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**Date: January 31, 2025**

To,

<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. <b>NSE Symbol: AUBANK</b>	<b>BSE Limited</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. <b>Scrip Code: 540611, 958400, 959025, 974093, 974094, 974095, 974914, 974963, 975017 &amp; 975038</b>
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Dear Sir/Madam,

**Sub: Transcript of Conference Call for Financial Result for the Quarter and Nine months ended on December 31, 2024**

**Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")**

We submit herewith transcript of the conference call held on Friday, January 24, 2025 for the Financial Results of AU Small Finance Bank Limited ("the Bank") for the quarter and nine months ended on December 31, 2024.

In compliance of Regulation 46 of the Listing Regulations, the transcript is also made available on the Bank's website at <https://www.aubank.in/investors/quarterly-reports>.

This is for your information and records.

Thanking You,

Yours faithfully,

**For AU SMALL FINANCE BANK LIMITED**

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## “AU Small Finance Bank Q3 FY25 Earnings Conference Call”

**January 24, 2025**



**MANAGEMENT: MR. SANJAY AGARWAL - MD AND CEO, AU SMALL FINANCE BANK**  
**MR. UTTAM TIBREWAL - EXECUTIVE DIRECTOR AND DEPUTY CEO, AU SMALL FINANCE BANK**  
**MR. RAJEEV YADAV- DEPUTY CEO, AU SMALL FINANCE BANK**  
**MR. DEEPAK JAIN – CHIEF RISK OFFICER, AU SMALL FINANCE BANK**  
**MR. VIMAL JAIN – CHIEF FINANCIAL OFFICER, AU SMALL FINANCE BANK**  
**MR. YOGESH JAIN – CHIEF OPERATING OFFICER, AU SMALL FINANCE BANK**



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**MR. MAYANK MARKANDAY – HEAD OF DIGITAL BANK  
AU0101, AU SMALL FINANCE BANK**

**MR. GAURAV JAIN - PRESIDENT, FINANCE AND  
STRATEGY, AU SMALL FINANCE BANK**

**MR. PRINCE TIWARI - HEAD OF INVESTOR RELATIONS,  
AU SMALL FINANCE BANK**



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**Moderator:** Ladies and gentlemen, good day and welcome to the AU Small Finance Bank Q3 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touch-tone 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, sir.

**Prince Tiwari:** Thank you, Sagar. And good evening, everyone. And welcome to AU Small Finance Bank's earnings call for the 3rd Quarter of FY25.

If we have not spoken earlier, then happy new year to all of you. We thank you all for joining the call today on this Friday evening.

On today's call, we have our founder, MD and CEO – Mr. Sanjay Agrawal; our Executive Director and Deputy CEO – Mr. Uttam Tibrewal; our Deputy CEO – Mr. Rajeev Yadav; and other senior members of the Management to answer any questions that you may have.

We will start today's call with a 20 to 25 minutes “Opening Remarks” by Mr. Gaurav Jain – President Finance and Strategy, highlighting the “Bank's Performance, Positioning and Outlook”. We will then follow the opening remarks with 40 to 45 minutes of Q&A for the participating Analysts and Investors.

For the benefit of all the participants, I would humbly request each participant to restrict the number of questions to two so that we can take questions from everyone. And then if you have further questions, you can kindly join back in the queue. If you have any data keeping questions, you may reach out to the IR team at any point after this call and we'll be happy to assist.

With that, I will 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 joining us today.

I will start with an update on the “Operating Environment”:

We saw an uptick in the economy at the end of Q2, continuing the festive month of October. Post-October, however, there was a slowdown in economic activity on the ground. While there are some signs of bounce back in rural consumption and government CAPEX, overall momentum remains below expectation. In the banking system, liquidity continues to remain in deficit, despite a CRR cut in December 24. Additionally, persistent inflation has also kept interest rates higher for longer. The economic slowdown has affected overall credit demand and



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we remain watchful in our underwriting. Despite these economic headwinds, our Bank is in good shape overall. Let me talk about each of our businesses in detail, starting with our deposit franchise.

We assess the performance of our deposit franchise in terms of the following key metrics:

- Growth.
- CASA Ratio.
- LCR.
- Proportion of stable deposits.
- CD Ratio and
- Cost of funds.

Our aim is to optimize across these core metrics, keeping in view banks overall strategy and prevailing market conditions. Our deposit franchise scaling well and total deposits stand at ~Rs. 1,12,000 crores.

This financial year, we have delivered growth of around 15% year-to-date in total deposits and 9.4% in CASA. This growth rate is nearly twice the growth rate of total deposits in the banking system and faster than growth rate of private sector banking peers. Whilst we benefit from our smaller scale, as a new Bank on the SFB platform, we have to work harder to gather deposits. On a quarter on quarter basis, our deposit book grew by 2.3%. However, there was an outflow of 3% in CASA, primarily due to withdrawals from certain government accounts which were transactional in nature.

Despite this, average quarterly balances of CA and SA deposits increased by 5.9% and 4.4% respectively on a quarter-on-quarter basis. Our CASA ratio stands around 31%. We maintained an average LCR of 115% during the quarter, which was an increase of 3% from last quarter. Our stable deposits, which include CASA, retail term deposits, and bulk non-callable deposits, stand at 80% of total deposits. And our CD ratio, excluding refinance, stands at 81%. Throughout the year, we have maintained a strong focus on securing the right mix of deposits at optimal pricing and effectively managing our cost of funds, which stands at 7.05% year-to-date and 7.06% for the quarter. Notably, our incremental cost of funds has improved, declining from 7.7% in FY24 to 7.4% year-to-date. However, the current market conditions are challenging, liquidity remains tight, and competition for deposit continues to be intense. This week, we adjusted our savings and fixed deposit rates to market condition, introducing 10 bps increase on our peak fixed deposit rate, and widening the slabs in savings accounts offering 7.25% interest rate.

