulk deposit, despite CD ratio being comfortable. Any strategic intent there?
- Sanjay Agarwal:** Not really. I think the whole system was like this. The CA and SA remain under pressure, right? And we also have grown our retail deposit, right. But I think the heavy lifting has been done

through wholesale deposits. So I think our ALM, our CD ratio, LCR, all remain very strong. So nothing is specific. I think it was a flow of business.

Pritesh Bumb:

See also the follow-up question was on, say, example, REG, we have grown about 16% quarter-on-quarter. It looks like that we've done wholesale borrowing in terms of deposits and we lend to REG where there is slightly lower spread. So I'm just trying to think why would we grow a little higher in some of these businesses where the market is so tight?

Sanjay Agarwal:

No. My friend, REG business is only 3% of our overall assets. I know but overall it's just 3% of our overall assets. So we never had an intention to grow REG out of the context and that business is doing well. If you ask me the real estate is doing well, our home loan book is also had performed well. So it's a linkage kind of thing for us. And it's a very granule. We don't do INR100 crores, INR200 crores kind of funding. It is very maybe around INR40 crores, INR50 crores kind of funding. So we are doing from last 10 years. So it's a very well established franchise. And we just want to be like this. So I think the correlation between wholesale deposit and wholesale lending, I don't think is that way.

Moderator:

Thank you. Next question comes from the line of Anand Swaminathan with Bank of America. Please go ahead.

Anand Swaminathan:

I have a couple of questions. The first question, when you get your universal bank license, does this guidance around 2 to 2.5 the system growth still hold. And why I ask this is none of the other universal banks are growing beyond 20%, 21%. There's no doubt about your capacity to grow. Just wanted to understand will there be any self-imposed limit or regulator is okay with you growing 25 %-plus even after becoming a universal bank.

And number two, when do you next expect to raise capital? Will this be this financial year or next financial year? I just wanted some clarity on that?

Sanjay Agarwal:

So Anand, there is nothing as such rule or compulsion from anybody to grow in that kind of numbers, neither the regulator has stopped us. It is basis on the - as of now positioning of us that we are around INR1.5 lakh crores of assets. So we are not too small, not too big for next 2, 3 years. We can grow in the range of 25% -- so it's not related to universal to very honest. It's related to our size.

So once we reach maybe around INR3 lakh crores or INR4 lakh crores, we might say that you want to grow in the range of 20 %. So I think it depends on the size and the opportunity. I personally believe that last 3 years remained very tough for all of us. Now the entire narrative from the regulators, from the government of India, -- I know there are short-term uncertainties, but I see a lot many things coming back to Indian economy in the next maybe 18 to 24-month period.

We are well settled and we have built up our franchise Pan India. Our CD ratio -- everything has remained so good, honestly. So in this time, if opportunity is there and it's under our entire metrics, then we will want to grow in the level of maybe 20%, 25%. That's our, I would say, endeavor.

This year also, we told you that we want to grow around 25%. But if market never permitted us, it just has grown 20%, but our capacity is there, capability is there, approach is there, product is there. So it does depend how the market behaves. So that is our overall strategy. So it's nothing that somebody is pushing us or there is an agenda to grow like this. So we will always grow sensibly and reasonably.

Gaurav Jain: And, Anand, just to add the 2 to 2.5x is not that of system credit growth, that's of the nominal GDP growth.

Anand Swaminathan: Sure, I got it. Yes. No, thanks, Sanjay. I appreciate the clarification. Just wanted to make it clear, and I think it helps the investor base as well to fully appreciate kind of there are no restrictions in its capacity that is driving growth. And that's why...

Sanjay Agarwal: And for the capital raise, Anand, we want to, I think want to relate that with our universal license decision.

Anand Swaminathan: Yes. So it will be after universal bank license you get. That's when you will decide that's what you mean?

Sanjay Agarwal: That's our desire.

Anand Swaminathan: Okay. Fantastic. Sanjay, just in this context since you are talking about the macro as well, what is the on-the-ground feedback your feelings because you speak the most or on the ground to the business community. The underlying macro in India is weak as well and there's a lot of uncertainty with global export tariff etc. What are you hearing from the ground, what is the feedback you're seeing, how do you expect kind of the business decisions to be made in the next few quarters, will help us kind of gauge how things are on the ground?

Sanjay Agarwal: So, Anand, it's mixed feeling. If you ask me, things are looking good from last maybe 2 months. -- and I'll give you reasons. One, I think regulator has become more growth oriented. Their body language, their narration has helped us a lot. Their action is speaking louder than what they were telling. You can see the LCR norms, you can see the entire liquidity positioning, you can see that they are saying that growth has to come back.

