



# “AU Small Finance Bank Limited Q1’FY26 Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen, good day and welcome to the AU Small Finance Bank Q1 FY26 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 this conference, please signal an operator by pressing star and 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:**

Thank you, Dorwin, and good evening, everyone, and welcome to AU Small Finance Bank's earnings call for the first quarter of financial year FY25-26. We thank you all for joining today evening, and I do understand that probably for most of you this is a very long day, so thank you once again for joining the call.

On today's call, we have our Founder, MD, and CEO - Mr. Sanjay Agarwal. We have our Executive Director and Deputy CEO - Mr. Uttam Tibrewal. We have our CFO - Mr. Vimal Jain, CRO - Mr. Deepak Jain, and Chief Credit Officer - Mr. Vivek Tripathi, along with Mr. Gaurav Jain - President, Finance and Strategy, and the IR team. Like similar to last quarter, we'll start the call with 15 to 20 minutes of opening remarks by Gaurav, followed by a Q&A session of 40 to 45 minutes.

For the benefit of all participants, we kindly request all the participants to kindly restrict to two questions per participant and join back in the queue should you need to ask further questions. For all data-keeping questions, you can always reach out to IR team at any point in time after the call. So with that, I 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, and thank you for bearing with us on a Saturday evening. Let me begin with a quick look at the operating environment. Q1 was a seasonally muted quarter with subdued macro and weak underlying demand. System-level credit growth continued to decline and was 9.5% in June versus 16% in FY24. On-the-ground operating environment also remains mixed, although we could see improvement as the quarter progressed in May and June.

On the plus side, RBI's policy rate cuts, liquidity infusion, and announced CRR cut have provided support on the deposit side. We expect the broader economic environment to improve in the second half of the year, supported by buoyant rural demand, revival in urban demand, uptake in investment activity, and government's continuous thrust on capex. In this evolving environment, AU continued to deliver robust performance.

We delivered strong growth, with our deposit book growing by 31% Y-o-Y, which was nearly 3x of the system growth rate. And our loans book grew by 18% Y-o-Y, which is nearly 2x of the system growth rate. Notably, this growth was delivered despite degrowth of 23% in our unsecured book.

PAT grew by 16% Y-o-Y, and we delivered an ROA of 1.5% despite margin pressure and elevated credit cost in unsecured assets. Now let me give some color on our businesses. First on the deposits business, our deposit base crossed INR1,27,000 crores, growing by 31% year-on-year. Current account balances grew by 34% Y-o-Y, and savings accounts grew by 13% Y-o-Y, taking the total CASA growth to 16% Y-o-Y. All other key parameters remain in line.

Our cost of funds improved by 6 bps to 7.08% from 7.14% in Q4. We maintained an average LCR of 123% during the quarter, which was an increase of 7% from last quarter. And our CD ratio excluding refinance stands at 79%.

Our branch profitability improved with 49% of our branches, which were in existence in December 23, becoming profitable in Q1, versus 34% a year back. During the quarter, we undertook pricing cuts on SA and FD in line with the easing rate cycle and our comfortable liquidity position. Peak SA rate was reduced by 50 bps, with up to 100 bps reduction in certain buckets, as compared to March 25.

And peak FD rates were reduced by 90 bps to 7.1%. We continue to prioritize our strategy of driving granular retail deposit growth through focused customer acquisition, tailored product offerings, enhanced customer engagement, and improved sales productivity. We have a full product suite with cutting-edge digital channels catering to diverse needs of our deposit customers. These include various segmented savings and current accounts offerings, insurance and wealth solutions, credit cards, unsecured loans, and FX.

Our well-structured distribution channels are scaling efficiently, enabling us to deepen customer relationships and expand our deposit base sustainably. This year, we will add around 70 to 80 new deposit branches, mostly in the top cities. Our team is well-poised to drive the next phase of growth, backed by deep domain expertise, strong execution capabilities, and alignment with strategic priorities.

Now, moving on to our assets franchise. Our loan portfolio grew by 18% year-on-year to reach INR1,17,000 crores. Growth was led by our core secure segments, which include retail-secured assets and commercial banking assets.

These two portfolios form 88% of our total loan book and grew by 22% year-on-year. Our retail-secured assets book, which stands at around INR79,000 crores and forms 67% of our total loan portfolio, includes wheels, mortgages, and gold loans. This is our flagship business with a legacy spanning over two decades and is a distinctive blend of scale, growth, high yield, and robust asset quality, making it the cornerstone of our asset strategy.

This segment continues to deliver strong performance with growth of 20% Y-o-Y and 3% quarter-on-quarter. Now, let me talk about the key products within retail-secured. First is wheels. Our wheels book is around 38,000 crores, which is 32% of our total GLP. The book is largely fixed rate and is well-diversified across new and used, personal and commercial cars, SCVs, LCVs, tractors, and two-wheelers. Wheel segment has continued to deliver strong and consistent growth.

GLP grew by 26% year-on-year, which is market-leading in our segment. Portfolio yield increased by 3 bps quarter-on-quarter and is north of 14%. We are significantly expanding the distribution in wheel segment, leveraging erstwhile fincare branches in UP and South.

Wheels distribution increased from 550 branches in March '24 to 715 branches in March '25, with another 200-plus branches set to go live in FY '26. This implies an increase of 70% from March '24. We expect the growth to remain strong for the full year, with multiple growth levers

including diversified book, strong used vehicles contribution, and ongoing distribution expansion.