Even with this increase, we expect to be at the lower end of our guided range of 7.10% to 7.15% for cost of funds for the year. We are mindful of the ongoing pressures on liquidity, inflation, currency, GDP growth, and external headwinds. If these pressures persist and lead to a delay in easing cycle, our cost of funds would be impacted in the coming quarters.



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Now, in terms of our key initiatives around deposits franchise, our branch banking strategy is focused around driving growth in top 20 cities, which contribute around 57% of total deposits in the country. 75% to 80% of our deposit book is from 400 urban branches, of which 60% are located in top 20 cities. Within these, cities such as Delhi, Bangalore, and Jaipur are doing very well and we are working on improving productivity in cities like Mumbai, Chennai, Hyderabad and Calcutta. We have fully integrated 100 plus urban deposit branches from Fincare in terms of people, product, process, and technology. Now our efforts are focused on driving productivity and we expect these branches to drive growth from next year onwards. Additionally, we plan to open around 70 to 80 new branches in the next year, mostly in top cities with a focus on raising deposits and enable another 75 existing asset centers in district and Tehsil headquarters to start taking deposits. In terms of our product breadth, on savings account side, we have established a strong proposition backed by cutting edge digital channels. We have industry-leading deposit products for various segments, which includes recently launched remittance products and comprehensive wealth and insurance distribution platforms. Our wealth AUM has scaled to around Rs. 1,250 crores and in our insurance business, we are partnering with most of the leading insurance companies.

On current account side, we are working to create a right to win in terms of product, services, and distribution. This is a tough market and results will take some time. We also did a lot of work on improving branch profitability. 44% of branches which were in existence in December 23 were profitable in Q3. This was driven both by higher productivity and focus on overall cost efficiency in overhead and marketing spend. Further, all the key building blocks like people, leadership, technology, and customer service are in place for growing the franchise sustainably.

Now moving on to our asset franchise:

Our loan portfolio has reached around Rs. 1,09,000 crores with a growth of ~13% year-to-date, which is 1.6 times of the system loan growth and faster than growth of private sector and banking peers in similar periods. As you know, we have four broad asset classes, retail secured assets, commercial banking, inclusive finance, which includes MFI, SMF, and FPO and digital retail unsecured, which includes credit cards and personal loans. I will take a moment to talk about each of these businesses.

Our retail secured assets book, which stands at around Rs. 73,000 crore and forms 67% of our total loan portfolio, includes wheels, mortgages and gold loan. This is our flagship franchise with a vintage of over two decades. And it 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. This segment is performing very well with growth of 14% year-to-date. We have a long growth runway in this segment as we expand gradually to pan India. We will particularly benefit from increased distribution through Fincare touch points in South India. Asset quality remains broadly in line with our expectations. We are not seeing any signs of contagion with unsecured assets.

December was strong from asset quality perspective, as is historically the trend. And we expect asset quality to improve further in Q4.

Now, let me talk about the key products within Retail Secured:

First is wheels:

Our wheels book is around Rs. 34,000 crores, which is 32% of our total GLP. It includes personal and commercial cars, SCVs, LCVs, tractors, and two-wheelers. Wheel GLP grew by 7% quarter-on-quarter and 19% year-to-date. Growth for the full year is expected to be more than 25% and remains in the top tier of peer banks and NBFC. Book yield has increased by 25 bps over FY24 and is north of 14% year-to-date. Asset quality also remains broadly in line with credit cost of 1.1% year-to-date annualized. Slippages were higher in the festive period as per trend, with some parts of the book, such as SCVs and LCVs, which are given to small transporters impacted by market slowdown. December was strong, and we are expecting further pullback in Q4. Wheel's book is present in around 570 touchpoints, which is only 35% of our total touch points, excluding BO/BC outlets. This implies significant room to expand distribution within our existing network. By the end of FY26, we are expecting to expand to another 250 to 300 touch points, including UP and South India.

Second product within our retail secured franchise is our mortgages product, which stands at around 36,000 crores and forms 33% of the total GLP. It includes micro business loans and home loans. These are both granular products with average ticket size of 12 lakhs to 13 lakhs and yield around 15% and 12% respectively. There is no comparable peer with same operating scale and yield in MBL. Growth remains on track with the book growing by 10% year-to-date and 4% quarter-on-quarter. Within this, MBL and home loans respectively grew by 8% and 16% year-to-date. For full year, MBL is expected to grow in low teens and home loans in a range of 20% to 25%. Asset quality remains robust and there is no major impact from the slowdown. Credit cost is 0.6% year-to-date annualized. In terms of our strategic initiatives in mortgages, we have a big opportunity to expand our distribution. We are present in around 900 touchpoints in MBL, which is 55% of our total touchpoints. In FY26, we would expand our presence by another 130 to 150 touchpoints.

In Home Loans:

We are present in around 600 touchpoints and the business tends to follow MBL with a lag. We are also fully integrating Fincare's mortgage business, which was started 6 to 7 years back. Teams are already integrated and integration of product processes and technology would finish by March end. This significantly accelerates AU's entry into key southern markets of Karnataka, Tamil Nadu, Telangana and Andhra. The third product within retail secured assets is gold, which has a GLP of around Rs. 2000 crore and forms 2% of the total loan portfolio. Expertise in this business comes from Fincare, which has done a good job in building distribution franchise and processes.