The government of India is also pushing a lot many things. I think in last March, the capex has gone up. So I think, overall, I would say, things are -- coming now to normal level first of all. Second, I think anything which we were expecting that India will shine and India will grow in the range of 7.5%- 8%, it is not there. So people have now become more rational. People have become more cautious.

And in this time, whoever want to build business is sure about the entire spectrum. And so that's why in our opening remark Gaurav very categorially commented that any kind of euphoria has gone away. And when euphoria goes away, the reality is there. So, in my opinion, in this sense we are more safe because we know the reality. So that is coming up.

I would say some sectors like real estate, tourism, the hospitality. I would say the entire tech related businesses are doing phenomenally well. So now as a banker we need to figure out our

zone, our positioning the way we want to be in and build our business. So it's not that it's very gloomy, nothing is happening, but neither is that it's very growing or it's very rosy. So we need to play our inning well.

And so overall, I'm optimistic than looking for some excuses and all those things. So that's my sense. You want to add on something -- anybody of you. Otherwise that's my sense, Anand.

Moderator: Thank you. Mr. Swaminathan, please rejoin the queue for more questions. Next question comes from the line of Nidhesh Jain with Investec. Please go ahead.

Nidhesh Jain: Hello. Am I audible?

Sanjay Agarwal: Yes, Nidhesh. Good evening.

Nidhesh Jain: Hi, sir. Good evening. So the first question is on credit card, what all changes we have made on the credit card in the last 12 months and when should we start seeing increase in new credit card sourcing?

Sanjay Agarwal: Yes. So Nidhesh we have taken a complete course correction. So as we commented earlier that we were doing digital underwriting for lending the credit card. So now we have put in lot many gated condition to understand customers better in the sense that what is his income level? What is his identity, address, kind of stability and all those things. We also have not allowed customers to misuse the card or many of the expense like rent or utility and all those things. So, we have have not allowed our customers, that's why our spend has come down from INR1,900 crores or INR2,000 crores level per month to now INR1,000 crores level per month. And we have also brought in the specialized credit guy from the industry to help us to build underwriting and the portfolio there. We have also not - want to source through the DSA channels and all those things. We want to really build more on our ETB side, existing bank customers.

So these are the things we have already done it. That is why the issuance has come down from 40,000 to 45,000 level to now 10,000 level. But you will see that issuance coming up to the maybe around 20,000 cards a month maybe post September. So we want to take another two quarters to really make it completely repair and then build it.

Nidhesh Jain: Sure, sir. Second question is just on cost-to-income. So last year, we have done phenomenal job on cost-to-income and probably we would have curtailed lot of cost, we would not have invested the way we were investing in the past. So how do you see cost-to-income panning out over from a medium-term perspective and do you see that when you will get leeway from a P&L, you will start investing for future in terms of branding, etcetera, the way we were doing in the past?

Sanjay Agarwal: So Nidhesh, largely we haven't stopped any kind of investment to be honest. I would only highlight three key items. One maybe a marketing cost. So, we deliberately hold it because we want to now tie up with our universal license base, so that it helps us there. Second, expansion. Last year, we got the expansion from Fincare. So we want to build more businesses through that distribution.

And third, of course, tech. So we have taken some pause in our tech expansion so that we really understand because lot many things are coming in fact on a daily basis. So other than these three we haven't had any kind of specific, I would say, actions to really manage our costs.

Rather, we were very, I would say this year onwards, that's why I was so hopeful to say you that my cost-to-income might not be around 57% this year, but should not go up above 60% also because we want to build more distribution. We want to do some kind of tech investments so that we become -we remain future ready. So other than that, I think on marketing, again, will be tied up with our universal license, so yes.

Moderator: Thank you. Mr. Jain, please rejoin the queue for more questions. Next question comes from the line of Nitin Aggarwal with Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Aggarwal: Hi, good evening everyone. I have a few questions. Firstly, on the ROA guidance that we have for FY '27. So Sanjay ji, you gave this guidance like last year and we had a very turbulent FY '25 and there will be some impact of new guardrail in 1H as you mentioned. So how comfortable do you feel to make this guidance? Do you foresee any risk to this? Or do you think that the risks are evenly poised, so what's your assessment on that?