Credit cost remains broadly in line with our expectations, in a seasonally weaker Q1. Segments which are showing stress in the overall industry, for example, used SCV and HCV, are a relatively small proportion of our book. We do not see any cause for concern and expect asset quality in these segments to normalize in the second half as per trend.

ROA for the segment remains strong and is consistently above 2%. In addition, the portfolio contributes meaningfully to our PSL and SMF obligations. The second key product is Mortgages, which stands at around INR39,000 crores and forms 33% of the total GLP. It includes microbusiness loans and home loans. Total Mortgages portfolio grew by 14% year-on-year and 1% quarter-on-quarter. Within this, MBL and home loans respectively grew by 15% and 11% Y-o-Y.

More than 70% of MBL book is fixed rate and ROA for the book is greater than 2.5%. There is no comparable peer operating at this scale and yield in MBL. We are working to increase the growth rate of this book to over 20% by next year. Similar to wheels, we are increasing our distribution.

MBL branch count increased from 532 in March '24 to 924 branches in March 25, including merger. We are planning to increase this by another 200 plus branches in FY '26. However, competitive intensity remains high in this segment and there could be potential downside risks to our growth target.

Credit cost is slightly above our expectations, primarily driven by deterioration in our southern book, which is around 15% of the total book (Mortgage). However, this south book is also higher yielding at around 17% to 18% versus 14% for the rest of the book. We have taken further measures to strengthen the collection and security enforcement infrastructure and expect normalization by the end of the year for the southern mortgages.

The third product within Retail Secured Assets is gold, which has GLP of around INR2,000 crores and comprises 2% of the total loan portfolio. Gold loan portfolio grew by 11% year-on-year and 4% quarter-on-quarter. There is no risk weight for gold loans.

Portfolio yields around 16% and ROA is north of 3%. RBI's unified guidelines for gold loans have harmonized norms across banks and NBFCs, allowing banks to compete more effectively. We remain compliant with the guidelines and believe there is an opportunity to build and scale our gold franchise significantly, leveraging the capability acquired through the Fincare acquisition.

Distribution network has increased from 350 branches in March '24 to 850 branches in March '25 post-merger. We are further investing in scaling the sales and operations team and experimenting with branch formats to increase disbursement TAT. The second key asset segment is commercial banking, which is 21% of the total loan portfolio and includes five businesses – Business Banking, Agri banking, Emerging Enterprises and Financial Institutions, Real Estate and Transaction Banking.

We have a full product suite and tech capability, including the AD1 business, which we started last year. It established a good track record over the years with strong growth, stable asset quality and consistent ROA of about 2%. Total GLP grew 30% year on year and 2% quarter on quarter. And we expect full year growth to remain strong as per expectations. Asset quality also remains in line with expectations. So far we have discussed the secure asset portfolio.

Now let me walk you through the unsecured segments, which de-grew by 23% year-on-year and 7% quarter-on-quarter and form 8% of our total loan portfolio. The largest unsecured segment is the Inclusive Finance Book for bottom of pyramid customers, which includes MFI and lending to small marginal farmers and FPOs. This book is key for fulfilling our PSL obligations in SMF and AGRI and contributed more than half of our SMF requirements in FY '25.

Total book is around INR6,500 crores, which is around 6% of our total GLP. MFI is the biggest product in this segment, with Bank having comprehensive micro-banking relationship with customers, including savings account, insurance, payment solutions and DBT linkages. MFI has GLP of INR6,200 crores and is facing twin challenges of asset quality and book de-growth in the current credit cycle.

The book de-grew by 22% year on year and 7% quarter on quarter. We expect the book to have bottomed out this quarter, achieve stability in Q2 and grow thereafter. We are targeting INR7,000 crores book by year end, implying a year on year growth of 5%. On asset quality, the performance was also below our expectations.

Collection efficiency for the quarter dropped to 98.3% versus 98.7% in Q4, driven by seasonality, state ordinance in Karnataka, as well as impact from MFIN guardrails coming into effect. This has pushed back the expected recovery by a quarter, and we now expect full year credit cost to be higher at around 5% versus our previous expectations of 3% to 4%. We have taken a number of operational steps to strengthen the business, including increasing the collections team and securing cover under the CGFMU credit guarantee scheme.

Incrementally, 97% of Q1 disbursements are covered under CGFMU, taking the portfolio coverage to over 50% by end of Q1. We are observing asset quality improvements sequentially after MFIN guardrail implementation and will continue to update as things evolve. The other unsecured book is our credit card and personal loans business. Total GLP is around INR3,000 crores, which is 3% of the total loan portfolio. Of this, credit card book is around INR2,300 crores, which saw a degrowth of 27% year-on-year and 6% quarter-on-quarter.

Credit cost remains elevated in line with our expectations and may have peaked this quarter in absolute terms. Most of the flows have come from the identified pool where we have already taken actions to reduce credit limits. Credit cost may remain elevated in Q2, but we expect it to start normalizing from second half onwards.

Now, in terms of profitability. We delivered profit after tax of INR581 crores for the year, up by 16% from Q1 last year. ROA for the quarter was 1.5% despite margin pressure and elevated credit cost in unsecured book. Our net interest margin declined by 38 bps in the quarter from 5.8% in Q4 to 5.4% in Q1. This decline was due to the following key drivers.