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Gold portfolio grew by 29% year-to-date and yields around 16%. We believe the latest RBI guidelines on gold loan create a level playing field for banks to compete against NBFCs. We remain compliant with the guidelines and believe there is an opportunity to build and scale our gold franchise. We are working on our strategy and will update the market in next 1 to 2 quarters. The second key asset segment is commercial banking which is 21% of the total loan portfolio and includes five businesses, business banking, agri banking, NBFC, real estate and transaction banking. We started lending to NBFC and real estate businesses 11 years ago and business banking and agri banking around 7 to 8 years back. Our competition is mainly with other private sector banks. We have developed a full product suite and tech capability, including the AD1 business, which we started earlier this year. Growth and asset quality remain on track with some cyclical challenges in agri-commodity linked businesses. Total GLP grew 22% year-to-date and 6.4% quarter-on-quarter and is expected to grow north of 30% for the full year. Credit cost for nine months was 46 bps annualized.

The Commercial Banking businesses are important from liability franchise perspective as well, and generated around Rs. 11,000 crore of deposits. We plan to move this business to Mumbai over the next 1 to 2 years, which will provide an opportunity to stitch this business even more closely with our deposit franchise and other asset businesses. We are expanding our distribution in Fincare deposit branches. This year, we have started business in a few locations of Andhra, Telangana, Tamil Nadu, and Karnataka and plan to expand deeper in southern states and other existing geographies within our overall distribution network next year. Further, we have created dedicated teams for specific sectors such as renewable energy and infrastructure. We believe there is a large opportunity to grow in these segments. Our AD-I business is gaining traction. This is an important business for cross-sell, current account float, and export import. Forex flows in this quarter increased by more than 50% quarter-on-quarter and achieved a run rate of greater than Rs. 2000 crores. These includes flows from export import, NR and retail remittances. With most of the products being already live, we will continue to scale this business.

The third asset book is our 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 financial inclusion charter and meeting our PSL obligations in SMF and Agri. Total book is around Rs. 7,400 crores, which is around 7% of total GLP. MFI is the biggest product in this segment with GLP of ~Rs. 7,150 crores. We have a strong MFI franchise with conservative underwriting policies and strong operational processes. We have one of the lowest average exposure in industry at to be 25k per customer. Our book is well diversified across more than 60,000 villages. Top three districts contribute around 6% and all remaining districts are less than 1.5%. No state has more than 13% concentration. MFI industry continues to face the challenge of customer indebtedness, which has resulted in elevated slippages, lower disbursements, and high credit costs. However, we believe that the long-term fundamentals of the industry remain sound and we are cautiously optimistic of a gradual turnaround. We expect MFIN guidelines to improve overall industry discipline and with tighter underwriting being prevalent in the industry for the last few months. Customer indebtedness should gradually reduce as well. Additionally, we have taken some corrective actions in terms of strengthening our collection efforts and



increasing disbursements under the CGFMU Guarantee Scheme, with 60% of Q3 disbursement covered in CGFMU. We expect this to increase to 70% to 75% in Q4. This will help reduce both risk weight and future credit costs.

In terms of our financial performance in this segment, MFI GLP declined by 10% year to date and 6% quarter-on-quarter in line with the industry. Credit cost was 5.4% for nine months annualized. GNPA stands at 4.1% and SMA pool is around 4.4% at the end of Q3. There are some signs of collection efficiency having bottomed out with marginal improvement in Q3 versus Q2. December month saw some improvement in both collection efficiency and disbursement versus November and we expect the improvement to continue in Q4. Slippages are expected to stay elevated in Q4 as well and credit costs will remain elevated for the next 2-3 quarters due to lower collection efficiency in the earlier quarters. We are keeping a close watch and will provide a further update in next quarter's call.

The fourth asset segment is Retail Digital Unsecured, which includes our credit card and personal loans business. Total GLP is around Rs. 4,000 crore, which is 4% of the total portfolio. And credit cost on this book stands at 9.2% year to date annualized. Personal loan GLP is around 1,000 crores and is primarily for our existing customers. This book is performing broadly in line with industry from an asset quality perspective. We have tightened the underwriting criteria for asset customers, and as a result, book has de-grown by 10% year-to-date. In our credit card business, we got a few things wrong, which included not getting digital underwriting correct, higher reliance on card-for-card sourcing, and issuing higher credit limits. There are some industry-level challenges as well, driven by over-leverage, inflation, and misuse of certain merchant categories through fintech aggregators. But our performance has been worse than the industry leaders. Total outstanding book has declined by 2% year-to-date and 9% quarter-on-quarter as a result of recalibration of our business. Getting this business right is important from a long-term perspective as it provides a hook for deposit customers and increases Bank's brand. We have taken a number of corrective steps. These include strengthening credit team, tightening underwriting criteria to include documented income only and reducing credit limits both for new issuances and existing cards based on risk assessment. We have also done a detailed evaluation of existing customer base and taken appropriate preemptive actions on potentially delinquent customers. We have strengthened daily transaction monitoring to identify and restrict misusing customers and merchants and have proactively blocked certain misused categories of merchants such as rent and education. These actions will take a couple of quarters to have an impact. We will update on the progress including future outlook in the next 1 to 2 quarters.