Sanjay Agarwal: Nitin that is good question. So last financial year, which is now '24-'25, we struggled with both credit cost and the NIM. Still, I would say our performance is as per the guidance. We have accelerated our provisions by ~10 bps, which was much required. So of course, the landing at 1.53 instead of 1.6%, so we really performed last year also as per the guidance, in my opinion. Second, this financial year, I believe credit cost will be more in control. Rather, we can have a challenge on NIM, right.

But I think you know that interest rate factors are now coming down, we are well prepared in terms of anticipating the Indian economy and its effects. So next year, which is '26-'27, I am pretty sure that what we have guided you in a year back, should get materialised. But I don't want to, again, hold myself to around that guidance. It's our endeavor, right? But these are things because if you see our ROA sheet, we're around 5.7%, 5.8% this year too.

We are around -- other income is around 1.8%, 1.9%. It will go further up because we are strengthening our cross-salability through other product lines. Our cost to income is around 4.25%. It might have -- might stable here, right, might not go down for a couple of years. But I'm seeing huge, again, I would say, reduction in my credit cost from 1.3 to 0.85- 0.9 next year, further going down 0.75, maybe in '26-'27.

So I then put all together, if you put all the nets in place, we are above 1.8%, right? So -- and of course, now there will be a market challenge. There would be a lot many things, which may be unknowns, which we do not know as of now, but we need to play our innings, right? And -- but I think you've to appreciate that whether the bank has the capability, bank is on the right track, bank is not under any kind of pressure or any kind of issue which we are not able to solve.

It's our business numbers with 10 bps here and there, but we largely remain on course and of course the universal license.

- Nitin Aggarwal:** Right. And sir, second question is, any color as to what would our LCR be factored in the -- like a revised LCR guidelines that came in yesterday, I'm asking because AU Bank is relatively lower and so should like any benefit on that should be very much...
- Sanjay Agarwal:** New guideline, I think we haven't done our working, but it is close to 120. Sorry, Yogesh, you want to add on?
- Yogesh Jain:** Yes. So these guidelines are better than draft guidelines. And I think we are just evaluating but it should be neutral to positive impact on us.
- Sanjay Agarwal:** But we are fine with that LCR because, again, we are doing our business, many of banks know their own risk management. So as for our risk management anything around 115, 120 is good enough for us. So for me, Nitin, because we need to build our own risk management around that, right?
- Yogesh Jain:** But we are not expecting any negative impact.
- Sanjay Agarwal:** Yes. For that from the guidelines, right? But the entire LCR expectation from AU Bank is around lower what market operates, right?
- Moderator:** Yes. Mr. Aggarwal, please re-join the queue for more questions. Next question comes from the line of Rohan Mandora with Equirus Securities.
- Rohan Mandora:** Sir, firstly, the 30 basis point Q-o-Q decline in incremental yields that you have seen. So did you have any component of year-end discounts or in the secured business? Or is it purely a function of a change in loan mix?
- Prince Tiwari:** That's on the disbursement, right, Rohan?
- Rohan Mandora:** Yes, on the disbursement.
- Prince Tiwari:** That's more a function of mix, nothing else. There is obviously some impact of year ending on the secured side. There might be a slight bit element of that, but I think it's largely a function of mix.
- Rohan Mandora:** Sure. Okay. Secondly, on the wheels, the growth that we have seen in this quarter, just wanted to understand how did the growth shape up across sub-segments on wheels?
- Prince Tiwari:** So I think this quarter, we saw some strong uptake on the tractor side. Given the seasonally the rains has been good. So I think this quarter, the tractor definitely outperformed. Even on the used vehicle segment side, I think we have picked up. So yes, I think everything else broadly were there. New car sales were a bit flattish. But I think on the used side, on the tractor side. 2-wheeler, we have gone deliberately slow, so we haven't really pushed that product -- you want to add on.
- Uttam Tibrewal:** So overall, Q4 was flat, but second half of March, there were some traction towards vehicles as we saw in the industry. So that has contributed. Otherwise, Q4. As such, what we expect from Q4 as a buoyancy it was not there, it was flattish. And these are the all sales numbers also, but I think second half of March saw some traction.