The first is reduction in asset yield by 27 bps from 14.4% in Q4 to 14.1% in Q1. This was due to repo cut impact on variable book, lower asset yield primarily in credit card and change in asset mix with lower MFI.

The second reason was reduction in investment yield by around 20 to 25 bps in Q1. This drop was driven by lower rate environment and booking of treasury gains. Third was due to effect of higher liquidity including investments in mutual funds carried during the quarter which had an impact of around 10 bps on NIM. This is expected to reverse as the year progresses.

These yield declines were partially offset by decline of 6 basis points in cost of funds from 7.14 in Q4 to 7.08% in Q1. Going forward, while there will be further impact on asset yield in Q2 from repricing of the variable book, this would be partially offset by lower cost of funds and reversal of higher liquidity as the year progresses. Q2 should be the bottom for NIM and we should start seeing gradual improvements in margins from Q3 onwards assuming no further rate cuts.

Other income saw a healthy contribution driven by treasury gains and ongoing strength in core fee income. We also maintained disciplined control over operating expenses. Opex by total assets fell from 4.2% in Q4 to 3.9% in Q1, partly driven by lower disbursement in the quarter.

Cost income ratio was 54% which benefited from higher treasury gains in the quarter. Our credit cost remained elevated in Q1, driven primarily by unsecured segments as elaborated earlier. Overall, basis the Q1 performance in MFI and our south-based mortgages portfolio, there is a downside risk to our previous guidance and we increased our full-year credit cost expectation by 10 to 15 bps, taking the expected credit cost to around 1% of average total assets.

To sum up, Q1 was a quarter of steady execution in a transitioning macro environment. We remain confident in our strategy, our customer-centric model, and our ability to deliver consistent performance.

With that, I'll now hand over to Prince for Q&A. Thank you.

**Prince Tiwari:**

Thank you, Gaurav. Dorwin, we can now open the floor for questions.

**Moderator:**

Certainly, sir. Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Renish from ICICI.

**Renish:**

Sir, just two things from my side. One, on the overall profitability from a '26-'27 perspective. So, we have increased our credit card guidance. And when we look at NIM reduction in Q1, and also we are now finding that it will further go down in Q2 and then bottom out. So, how do you expect ROA settling in '26 and '27 considering pressure on NIM and higher credit costs in '26?

**Gaurav Jain:**

So, Renish, we haven't guided for an ROA for FY '26. And we reiterate our guidance of achieving 1.8% ROA for FY '27.

**Renish:**

So, we'll stick to our guidance for 27, right?

**Gaurav Jain:**

Yeah.

**Renish:** Okay. And secondly, on the vehicle financing piece, you know, so you did mention about some stress in Used SCV/HCV segment. But can you please elaborate further? I mean, is it geographically specific or it is a broad-based largely due to the weak macros?

**Vivek Tripathi:** Yeah, hi, Renish. This is Vivek. See, first of all, that used SCV & HCV book is a very, very small proportion of our total assets. About 6% of the total wheels asset is in that segment. The trend did not start this year. The trend started last year across the industry because of the delayed carbon capex, there was a heavy rains last year. So, the pressure started building up in that segment.

And we took a lot of corrective measures in Q3, Q4 of last financial year. And the book is performing very well post that, right? So, there is a very, very little impact. It is not geographically specific. It is just specific to one segment which is used small commercial vehicle. And anyway, we don't have much of presence in HCV. So, we are not there in that segment. So, nothing to comment about that.

**Sanjay Agarwal:** So, Renish, hi. I am Sanjay Agarwal this side. So, just to add on about Gaurav's comment that this year too, you know, of course, we all believe that the quarter 2 NIM will go down. But there is all probability that quarter 3, quarter 4 NIM will be more expanded, right? And in terms of our credit cost, because we guided around 85, 90 bps. So, because of this one quarter going up for MFI, we believe that 90 bps might not be achievable. So, we are just calling out so that the people can figure out in your calculation that there can be 100 bps.

But one thing is sure that this year will remain stronger than the last year. So, last year, we performed around ~~1.4~~ (Corrected 1.5%), right, in terms of our ROA. And next year, we want to be at 1.8. So, this year, of course, it has to be on an upward trend. But difficult as of now, because again, lot many variables in the environment, how the Indian economy will happen, what if there can be more rate cut.

And, of course, we haven't guided an absolute amount in terms of growth. We have relatively there. So, if we are going at 6.5 and then the inflation is around, 3% - 3.5%, then overall nominal GDP is around 9, and then we can't grow in the range of 25%, right. So, I think it has such a variable. But next year, why we are sure? Because it will be a sizable balance sheet. The NIM pressure will go away. We have a 70% book as fixed.

So, we are more sure about next year. And, lot much correction will happen in MFI and the credit card too. So, I think, again, I'm reiterating this line from now 3, 4 years that banking franchise requires at least 10 years to get stable, stronger, and scalable, right. So, we are on that path.

**Renish:** Got it. And just to, I mean, follow up on that, so some of the stress in this segment, which you did mention about south-based mortgage or used SCV/HCV, etcetera, is this because of the excessive growth in this segment by industry or there is nothing too much to read into this?