Now I will update on our profitability for the quarter:

Pre-provision operating profit increased by 6% quarter-on-quarter driven by strong control on operational costs and growth in interest income. Profit after tax was down 7% quarter-on-quarter at Rs. 528 crores due to higher credit costs in MFI. EPS for nine months is up 24% and book value per share is up 23% year-over-year. We achieved an ROA of 1.6% year-to-date and 1.5% for Q3. Net interest margin declined by 23 bps from 6.1% in Q2 to 5.9% in Q3. This was driven



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by higher mix of investment book on average during the quarter, which had an impact of 10 bps, adverse loan mix because of lower MFI and higher cost of funds, which had an impact of 9 bps, and interest reversal on NPAs, which had an impact of 4 bps. Other income was in line with Q2 after adjusting for lower treasury gains. Core fee income continues to be robust with contributions from assets, banking fee, third party distribution, as well as credit cards and AD-I businesses. Insurance distribution income in this quarter saw some impact due to changes in IRDA regulations around revenue recognition on general insurance and surrender value in life insurance.

We continue to focus on managing our OPEX, which declined by 3% from Q2. Cost-to income ratio was 54% in Q3 and 57% year-to-date. The saving on OPEX has been achieved through merger synergies, control over manpower and overhead cost, and tech-led efficiency gains. Expenses in next quarter would be higher as per seasonal trends, and we expect to finish the year at cost to income ratio of 57% to 58%. Credit cost was elevated and came in at 1.5% of GLP for nine months annualized. As mentioned earlier, this was primarily driven by higher credit costs in MFI and credit cards. Overall, our strong performance in Opex and sustained performance in other income was offset by underperformance in asset quality.

In terms of outlook for the next quarter, credit cost will stay elevated, driven by unsecured, but we expect to be within striking range of our ROA guidance of 1.6%. Overall, GLP growth is expected to be around 20%, with secured assets growing around 23% to 24% and continued degrowth in MFI and credit cards portfolio.

Finally, regarding our Universal Bank License application. We are in touch with the regulators on progress of our application. As you would be aware, the Reserve Bank of India has recently announced setting up of a standing external advisory committee, which will evaluate applications for universal banks. While we don't have clarity on timing, this is a welcome step and should speed up the process of evaluation of our application.

To conclude:

As we have mentioned earlier, it takes about 10 years for a Bank to settle fully. We are now successfully completing eight years and the Bank is shaping up well across all key areas of product, distribution, operations and technology, people and governance. Our brand is improving. Both customers and peers are noticing us on the street, and we continue to focus on strengthening our foundations and executing well to create a sustainable forever Bank.

With this, I will hand it back to Prince for Q&A.

**Prince Tiwari:**

Thank you, Gaurav. Sagar, we can now open for Q&A.

**Moderator:**

Thank you very much. We will now begin the question and answer session. Our first question comes from Kunal Shah from Citigroup. Please go ahead.



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**Kunal Shah:**

Particularly on the MFI side as well as PL and credit card where we are in terms of the cycle and you indicated in terms of improving collection efficiency, but at the same point in time we have almost like 4.4% in SMA as well as 17% of loans where in there are more than three lenders So, even during the transitioning that could have an impact. So, what is the maybe the extent of if you can just help in terms of understanding what could be the extent of the pain that has to be further recognized and how you have beefed up the collections out there?

**Sanjay Agarwal:**

Hi, Kunal. Sanjay, this side. We have Rajeev and of course Mayank on this call, so they can elaborate further. But my take on MFI is, that this is not an event risk, you know. This is more about over-leverage and maybe irrational lending to that sector. Lot much has been arrested in last two quarters. That's my personal understanding and personal belief. We already have gone to the level of what now 5.4 credit cost in our balance sheet and the way we have handled it in terms of overall, we just want to take one more quarter to really have the full color on it. But I think we are expecting our credit cost overall, yearly basis at north of 6%. It might touch 7% too. That is why we have commented that our overall credit cost of the year would be in the range of 1.55-1.6%. But I think you have to give us one more quarter, because it's just a 7% of our book. So, we are not heavy loaded there. And there are green shoots in terms of overall approach, like the guidelines from MFIN, the way the customer are responding, the H2 is better than H1, and those segments itself is getting some money through various things, the activity has been started. We are focusing more on collection than on disbursement and of course, it's an important book for us because it gives us SMF, which is the obligatory to do our lending on us. So, I would only say that the Quarter 4 has some maybe heat going on, but next year, you have to give us one more quarter, then only we'll have the clarity. And same thing is in credit card, a lot much has been arrested there too. The entire team has come on the subject. We have also not building up credit card on digital mode anymore. We are doing underwriting basis now, physical applications or physical data. We have stopped a lot many payment system available online, which actually people don't use money for the merchandise or for services. They were more about cash out. We have reduced the credit line there. So, I think this quarter, in my opinion, will be peak there, and then you will see us coming back next year on the subject. But overall, if you see, if you move away from this 10% of our book, the 90% book is well in control, where the whole strength of organization is there from so many years, be it secured assets or the commercial assets. People were expecting that there would be some pain or there should be some kind of contagion effect, but that is not seen. Quarter 3 has become more stronger than the H1, and I believe that overall 90% of assets by the end of the March would be much better in entire look and shape. And this, both the books should be also good enough for next year. But Rajiv, you want to add on or on the subject? Mayank, you want to add on something on this, the pain and things?

**Mayank:**

Okay. So, just to add what Sanjayji said, this is Mayank. I manage credit cards. What we have done is we are not only containing the existing portfolio, but we have worked a lot on our underwriting capabilities on the new acquisition. So, both the things simultaneously we are working out and wherever the digital capabilities were not enough to manage the underwriting, so we have contained them on tightening our credit underwriting criteria. So, I think another 1



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or 2 quarters will help us to give a better picture on it. But yes, things should come under control after these tightening controls.