- Rohan Mandora:** Sure. And lastly, on Slide 11, the credit cost that we have given segment-wise, what is the denominator used here because if you have to compare it across the last 3, 4 presentations that you've given, how should we look at that number?
- Prince Tiwari:** So, Rohan, everywhere, we have used the gross loan portfolio or the AUM, the average of that, the average AUM for the period. For the quarter or for the year. And the AUM or the GLP, gross loan portfolio, you can find on Slide Number 38, every quarter.
- Rohan Mandora:** So for FY '25, when you're giving this 11% for credit cards or 7.5% for MFI, so it would be average of March versus March or December versus March? Just...
- Prince Tiwari:** So this is for the full year. Since this is for the full year. Right. This credit cost is for the full year. So you would have taken the average of all the 12 months.
- Moderator:** Next question comes from the line of Pranuj with JPMorgan. Please go ahead.
- Pranuj:** So a couple of ones. So one is at what level will you be comfortable in growing your MFI book in line with your overall loan growth? Because if you're guiding for a 20% to 25% perhaps loan growth, then starting from second half of FY '26, could we see MFI book growth materially pick up for the share to increase from the current 6% level? And also in that context, in FY '26 in particular, how will you look to manage your PSL compliance on SMF and the weaker section? So that's the first question.
- And second one is that even with you doing CGFMU across most of the incremental disbursements, does that initial guidance that you had said that you would want to maintain a 3% coverage on your overall MFI book still hold or all incremental disbursements?
- Sanjay Agarwal:** I think a very good question. So I think we will continue to have 3% credit cost provision irrespective of our coverage under these government schemes. But by this year and we expect ~80% of our book to be covered under this scheme. So I think by what just Gaurav commented that we want to protect our future from any downside risk from the credit cost of this business. And that is why we are more bullish now that this is not a very... I would say it's a very important strategic change, which we have brought in, in the microfinance book. So that is there.
- But overall, we've already said that unsecured piece won't be going above 15%. And in that -- and MFI will not go above 10%. So we want to be in that numbers for maybe the next couple of years.
- Prince Tiwari:** And Pranuj, if you see the secured business, even in this year has grown by 23%. Right. The commercial doing 30% plus and retail secured doing about 21%, 22%. So honestly, even the other businesses, the unsecured businesses, which you mentioned, they were down 17%. So If they're just neutral also, we should broadly start scaling up. Right. So we don't really need to be very aggressive on those businesses to achieve a 20%, 25% kind of range.
- Pranuj:** So -- just to follow up on that, if you are saying that your overall loan growth remains at 20%, 25% range and MFI, I'm assuming gradually goes from 6% to 10%, and you're saying that

perhaps after second half, like if you see the systems stabilize, you are not against growing MFI and credit card book at a 25%, 30% range also given the system...

Sanjay Agarwal: Yes. But with the cap of overall 10% of our overall book from MFI, maybe another 5% unsecured. That's the overall cap.

Prince Tiwari: Yes. And it's a long runway, Pranuj, because MFI currently is about sub-6, right? And the other businesses are also growing at about 25% -- 20%, 25%. So for MFI to jump from 6% to 10%, they'll have to grow at like 40%, 50% yes. Right? Which I'm not really sure is something that we are envisaging. So I think the growth on the MFI will be very measured, if I can say that way.

Pranuj: Okay. Got it. Understood. I don't know PSL requirements, does this provide some...

Prince Tiwari: We are compliant this year. So FY '25, we are good on all our sub-segments as well as on the overall PSL. For next financial year, it will be more a function of how the disbursement picks up and how the book behaves.

Sanjay Agarwal: So Yogesh how much percentage this year SMF has been done by microfinance book?

Yogesh Jain 50 %.

Sanjay Agarwal: Yes. So 50%, our SMF book obligation has been done by microfinance book.

Moderator: Next question comes from the line of Rahul Jain with Goldman Sachs. Please go ahead.

Rahul Jain: Sanjay Ji and team, I think, congratulations, it's been a tough year for you all. And despite that, your numbers are decent. I just had a few questions. Maybe just to start with the credit cards, the loan loss provision guidance, which you said this is still some residual pain that you'll clean up in the first half. But in this quarter, you already made 150% sorry, INR150 crores of provisions. So how much more is required -- I mean if you can just share some more color on SMA-1, SMA-2 book in the credit card space. So that's one.

Second is, I have another question on NIMs, but let's just discuss this first before I move to the second question.

Sanjay Agarwal: Yes. So Rahul, like this year, due to the accelerated provision on credit card book, it is around 12.5 kind of credit cost. And I expect a credit cost of credit card on a on a very normalized basis should be in the range of 5% to 6%. Next year, this financial year, '26-'25-'26, I expect my credit cost on credit card should be around in the range of 6% to 7%.

So the idea is to bring my credit cost assumption on a book level on a normalized basis from this year onwards. So that's why we have done this accelerated provision so that the normalized credit cost should be there on our balance sheet from this year onwards. So I don't think that any specific provision is acquired from here onwards to really arrest our any additional credit card costs.