**Sanjay Agarwal:** Yes, Vivek, can you answer it?

**Vivek Tripathi:**

So, Renish, the south-based mortgage was fundamentally different from what we used to do in north and west. It was a very high-yielding book at 18% - 18.5%. The ticket size was smaller, obviously. So, the inherent customer profile and the inherent risk was also different, but the reward was also different.

We had already taken, it's not that now we have taken, we had already taken measures in terms of building that collection infra, having the complete setup in terms of doing the SARFAESI and legal recovery, right, which would yield results now, because it was under a different setup. Fundamentally, we had this recipe to run this business since long. So, we replicated across the geography. We would see results in a couple of quarters, right.

**Renish:**

I mean, fundamentally this...

**Moderator:**

Sorry to interrupt, Renish. We request you to please rejoin the queue if you have further questions. Thank you. Our next question comes from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

**Suraj Das:**

Yes, hi. Thanks for the opportunity. One question, I mean, on this credit cost again, on this unsecured MFI, credit card, personal loan, I can understand. But, Sanjay sir, I mean, structurally, if I see for last 6, 7, 8 years, your retail credit cost has always been 70 basis point or lower, barring the COVID year. Let us say, since FY '18. But for last 3, 4, 5 quarters, it is only running up and high.

so, I mean, the question is structurally, what has changed? I mean, in the face of growth, I mean, have you structurally loosened some risk filter or have done something like that? And would it be fair to assume that probably that 60, 70 basis point credit cost in the secured retail is not possible anymore? Probably, if you are growing at 20% plus, more or less 100 basis point credit cost is a new normal. So, that is my only question.

**Sanjay Agarwal:**

No, no, I appreciate your question. So, I think two things. One, I would strongly advocate that this business goes through cycles, right? And unfortunately, a couple of years, the kind of market segment we deal in, there is some pressure in those markets because economy is not doing well. We have also become pan-India franchise, team needs some time to settle down. So, it mix of all things.

So, but I completely agree that we remain as one of the strongest franchise in terms of collection and asset quality in this segment. But I don't think now, because of our size, scale, and the kind of footprint we have now, because that time we were way too small, things can be managed more macro level, right? But now, at this size, scale, with the pan-India presence, and with this kind of economy trends, we should expect the little bit elevated credit cost, which may be in the range of 75- 80.

But last year, we thought that this year, we might be at 85- 90. But in secured asset, you will see a lot much improvement, maybe next year onwards, not this year, in that range. But because MFI is on higher rate, credit cost is in the middle of whole work in progress. So, I think that is why we are around 1% kind of credit cost. But I believe that in the given circumstances, the team is performing very well.

- Vivek Tripathi:** In addition to what Sanjay ji said, there was a complete change in the, even the provisioning norms also. You talk, if you're comparing with FY17, 18, 19, obviously, the PCR on the secured assets was different, right? Because we had a very historical data of the net credit loss. But on a bank platform, obviously, the provisioning norms changes, and we had to change accordingly. So, those are not actually apple-to-apple comparable. Little, if you adjust for it, there is a little gap. Yes, but not that wide.
- Suraj Das:** Sure. But in terms of underwriting, I mean, nothing has changed over a period of time.
- Sanjay Agarwal:** Rather, I would say we have become more stringent like, previous days, it was more about NBFC kind of culture. Now, we have actually adopted the whole arm's length kind of working where sales don't have credit powers, credit guys don't have a sales target or anything. So, rather, we are working on our credit team and Vivek Tripathi sitting on this call, has been elevated to Chief Credit Officer to have a credit culture in the bank for the scale sustainability.
- Suraj Das:** Sure, sir. Got it. Thanks.
- Moderator:** Our next question comes from the line of Kunal Shah from Citigroup. Please go ahead. Kunal, your line has been unmuted. You may proceed with your question.
- Kunal Shah:** Yeah, thanks for taking the question. So, firstly, maybe what changed post maybe the commentary in the last earnings call? Maybe wasn't it very visible with respect to the stress in MFI? Or were there any incremental stress pockets which came in after the last earnings call? And even this entire stress on the Southern book, okay, maybe how big was that element in the overall slippage and the credit cost? And what actually led to that? Maybe because generally like mortgages tend to behave quite well. So, you indicated a bit, but maybe is it maybe what happened between maybe the earnings call of last quarter and maybe the results for this period?
- Vivek Tripathi:** Yes. So, Kunal, Vivek here. One, we had the collection efficiencies in non-OD in microfinance were trending upward of 97% by March.
- Prince Tiwari:** 98.7%.
- Vivek Tripathi:** Yeah, 98.7% in March. And there was some anticipation that this would sustain in Q1. It did not happen. It's not that it's with us, the industry, right? Those collection efficiencies could not hold. But there is a green shoot. If we look at from April, May, June, and July, it's looking upward again. So, it just pushed by one quarter. Point 2, Further, on that portfolio, what we ensured that incremental disbursement are happening with the government guarantee, which is CGFMU. So, in Q1, whatever we did, it's 97% is covered by those guarantees.
- So, we would have a cap in terms of the credit cost anyway, right? On the mortgage, Southern Mortgage piece, as I said, fundamentally, it was a very granular book with differentiated yield. It was at 18.5%. There was a transition of team. Obviously, some amount of churn happens when you transition. That would have led to some elevation in terms of the, I would say, decline in collection efficiency. And plus, this was not a very old business with Fincare

So, in terms of the learning and building the infrastructure of collection and legal recovery has been done by us now. So, we are very, very confident that we will be able to pull it back in just a couple of quarters because it's not that there is no security, there is no customer. So, everything is there. Just the collection infra was not that strong. The legal mechanism to enforce the securities to do 13.4, 13.2 (Section of SARFAESI), the infra was not there, which we've already built up now.