**Kunal Shah:** And in terms of the numbers, as you indicated 6% credit cost for the full year so that clearly suggests 8%-10% in MFI continuing. Same way on credit card if we look at it like still being more than 10% for this quarter, so would that run rate also be still there?

**Sanjay Agarwal:** So, this quarter yes.

**Kunal Shah:** In 4Q also this will continue.

**Sanjay Agarwal:** That's why we said that overall we will be touching around 1.55-1.6 overall credit cost because we believe that the other asset classes will perform better than the quarter three.

**Moderator:** Thank you. The next question comes from Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** I just want to understand what's the provision that we are currently carrying on the MFI SMA book? That's one. And second, the OPEX that we are seeing on account of merger synergies, how should one think on that for FY26? And related question was that we have given a slide wherein we are talking about the addition of touch points across products, across geographies in next year. So, how should one look at the interplay between Opex on these two things?

**Sanjay Agarwal:** I think your question is around the Fincare integration. This is going on perfectly well. As we stated in our presentation that from 1<sup>st</sup> January the entire MBL/AHL which is affordable housing and Gold loan has come under the one umbrella of secure retail assets. So, the North, South, East, West has been fully integrated. And the integration plan is in place. Rajiv is looking now tech and of course the entire MFI business. And of course by this calendar year end will be integrating in terms of our tech also. So, that is there in terms of integration. Lot much operational efficiency has come in because now the leadership has been aligned with the verticalization. So, there were so many leadership at Bangalore under Fincare unit, which has been aligned with the entire verticalization of AU. So, we are saving lot much cost there, and so I would say by this quarter end, we won't be having much cost based because of this two unit existence. Entire costs will be aligned with the bigger umbrella of AU. So, that operational efficiency will be achieved in next financial year. In terms of the distribution, Fincare had amazing 1200 kind of touch point to operate for their microfinance business. Out of the 1200, 800 branches were used for microfinance in that 70% were around Tehsil headquarters, 20% were on districts. And Tehsil headquarters actually gives you a lot much opportunity to build deposit in those markets where we were not in. So, we want to use the entire 800 branches of microfinance to really build the other product line and also the deposit franchise. So, in that, close to maybe 80 to 90 branches will actually experiment this year for deposits. So, I think that full integration will be on because of the availability of the distribution in that sense that is there. The other question was around the SMA.



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**Prince Tiwari:**

So, Rohan, Prince here. On the MFI book or any book for that matter, on the SMA we only have standard provision. On the MFI book specifically, we had created a Rs. 17 crore contingency. So, that continues. We have not utilized it. And just the last point on what Sanjayji added and to your question, on this entire product expansion into existing geographies that you referred to, we have given on slide 22, these are all existing infrastructure. So, as of yet, we are not planning to add any newer infrastructure in these places. Probably there'll be some cost in terms of people and manpower and systems, but no infra cost is expected. We have also articulated that we are going to open 60 to 70 newer branches, that's where the opex will come in. But that's a regular BAU business.

**Rohan Mandora:**

Just on that synergy piece, see if I look at the quarterly run rate in the first 3 quarters, we have been holding around that 14.7-14.3 billion kind of run rate. And we have been gaining some benefits. So, just into next year, what kind of cost escalation will we see on the core business? How should we look at with the synergy benefits, how should that move into FY26? That's what I was trying to understand on the OPEX part.

**Sanjay Agarwal:**

Cost to income overall for 9 months is around 57.7. So, for quarter 4 or entire year, I am expecting to be north of 58% but of course, lesser than 60% because the Quarter 4 will have more expense because we'll have more business and everything. So, this is not a standard number which we have given you for quarter three, but the idea is to really look for a lesser than 55% cost to income in the next two years. So, let's go through this quarter, figure out our realistic cost to income which will be around 58-59 and then of course, look for some kind of, I would say effort or the room available for us, but definitely the focus has come back strongly on working on an operational efficiency. We are using lot much digital, we are using lot much productivity now. We don't want to hire people for the sake of hiring. The whole expansion has been put with a purpose. So, I think you will see us, you know, a lot much calibrated organized in terms of our cost to income. And we'll be keeping around because, but there's lot much variable, you know. So, it's difficult to predict, but the approach is this, that our cost to income has to go around 55% in next two years. And it has to be best effort basis because there are a lot many things which we don't control as we move forward. But lot more sincerity has come in, I can assure you about that only.

**Moderator:**

Thank you. The next question comes from the line of Sameer Bhise from JM Financial. Please go ahead.

**Sameer Bhise:**

I have a couple of questions. I mean, I understand we are banking on the secured side of the book to kind of do well incrementally as well. But if I see there is some minor changes on asset quality there sequentially on a growing book. So, how confident are we that that 4Q could actually be better? While I understand it is seasonal, but just wanted some confidence around that and then I will come back with a follow up question.

**Sanjay Agarwal:**

No, I think, I just want to give one assurance to the street that secure retail asset, we are doing from last, now close to two decades and we have seen the cycles, we have gone through every

type of challenges. This year is no different about it, you know. You know about it that we were actually hoping that our country will grow by north of 7%, but we might grow only by 6%. So, we are not excluded in every sense, right? It is a relativity, and the pain is there into that kind of segment where we actually lend, because this is more of an informal segment, the touch and feel, we back ourselves, we back our credit team, we back our operational efficiency, we back our collection team. So, there are certain things which might go here and there, but overall it is a secured book build on productive assets, small ticket, we price the risk. So, I think I would say that we are fairly confident that this will remain our strongest point in terms of our entire asset classes and we should not go wrong there. And we neither has gone this year too. If you see our data in terms of comparison with the competitors, you will find us far, far better there. So, I think I would only say you that this looks very promising and December remain very strong month, in terms of everything, I would say the collection efficiency for the particular December month has surprised us lot and I hope that that will continue for this quarter too. And we have also want to build more expansion in this business so that the growth, the yield, the ROA and of course with a strong asset quality, which is the hallmark of us over the years remain there.