Rahul Jain: So the first half would mainly be any elevated credit costs that might be there would mainly be because of the MFI and lower recoveries in your secured retail asset business, which is seasonal in nature. Is that a fair assumption?

Sanjay Agarwal: Yes. So I think already still very early days. Honestly, we are just talking on 22nd April. So March has been very promising in all aspects, be it recoveries and around secured assets or be recovery around microfinance or credit card. We as a team has pulled up a lot many good things in March. So still to -- I won't able to comment that how the quarter 1, quarter 2 can be. But an overall yearly basis, Rahul, I strongly believe that our credit cost will be substantially lower what we have done in this whole financial year.

Rahul Jain: Got it. Makes sense. And according to the slippages that we had in this quarter, can we say that we are now at the peak, and therefore, the worst is behind us. And even in the first half itself, we should start seeing the improvement because the collection efficiency in the MFI business has almost normalized as shown in the presentation. Credit card is getting to the normalized run rate. So fair to assume that slippages have peaked in this quarter?

Prince Tiwari: Again, Rahul, honestly, I love to say that, and we'd all want to. But as we said, it's a Q4 right now, and there is definitely always a year ending phenomena that plays out. And as you rightly said earlier in your question that Q1, Q2 typically has a seasonal impact. So honestly, I would like to reserve my comments on that and just make it out.

But definitely, I think in all the businesses, we have seen an improvement in slippages. And hopefully, we can come back to you. If there is no major heat wave or other things, then hopefully, we should be there but let's just wait out for Q1, Q2. Some seasonality always plays out. I don't want to really comment that.

Rahul Jain: Makes sense. And the third question is on the margins. So your wholesale deposits and floating portfolio, by and large, is similar in terms of the proportion of their respective portfolios. You've seen a sharp reduction in the wholesale rates in the market. So your commentary still remains the same on margins that first half will be under pressure because of the EBLR linked portfolio, etc.

But this is similar to what we had heard from you all in the fourth quarter because since then the RBI has taken some serious measures to bring the rates down in the wholesale market. So, what's making us so cautious that the margins will still remain under pressure in the first half. Technically, the pressure should be easier or lower after the RBI measures and not the same as in the fourth -- in the third quarter, I'm sorry.

Prince Tiwari: And also, as I said in the first question, primarily, there was an impact of higher cost of funds. The cost of funds moved by about 7 basis points during the quarter. But as I said, that got negated for this quarter because of the number of days, right. So there was a definitely offsetting factor there that might not be available in the next quarter. So to that extent, there'll be -- that impact is still to play out, and that's where we are cautious.

But otherwise, I completely agree with you that given the steps that the regulators have taken the kind of liquidity measures that has been infused and the fact that we have already taken rate

cut that's on both the savings as well as on the term deposits. And hopefully, wholesale prices -
- wholesale deposits start pricing much lower.

We are confident or we are hopeful that as we progress further into the year, we'll be in a much better position, given that 70% of our asset side is still fixed rate and typically liabilities gets priced earlier. But as I said, we still -- I would like to reserve again the guidance to see that how the flow-through happens.

Gaurav Jain: Sorry, I just have a correction, right? On the credit card stuff, right? So next year, our credit cost is going to be elevated in the first half. And in the second half, it will probably start approaching towards more normalized level that Sanjay Ji mentioned of 6% to 7%, right? But as a result, my full year credit cost on credit card will remain elevated above a normalized level.

Moderator: Thank you. Mr. Jain. Please rejoin the queue for more questions. Next question comes from the line of Ashlesh Sonje with Kotak Securities. Please go ahead.

Ashlesh Sonje: Sir, first question is on asset quality. Last quarter, I remember you had indicated some elevated slippages in the small transporter segment within vehicle finance, especially in SCV and LCV. Wanted to check with you how is the situation there in that portfolio as of now?

And secondly, if you can share some color on collections in the microfinance portfolio in the month of April. Whether that 99.2% number in March has gone down to, let's say, 96%, 97% or it is still holding up, let's say, around above 98%.

Uttam Tibrewal: So, yes, I'm Uttam here. So first of all, for the small transporters, small commercial vehicles can say that, loading vehicles -- the situation has improved. The collection has improved throughout the Q4 and more of Feb and March was good collections and good efficiency there.

Prince Tiwari: Yes. And even on the MFI side, whatever early trends that we have seen. I think things are holding up. But Rajeev Ji. Do you want to comment on?