**Kunal Shah:** Okay.

**Sanjay Agarwal:** So, Kunal, Sanjay this side. So, Kunal, if you -- because we are talking more granular in terms of MFI or in terms of southern markets about MBL, right? But overall, we strongly believe, again, that we were expecting around 85 bps or 90 bps on total asset, our credit cost. That we are just saying that it may go up by 10 bps. And the reasons are like this, right? Which is MFI and maybe southern market.

Otherwise, we believe that H2 will be very strong in terms of recovery because a lot much, I would say, the data says or trend says that July onwards, things will look better. That's the way I want to sum up about our credit card, credit cost estimation.

**Kunal Shah:** Yeah. And after this experience on credit card, this southern-based mortgages, which would again be like AU specific, do you see any other geographies or pockets wherein we need to slightly strengthen the filters, maybe augment the collection capabilities? Would that be the case? Maybe like re-evaluating the portfolio, do we require to do in any of the geographies or in the portfolio?

**Sanjay Agarwal:** Not really, Kunal to be honest. Not really. And these are also very specifically carved out because we took over Fincare from last year itself. And it requires some, effort. And of course, we need to give some time to the previous leadership. And of course, when we take over from everything with our perspective, it requires some more time to really implement all those things. So, it's very natural. But you know that in this acquisition, we got the southern markets, for our wheels business, MBL, HL.

So, lot much growth will also happen from these markets in times to come, right? It's a temporary kind of challenge. And as Vivek told you that we have the recipe to solve all those challenges, we have done in past in North and maybe in West markets. We are not telling you that there is large issues, but because the numbers are so miniscule, because going from 90 bps to 100 bps, we thought that let the market know that we are really working right. Yeah.

**Kunal Shah:** And fair to say this was also a significant portfolio.

**Moderator:** We request you to please rejoin the queue if you have follow-up questions. Thank you. Our next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

**Ashlesh Sonje:** Hi, team. Good evening. Sir, first question is on your loan growth outlook for FY '26. Now that you're seeing some signs of stress in some of these segments, how do you think about your outlook for loan growth in '26?

**Prince Tiwari:**

Hi Ashlesh, Prince here. So, Ashlesh, I think, when we did the last call, we had guided that, we want to peg our growth given the size to the economic activity in the country. And we had said that we look forward to grow anywhere between 2 to 2.5x of nominal GDP. Some of the stress was expected. I think when we did that (Q4) call, we very clearly articulated that stress on the unsecured side would take a couple of quarters to resolve itself before it kind of picks up the growth pace. And that was factored in.

I don't think fundamentally anything changes there. We will still target anything between 2 to 2.5x of nominal GDP growth. Even on this quarter on a year-on-year basis, we have grown by 18%. And you know Q1 is a seasonally weak quarter. So I think growth will pick up. Most of the impediments to the growth, at least at the economic level as well, in terms of the liquidity, the entire inflation, the CRR cuts have been announced.

Some of those things have reversed. So hopefully, I think at this point we can only hope that the economic activity picks up across the country and the growth goes through. But from our perspective, we are very, very clear that the heavy lifting on the growth from our side will be done by vehicle financing, will be done by commercial banking and gold loans.

All of these portfolios can grow anywhere between 20% - 25%, that's the target that we are doing like vehicles this quarter as well has grown 26% Y-o-Y. As far as mortgages are concerned, which is the other bigger portfolio you know that we have been growing at about 15% for the last three years on a CAGR basis.

Primarily, a lot of competition there. And we have now added to put up a lot of distribution there as we have articulated earlier as well, given the entire franchise that has become available from the South. There were certain gaps, which Vivek articulated that we have already fulfilled.

And we are pretty confident that we'll be able to grow that business. I think immediate target on the mortgages side is to take that business from 15% to 17% - 18% growth this year and maybe 20% plus in the subsequent years. So I think we are there. It's a function of how much economy supports.

I think the only surprise to earlier question as well from and that's a more market-wide surprise has been the microfinance, because our view was that probably it should start growing a bit. But again it has de-grown by 6% this quarter as well. But given the entire action that we have taken, some of the credit filters that we have re-looked at, the risk filters.

We do think that this is the bottom. And even in the microfinance business, I think from this quarter you should see stabilization and maybe some sort of a growth as Gaurav articulated in his opening comments, that about 5% kind of growth that we are expecting for this financial year.

**Ashlesh Sonje:**

Thanks, Prince, for the elaborate response. Second one is on the credit card book. I see that there is still about INR700 crores, INR720 crores which is sitting in the revolver portfolio. Have you -- do you have a sense of how much of the overall book or out of this revolver book can eventually flow into NPA or have to be written off? That is one. And related to it, I see that you

have restated the share of revolver in the credit card receivables for the March 25 quarter from 38% to 35%. So can you explain that one, please?