**Sameer Bhise:** Just wanted to get sense because it's quite a fluid situation in the segment that we operate.

**Sanjay Agarwal:** No, I don't think so this is a fluid situation, honestly. I again want to repeat that 90% of our asset class remain very strong because I'm again saying that we are not absolute, we are relative, right? But market also has not gone so bad. We expect that quarter three, Quarter 4, as GDP also will recover, right? So, if we recover, then you will see lot much better performance of us in this books. And these are secured books.

**Prince Tiwari:** Sameer if I can add, if you go back to our last quarter commentary, I think we had mentioned at that time as well, that typically first half is relatively not so great for retail secured assets. Second half, October, November, generally festive seasons, you see slippages. And then December onwards, December-Jan-Feb-March, DJFM as we call it, you start seeing the better performance, recovery, resolutions, right? And economic momentum also supports that. So, if I follow the same theory and I look at the numbers internally, the same thing has played out. October-November we did see some higher slippages and that's what you are seeing. But by December, as Sanjayji said, across, be it collection, be it your credit cost, be it your slippages, across all the secure retail asset buckets, we have started seeing a decent jump. And so that gives us hope that historical DJFM will play out in Jan Feb March as well.

**Sameer Bhise:** Precisely that's why I asked that it sticks to the playbook. Secondly, on OPEX, obviously if we enter this kind of economic environment, you would want to invest more on collections. How are we positioned there, especially in some of the core categories? Are you investing more on that and how does that kind of drive overall Opex numbers? I reckon Sanjayji just mentioned that this year would be upwards of 58%. So, just wanted to, if you could sharpen a bit on that?

**Sanjay Agarwal:** My friend, if you see our last year data, we were around 63-64. And what our endurance is this year is that, if you want to be in the range of 58-59, it will be a super achievement because in

spite of such a headwinds in terms of the deposits, in terms of unsecured book, we already invested a lot in every aspect. I don't think that by putting an extra hundred people for collections, we'll have even a needle's shift in our book because we already become a large balance sheet, we have a large budget for our expense. But the idea is not about not putting money on the right purpose, right? We will always put the money on the right purpose and right cause because that's the way business should be, but the idea is to really be very cognizant of the other facts that we should not just unnecessarily build for the future, right, when things are not clear at this point of time. So, I don't think that we want to be, it should be lesser than what we have done this year. So, the endurance is that next year the cost of income should be lesser than maybe 1% or 2% of this year, right, so that we can achieve the ultimate goal of 55% in near term.

**Moderator:**

Thank you. The next question comes from the line of Madhuchanda Dey from MCPPro. Please go ahead.

**Madhuchanda Dey:**

I have two questions. So, the first question is a little long term. You have had an excellent track record with what you understand best, which is secured assets. So, with Fincare you got the MFI principally, and that met with the sectoral headwinds. And then you yourself admitted that your experience with credit card, the way you have done the business has not been that great. So, going forward, will it make you recalibrate your strategy with respect to lending? You will kind of stick to that, what you understand best, which is secure. And in that context, how would you like to revise or give a roadmap of your aspired ROA of 2%?

**Sanjay Agarwal:**

That was a good question. So, I would say that when I started my career in lending, I started with wheels, right? Over the period, we got to know about the lending and mortgages, then we built on the commercial banking business, then we built on the branch banking distribution, right? So, it's never been so easy, honestly. And I won't say that it was an honest confession that, you know, we might have made some mistake in building up the credit card but the environment was also not so good right because everything was given through digital only. Everybody was banking on the credit score card right and we were not knowing that people can misuse the credit card online through some I don't know the word but sorry, because I never believe honestly that people can take cash out so easily, which we all know that is a risk, right? So, but we have taken the course correction and I strongly believe that credit card is still is one of the most important payment method and we need to correct it. We can't go away with that. And, but it's a curve we are going through and I still want to back my team and you know learn from this mistakes. This is not that large mistakes, maybe Rs. 100 crores here and there, but this is the way the banks should give their cost or the learning cost comes in. So, I still believe that if you really want to be a good Bank, we need to learn about unsecured lending and of course unsecured products, which will keep on doing it, keep on doing it. But I think this learning will give us a lot much, I would say the assurance that we should not do mistakes, which is very evident. That's about credit card and unsecured piece. As we always remain very strong in terms of our commenting that microfinance business is very important for our whole inclusive kind of framework and they give us a lot of SMFs in the Rs. 7,000 crores also, Rs. 4,000 crores is the SMF which helps us to build our 18% agri obligation, right? And, we have also seen that in the last two quarters, we



have gone to build now MFI through the other secured measures like there is an MFIN guidelines, there is a credit guarantee available on this book. We are actually now building up around 50% incremental under that umbrella. So, there's no challenge around risk weight on that book. So, I think it's a cyclic business, we understand. If you take my number, right, you would have expected that this book should have given us a 4% ROA this year. They might be giving us a 1% or 1.5% ROA this year instead of that. So, it's fine. They are not giving us a net loss in that basis on a yearly.... So, again, we have to learn about it. It's a big balance sheet. Every big Bank has to do their SMF obligation. We have a growth aspiration. We will need to learn it, master it, and then of course, build it for the future. So, the long-term strategy won't be so dramatically different. We always have said to you that it will be a cap on our unsecured exposure. When we acquired it, we said that it will be a cap of 10%, as of now is 7%. Overall, the cap of unsecured lending is 15%, is around ~11%. We want to stick to that. Of course, for some time, it may go below that the whole guided number, but I believe next year onwards you will be looking at this book in a way differently. That's my say.