Rajeev Yadav: So Ashlesh. Obviously, March is always one of the strongest months. But as you know, this was coming out of a credit cycle. So it's not basically meaning that this is a normalized state. So I am fairly confident that Q1 will be better than Q4, you have the breakup of all the numbers across quarters and Q4 was 98.7%. So I expect clearly Q1 to be better, and we are tracking April quite well at this point of time even to the earlier months.

Ashlesh Sonje: Okay thank you. Sir, if I can just squeeze in one more question. On the SA Rate book, can you just break out what proportion of the SA book is with depositors who have balances below 1 lakh -- below 3 lakh, below 5 lakh? If you can do that.

Sanjay Agarwal: This is too granular. Ashlesh, we can -- you can write to us and we can respond to this because this is -- we don't have this data backup as such.

Ashlesh Sonje: Okay, sure thanks a lot.

Moderator: Thank you. Next question comes from the line of Shailesh Kanani with Centrum Broking. Please go ahead.

Shailesh Kanani: Yes. So approximately 16% of the portfolio is impacted by MFIN-2 guardrails, right? So in cases where these customers are kind of regular in repayments, are we considering transitioning them to an individual loan product? Because incrementally, industry is also seeing a momentum towards that. So how are we viewing that?

Rajeev Yadav: So Shailesh. Individual loans is something which we have to strategically debate and come back and see whether we sort of want to migrate to that and as a general microfinance proposition because it's not just about the impacted customers, it's a broader construct. I would just say that we are working with our customers. We have -- these customers have been well educated over the last 1 or 2 quarters for the guardrails, which have been launched and what we were transitioning to.

My personal belief is that the people who are still good with us and not delinquent or NPA, even if they are impacted, a lot of them are having capability or conviction to repay their loans. So generally, we're not seeing, at least as we are tracking April impact on the industry guardrail changes at this point of time.

Rajeev Yadav: Yes. Just to clarify further on that, Shailesh. we only do joint lending -- JLG model today. We don't do individual model on the microfinance portfolio.

Shailesh Kanani: Yes. I'm aware of that. I was just thinking -- I mean, I was just wondering if we are considering that as a product?

Rajeev Yadav: Not just to react to the situation, but improving business model thinking and as obviously, there is a learning and improvement that we need to make out of this overleverage cycle. So the model will evolve, but I wouldn't say as a reaction to a guardrail impacted customer. So and microfinance models typically evolve over a few years.

They don't -- they're not reactive to a situation because ultimately, there are a large number of workforce, customers, and there's a lot of signs behind what has been built over the last 2 decades. So I would say some evolution would happen, and we'll work that through in this financial year.

Moderator: Thank you. Mr. Kanani, please rejoin the queue for more questions. Next question comes from the line of Pritesh Bumb with DAM Capital Advisors.

Pritesh Bumb: Yes. So one question was on the home loan NPL side. So that has been inching up a bit. Now, it is more than 1%. Anything on that because we're seeing a little bit of NPLs there?

Prince Tiwari: Yes. So some NPLs have come through, through the transition. As you know, that we had a merger last year and Fincare used to do this business. So we have seen some transition NPLs, but hopefully, we should get back in control going forward.

Sanjay Agarwal: But the yield is also very high on that book. So it is a risk reward kind of outcome?

Pritesh Bumb: So if I want to take a follow-up on that, so are we changing anything in terms of tenure of the mix, the approach to that business or...



- Sanjay Agarwal:** Which one?
- Pritesh Bumb:** The home loan side. Are we seeing transition there towards more higher ticket size, more better...
- Sanjay Agarwal:** No, We want to be in affordable housing space. And AU was doing as a structure, we were doing more of, I would say, high-end customer in low income group. And Fincare was doing more low income group in the southern side. And in this whole transitioning, you know that there are always a challenge around team retention and all those things, but it's not that high. The absolute amount is very low. So I'm not too worried. So we will bring entire factors of AU in those markets also.
- Pritesh Bumb:** Got it, thanks so much. That was my question.
- Moderator:** Thank you Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Prince Tiwari for closing comments.
- Prince Tiwari:** Thank you, Renju and thank you, everyone, for joining the call today and for your questions and all the support through the years. In case you have further questions, kindly reach out to the IR team, and we'll be more than happy to respond. We are signing off on behalf of AU Management. Good night.
- Sanjay Agarwal:** Thank you so much.
- Moderator:** Thank you. On behalf of AU Small Finance Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.