**Gaurav Jain:**

So I think the last year the ~37% that you saw, that was a mistake. So that was just a mistake that got carried. So the correct number for March 25 is 35%. And we had uploaded a revised presentation on that as well. For the rest, I'll hand it over to Vivek. Yeah.

**Vivek Tripathi:**

So, in terms of whatever stress we see in this book, the majority of that puts coming from identified pool where we did some limit decrease function. And that pool is reducing every month. And we've already indicated, as Gaurav also mentioned and called that in absolute term, I don't want to guide in terms of percentage, but in absolute term, the credit cost has peaked.

It would start coming down from this month, this quarter onward and we would see substantial decrease. So we know that what pool is performing and plus on the new acquisition side, we have taken a lot of initiative, which obviously is that everything takes its own times becoming with the new scorecard, becoming with new platform to host those scorecards, the new LOS, and that scorecard for ETB, NTB, for and for behavioural, this thing, some of it's already started.

The work has already started, but takes a couple of months to implement. And then the degrowth on the book, probably we'll try to arrest in maybe Q3 onward.

**Ashlesh Sonje:**

Understood. And if I could just squeeze in the last one, this mortgages book, slippages that you are seeing in the South portfolio, roughly what proportion of the book do you think is exposed here?

**Vivek Tripathi:**

We have 15% book in Southern market. I think Gaurav has already articulated. And it's only -- it's not that the difference is that large. We just tried to explain that on the retail secured side, from where the slippages has come. So we thought let's call out which segment. It is just a sub-segment of the entire book, which is very, very minuscule. And it's on high yield. Yes, it's a very high yield.

**Ashlesh Sonje:**

Understood, sir. Thank you.

**Moderator:**

Thank you. Our next question comes from the line of Param Subramanian from Investec. Please go ahead.

**Param Subramanian:**

Hi, thanks for taking my question. First question is on opex growth. So it's at 4% Y-o-Y, which is really a smaller franchise that is growing. So what explains that and other operating expenses, I think, down on a Y-o-Y basis. So what is happening there?

**Sanjay Agarwal:**

Param, what's your question?

**Prince Tiwari:**

The question is other opex is down on Y-o-Y. So, Param, hi, Prince here. So as we have -- if you look at on our last full year commentary as we have articulated multiple calls, there was a lot of internal focus around productivity and efficiency gains.

And we also cut down a lot of cost expenses, rationalized a lot of expenses around our entire digital marketing. The entire marketing above the line marketing and branding was not really

taken. Also, the fact that the credit card issuances have kind of slowed down. So that also led to some saving. So it has been a very focused and disciplined effort by the entire team for last full year in terms of trying to control the other opex.

As far as Manpower is concerned, you know, overall opex has grown by 10% Y-o-Y. And we have added people. We are adding people wherever it is necessary. But you'll also understand that the franchise has come to a certain scale. There is also some amount of synergy which came from the merger, right? In terms of people opex. So all of that has led to a very disciplined execution on the overall opex front from our side.

**Param Subramanian:** Got it. How to think about opex growth going ahead or cost to income, cost to assets, any of those things?

**Prince Tiwari:** So it's difficult to call out, because again, businesses will pick up like, Q1 is typically a seasonally slower quarter. So as we move further during the year, and if the economy picks up, we do want to grow. We have growth aspirations. We have talked about it earlier, right? So I would like to say or believe, leave it at that, that overall, you will see some amount of efficiency on a year-on-year basis that we are trying to achieve. I don't want to put a number to it.

**Gaurav Jain:** And also just to add, right, the previous guidance that we had given on cost to income ratio is, you know, that is for that number to stay below 60%, right? And last year, I think we ended at around 57% or so. So I think our endeavour is to stay below 60% on a cost to income basis, and on a cost to opex basis, as you know, Prince mentioned, the target would be to do better than last year, which was I think 4.3% or something.

**Param Subramanian:** Okay, very helpful, Gaurav and Prince. So on your Slide 11, right, so you're calling out the credit cost across segments, which is very helpful. But so you're showing the retail secured is at 1.2% annualized. So what is it as in is the first quarter seasonally at this level? Or are we seeing more weakness than normal here?

**Vivek Tripathi:** It's largely a seasonal impact and we already called out the few sub-segments within that, there were some elevated slippages in credit costs, but our franchise, our strength to execute those products and ability to underwrite and understand those segments remains very high. And this is only a seasonality, which obviously had played a role in some amount of weakness within the underlying economy, right? That also you can't take out of the equation, right?

I think and with the good monsoon, the good rural income, a lot of things, we look forward to improve Q2 onward, right? And there's a festive season as the festive season will kick in from by end of Q2 and Q3. Things anyway, changes in our, our customer segments, at least.