**Madhuchanda Dey:** On your guidance of the ROA, when do you see that?

**Sanjay Agarwal:** ROA, of course, again, we have the aspiration because that is the gold class in my opinion in the banking system. But we are new in the banking system, we want to be in that bracket as soon as possible. But about that, we are again living in the very relative world. If India is (growing) around 6.4% this year, and with this kind of tight liquidity, this kind of inflation, there's no room we are expecting of rate cut. So, one of the things which need to come down to make us 2% ROA Bank has to be the cost of money, has to be lesser than maybe 50 bps from here what we are actually doing it. We know that asset, we can grow, we can manage our asset quality. I think 10% book should not give us so much of headache going forward. So, I think if you ask me, the moment we start seeing the interest rate cut and our cost of money getting to a right level, you will see us reaching 2% ROA.

**Madhuchanda Dey:** I have another question, if you may allow. This is not your Bank specific. I mean, I am picking your expertise on this. Like every other player in the industry, whoever was lending to MFI, they are fast withdrawing from that market, right? So, how do you see this crisis ending? And we are getting a kind of confusing guidance and someone is saying wait for one more quarter, someone is saying, wait for two more quarters, someone is saying three more quarters, what is the basis of saying that wait for two more quarters? What is that is likely to change in the ground for you to say that this is like the peak of the crisis?

**Sanjiv Agarwal:** I understand, you want my comment or you want Rajiv's comment?

**Madhuchanda Dey:** I want your house comment basically.

**Sanjay Agarwal:** Okay. So, let me try and then Rajeev you supplement if I miss something. So, for me this business has been only be a one year old, and I like this space to be very precise because it's allow a Bank to do their PSL obligation and this is the last mile customer on the ground and we



need to do that customer also to really fulfill the entire banking dharma, right? And what I've seen this year is this that it is more of an executive driven challenge than a customer driven or a market driven challenge. If you lend irrationally without understanding customers, then this will happen. This will happen even in secured assets. But secured assets you always back on the assets so that you can cover up for any kind of mis-lending in whatever. But this market does not allow you that. But I think lot much has gone in last two quarters, lot much discussion has happened. Irrational lending has been completely stopped. Customer know about it that if they don't repay it, they won't get the money. And this time, industry has come very seriously. That is why the 10% reduction is there in the overall asset base in this market. Government also do not want to disturb this market so much because this is where the entire space for inclusive banking is there. So, we need to be there because we are not heavily, heavily, heavily on the microfinance book for our asset building. If any institution which is heavily dependent on the microfinance lending as their asset, then they might be looking to withdraw or reduce their exposure. We are already at 7%, right? So, I mean, if you have one of the small component in the overall scheme of things the Bank or institution can manage. This is again one of the temporary challenge which will be need to be addressed once the overleverage customer goes away. Like for example in our case ~55% customer have the zero exposure. We were the only lender in that segment with that customer at the time of disbursement, in the new one. And then 27% customer, we are the second lenders. It is good to be in that bracket, right? So, I think industry will become mature, the customer will become mature and this book gives you 4% to 5% ROA once the things are good, right? And in a bad time, it gives you a 0% or a minus ROA, right? So, you have to be really balance your view that this book might give you sustainable basis 3% ROA, provide every year, above 3% ROA and build the cushion so that in case of the eventualities, you can use that buffer for your maintenance right. So, if you do all these things, a well-diversified book in terms of your overall, build buffers in the good times, be rational in terms of lending, build around the guardrails of MFIN, build the discipline around lending and the entire culture of the MFI business has to be there. I believe you can handle with maybe 5% to 8% kind of book in any balance sheet. You want to add, because Rajeev has handled it for last 12 years, it's good to hear his views.

**Rajeev Yadav:**

So, just to give a benefit of everyone, and you asked a very specific question on this two quarter versus three quarter, and why should we expect more optimism going forward. Fundamentally, this is coming from experience of having seen De-mon as a cycle, COVID two waves of cycle, fundamentally the product is a 2-year product. And once some problem comes into the product, be it an external event or be it an over leverage event like this, there is a certain segment of customers which are over leverage. And that's where the flow is coming from over the last six months or nine months now. And that's why we are seeing the credit cost that we are seeing in the P&L at this point of time. So, there are two or three things which happen naturally in the industry. One, in a matter of two or three quarters, the difficulty of the problem starts disappearing. Two, the industry comes together and builds something and this has happened earlier also and this is happening right now. And fundamentally, all the players in the industry stick to those guidelines and then try and correct the problem, whichever was causing the problem. So, in a larger context, we have seen it by past experience, the typical problem, the



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harder part of the problem last for six months on operating basis although the provisions will come in with a 4 to 6 month lag. And for AU we provide 50% at the time of the NPA creation and we pretty much provide 100% in the next three months, which is at 180 DPD. So, the typical credit cost comes in the lag of 4 to 6 months. And therefore what we are experiencing at this point of time, and what the industry is also experiencing is a better outcome on operating efficiency starting from December. Early green shoots, I would say, were in October, but we had more confidence that we derived from the December data. And by very logical nature of the product, the way we're building a new book, the way the industry is working together on this, I am reasonably confident January-February-March will be operating-wise better, but the benefit of the credit cost will obviously be lagged with about 4 to 6 months of what we do.