**Sanjay Agarwal:** And Param, in my opinion, the quarter 1 growth and quarter 1 credit cost cannot be analysed.

**Param Subramanian:** Right. Got it, got it, Sanjay sir...

**Moderator:** Param, sorry to interrupt, we request you to please rejoin the queue if you have further questions.

**Param Subramanian:** One last question on the, yes.

- Sanjay Agarwal:** Yes, okay, Param.
- Param Subramanian:** Yes, okay, thank you so much. So, would it be fair to say this increase in credit cost is purely what we are seeing on the unsecured side, right? There is nothing to do with the retail secured business side...
- Sanjay Agarwal:** And that too, we were very, we were knowing about in last quarter call that quarter 1, quarter 2 will remain elevated. And as Vivek told you that in absolute amount, the credit card cost is already peaked. And we are saying that MFI also, we believe that quarter 2 it should be the quarter where the credit cost will be peaked. And other than that, everything remains absolutely in shape.
- Param Subramanian:** Okay. Thank you so much, sir. All the best to the team. Thank you.
- Sanjay Agarwal:** Thanks, Param. Thank you.
- Moderator:** Thank you. Our next question comes from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.
- Nitin Aggarwal:** I have a couple of questions. One is around the credit card portfolio only, like while Sanjayji mentioned that the credit cost has peaked, but as I see like the pain that this portfolio has given is like more than MFI, at least in this quarter. And even in the prior quarters, we have seen very high credit costs. So how do you in the medium term look at this business? How quickly will we want to rebound from this? And what is the medium term strategy on the credit card now?
- Sanjay Agarwal:** Yes, hi, Nitin. Good evening. So again, Nitin, as you know, you're absolutely right that credit card credit cost is giving us more pain than MFI credit cost. MFI business remains still profitable for this year after this elevated credit cost, or maybe de-grown of that book. But so a couple of corrections has already happened. There's a leadership change there.
- So our product head, Arvind has become the credit card business head. This business has again been folded with Yogesh Jain, who's our now COO. He's based out of Jaipur and he's an old veteran in the bank and he understands this business.
- He's understanding this business. So I believe that under his leadership, lot much correction will happen. And already from last one year itself, we have done a lot, many corrections in terms of our acquisition, underwriting standards, collection standards, operative metrics.
- So and that is why we all believe that the quarter 1 already we have the credit cost peaked in terms of absolute amount, right? So this year, it will remain like this. The idea is to really understand with a new lens and with a new, fresh approach.
- And if you ask me, I will be better off by this year-end that how we are looking towards this business. As of now, the idea is to remain again to control the whole losses and come on the BEP first and then look for the growth. So I would want time from my investors that they should support us in this journey, and give us some more time to really come and clearly say or articulate our future strategy around it. Yes.

**Nitin Aggarwal:** And the second question is -- if you can talk about the credit environment in the vehicle business, like a few other lenders have indicated to some rise in stress in the vehicle financing business. So how are you seeing that? What kind of growth opportunities are you looking at overall in the environment?

**Sanjay Aggarwal:** So, Nitin, again, the wheel business is the oldest business in AU, and it's now close to 30 years. And it's a well-rounded business for us in terms of diversification, pricing the risk, the credit orientation, the collection orientation remains sharpest in this book. So we are not saying that, we will not grow this business this year. But the environment is tough.

We know that the sale is not happening. But because of the used financing capability, the diversification around product range, be it SCV, LCV, tractors, new cars, taxis, and of course, with Southern market coming up, we are opening up in East also. So I think the growth strategy, it will help us this year.

And that is why in this quarter, we have grown ourselves by 26% and the team remain very, very confident that they will achieve the target for this year too, with the same metrics where we don't blow up our asset quality numbers or anything else around it. So we remain strong in terms of our Wheel franchise.

Overall, in terms of retail asset, as we already commented, our mortgage business is in good shape. Gold business is in good shape. Our mortgage business, we are operating around 14% rate and we already crossed INR40,000 crores now. So I think nobody in the industry has touched this kind of numbers for the mortgages at this rate with this kind of asset quality.

So for us, every time when we go to the market, it's a new environment for us because of the scale, right? So that is why we are going around 15%. But the idea is to really push to this growth rate to 20% in times to come. And again, the Southern market and the Eastern market should help us to achieve that numbers.

Commercial banking remain absolutely in good shape. We will do some kind of re-strategize ourselves in segmenting that business. But our business banking, agribanking, NBFC, REG, again, we are looking for a growth of north of 25%. So overall, well-rounded performance. And I know that environment is not that too good till now. But I don't think that will continue and there will be some kind of pull from the markets from maybe policy onwards.

But last year also, we had the same kind of feeling. But in the end, we have grown ourselves well. So barring something which we are in work in progress, will remain very strong in terms of our approach. But of course, market might have some kind of impact if it's not as per our standard or as per our expectation going forward.

**Nitin Aggarwal:** Right. And lastly, Sanjay, on the margin, we have reported a sharp dip this quarter. But as 70% of our book is fixed rate, so can the recovery be also be as quick from the second half onwards or...?

**Sanjay Aggarwal:** Nitin, your impression is we shocked you, right? What -- in terms of NIM, what?

- Prince Tiwari:** Margins.
- Sanjay Agarwal:** Margins, right?
- Nitin Aggarwal:** yes.
- Sanjay Agarwal:** But we were vocal in last call that because when repo rate kicks in, the reduction in repo rate happens, it will have a negative impact on our margins because of immediate transmission happening in our yields. But I strongly believe this year we will partially recover our margins by quarter three, quarter four. But I think the full recovery will happen next year.
- Nitin Aggarwal:** Okay. Sure.
- Moderator:** Our next question comes from the line of Pritesh Bumb from DAM Capital Advisors.
- Pritesh Bumb:** Yeah. Hi. Good evening, team. Just wanted to check when we say our 1.8% ROA for '27, have we also built or have we basically tried to build in a cross-cycle MFI credit cost of 2.5% to 3%, which we had maintained before the cycle as well? And will we also build some on the CC business post risk stabilises?
- Sanjay Agarwal:** Good. I think largely you are absolutely on our assumption, because by next year, our entire MFI book will be covered under credit guarantee, right? So the maximum credit cost, if the environment remains like this, I'm again repeating, if the environment remains like this, where the MFI is having a cost of 7%, 8%, then our credit cost should not be above 3% to 3.5%. And of course, the credit card business also by that time will be in better shape, right? And so it depends on these two variables also to achieve 1.8% kind of ROA.
- Pritesh Bumb:** Got it. And secondly, just on in terms of the credit cost guidance, which we increased the guidance this quarter. So does this credit cost is eventually for bucket movement or fresh stress, which can still be or which is still there in the system? So eventually, I wanted to understand if a PCR will move up from here on?
- Vivek Tripathi:** No. So it's a mix of both things, right? It's a mix of always, it's a bucket movement, as well as it's coming from the unsecured piece, right? So...
- Prince Tiwari:** Yes. The credit cost, the collection efficiency dip that you're seeing, Pritesh, in this particular quarter, right? We have given that chart on quarter-on-quarter, how the MFI collection has dipped on the zero bucket. And what happens is that typically comes and hits you in the next particular quarter, right?
- So the slippages from MFI, we are expecting to go slightly higher than what we were initially envisaging, let's say a quarter back. And that's partly the reason because of this particular quarter. As that happens, obviously, we'll have to make some provisions. And that's where the credit cost assumptions has been revised, right?
- But as we said, as Vivek also said that, incrementally every month has been better. So May has been better than April, June has been better than May. And so far, whatever we have seen in July, it's been much better than June, right? So that gives us confidence that hopefully we are

nearing the end of the cycle and rather than, further shocks, unless something externally comes up, like what happened with Tamil Nadu in let's say last particular quarter, or this quarter, the impact came in this quarter, to some extent.

**Pritesh Bumb:** Got it. No. Sir, just -- sorry, just to hop on this a bit. How do you see your PCR shaping from here on, is it more or less going to be at 65% or it moves towards 70%? We attempted in between the quarters that we go to 70%. And so it has been coming down or it's been like slightly volatile. So where do we see that?

**Gaurav Jain:** So I think PCR is sort of a function of provisioning policy, right? So I think it will continue to be driven by that. And depending on the mix of the GNPA within the asset book, right? Because your secured book carries lower provision than your unsecured, right? So depending on where the NPAs are coming from the PCR could vary.

**Pritesh Bumb:** Got it. Okay.

**Moderator:** Our next question is from the line of Bhavik Shah from InCred Capital.

**Bhavik Shah:** Oh! Hey. Hi. Thanks for the opportunity. Just three questions. So first, have you seen any rate action on the Wheel side, like incrementally?

**Sanjay Agarwal:** Bhavik, sorry. Bhavik, you're not very audible.

**Bhavik Shah:** Is it better now?

**Sanjay Agarwal:** Yes. Comparatively.

**Bhavik Shah:** Yeah. And then have you seen yield cracking in the Wheel segment in the fixed rate book, given there is too much liquidity in the system and NBFCs would also be competing? Have you seen any rate actions there?

**Sanjay Agarwal:** Sorry, this is the main pressure on yield. Yes. Yes. I think if there is a liquidity available and no growth happening, then there would be a pressure on yield. You're right.

**Bhavik Shah:** How much do we think will it come off by a given 100-basis-point of reference?

**Sanjay Agarwal:** Not. No. No. No. Not. We haven't seen as of now. I'm seeing for this year -- by the end of this year, there might be some pressure on yield, right? In general, I'm saying it.

**Bhavik Shah:** Okay. Okay. And sir, we have 6% of the book, which is floating rate, but it is in the fixed period. So what would be the exit of this fixed rate period? Like when would it exit? Second half this year or maybe?

**Prince Tiwari :** No. So this 6% is largely fixed for this financial year, right?

**Bhavik Shah:** Okay.



- Prince Tiwari :** So typically you have a three-year period. Some of the loans come in respective years. For this financial year, largely this 6% is at a fixed rate.
- Gaurav Jain:** But the duration would be more like 18 months or so, right?
- Prince Tiwari:** 18 months. Yes.
- Gaurav Jain:** Yes.
- Bhavik Shah:** Okay. Okay. And any update on the universal bank license?
- Sanjay Agarwal:** Yeah. So, again, I would say a work in progress. And I believe that in this current year the decision should be made. I'm not sure what decision and what and how, but I believe it's already 10 months from our application. So I think in this calendar year, we'll find some kind of decision making from regulators.
- Bhavik Shah:** Okay. Okay.
- Moderator:** Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Mr. Prince Tiwari for closing comments.
- Prince Tiwari:** Thank you, Dorwin. And thank you everyone for joining the call today evening. I know there have been five or six banks results. It's been a tiring evening for all of you. So I'll allow everyone to go home. But if you have anything residual, do reach out to the IR team. Happy to answer all your questions. Thank you so much.
- Moderator:** Thank you. This brings the conference call to an end. On behalf of AU Small Finance Bank, we thank you all for joining us. You may now disconnect your lines.