**Madhuchanda Dey:** So, is it realistic to assume that by the second quarter of FY26, we would again be somewhat in a much better frame as far as MFI is concerned?

**Rajeev Yadav:** Yes, I would say at an industry level and I'm very confident of ourselves that it will be a better frame. But you know, for going back to the precision of pre- this cycle, we'll have to see whether it takes a quarter more. But I think by Q2, we should largely be behind over-leveraged credit cost problem.

**Moderator:** Thank you. The next question comes from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

**Prakhar Agarwal:** Just 2-3 questions based on the outlook that you have given. First, in terms of growth outlook that you have essentially brought down to around 20% from 25% within a quarter. And this time around, we have mentioned that the secured it will be around 23% to 25%. And essentially, looking at the mix, unsecured is only 10%. So, have we lowered our growth in secured segments as well? Or how is the math working around from 25% to 20%, a growth guidance can cut in one quarter that we have done?

**Sanjay Agarwal:** So, Prakhar, again, because you know that by last quarter, we were all expecting that India to grow by 7.4. Now we are expecting India to grow by 6.3-6.4, right? The size we are operating, we don't want to take unnecessary risk, and you know our two books, which is Credit Card and MFI, everybody knows that we don't want to grow it. Again, with the mindset of growth, we want to really want to grow that book with a mindset of rationality. So, that two books are out of the action for this quarter. Other than that, secure retail asset is growing in the range of 20% to 24%. Commercial banking is growing in the range of 30%. So, that remain intact and all put together is around 20% because it's still 20% is 2x of the industry average. So, I'm very happy that, of course it is below what we have guided, but a lot much has changed in the last nine months in the entire ecosystem, so we have to respect that. And of course, if we even grow by 24% our deposit, because why we want to grow more than what the asset requires? And we want to keep our CD ratio around 85 or maybe in the range of 80, right? So, that is why we also want to really manage the cost of money by not growing that kind of deposit. So, again, it's a balance,

but very happy to lower our guidance so that in this tough time, we don't get much hiccups later on.

**Prakhar Agarwal:**

Just two more things on this, just a follow up on this as well. So, the other guidance that we have said is in funding cost, which we have said that it will lobby around 7.10 to 7.15. What has changed in the quarter in our favor to have seen this sort of benefits? Because the system seems to be struggling in managing that funding cost and we are essentially going out and saying that we have lowered our guidance for funding costs. What exactly has played out in our favor?

**Sanjay Agarwal:**

No, so if you see our cost of money for last quarter is around 7.05 and we were actually expecting that cost around 7.2-7.25 in the beginning of the year, but we really played our franchise there. And as I told you that entire stitching up, the product range, the distribution range, the focus on deposit franchise has been there so strong that in spite of this, going ourselves in 15% on a YTD basis, we have not gone above the mark. We have seen more tighter positioning in Quarter 4. That is why we have increased our bucket in Savings Account, and we also have inched up our FD rate by 10 bps. So, we are expecting that our cost of money should be in the range of 7.7-7.8 (Corrected: 7.07 - 7.08%), not really 7.11-7.12. But I think the focus has remained so strong, Prakhar, over the year on the deposit franchise that and we really want to build it more sharp, and more effectively. So, that in the longer run, the entire game changer would be our cost of money, that's my belief. And so we are really focused on our cost of money. Every paisa is being watched out. Every person is being watched out. Every product has been being watched out so that we remain effective there. So, that is why I think I would say that this year has given us a lot of confidence that we can grow our deposits and that to on our cost level.

**Prakhar Agarwal:**

And just one last question. We earlier gave a slide wherein we mentioned in the last quarter guidance for March 27. We seem to have not given this this time. Have those guidelines still remains, or we have chosen to withdraw that as we see? And lastly, on this deposit, we seem to have also not given deposit growth guidance for this time for FY25, which probably we gave last time. So, just last two bits on these two.

**Sanjay Agarwal:**

No, FY25 we are saying 23%- 24% deposit growth, 20% asset growth. We are very clear that where we are heading for March 25. We have already given you the guidance about growth, the expected Opex, the expected credit costs. So, I mean March 25 largely we have given you, but it's difficult to predict next year because again lot much variable and we have also taken the cognizance that we are not absolute, we are relative. So, on this size where we have the balance sheet would be 1.5-1.6 Lac Crore, whatever happens to the country will happen to us. So, let's see how the entire interest rate cycle moves from here, how the credit cycle of unsecured business behaves for the next two quarters at least. So, then only we can provide the longer guidance, but I can only assure you that the way we are building our Bank, in terms of the entire verticalization, be it branch banking, be it secured assets, be it commercial banking, our digital framework, AD-1 license, even the credit cards, even the MFI, we are top of everything, right? And we are watching every book, every step so closely that in the next two years, what we are



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saying that it takes 10 years to really build a Bank, you will see us a very formidable institution in place.

**Prince Tiwari:**

Prakhar, if I can just add to your point on the slide. So, see, March 27 strategy is something which is out there, which we had presented in 18th of March last year. And we continue to be guided by that. I think what we are given in September is the progress around that. And we'll keep updating you every half year on how we are progressing. But I think the biggest thing that Sanjayji articulated and which we probably would like to articulate on this call as well is, when we had put that guidance out, the overall outlook on the economy was very different compared to where we are. And given that there has been a complete slowdown or a very clear slowdown in the economy, you obviously have to adjust and focus on prioritizing asset quality over growth. So, I think that's what is playing out. But we'll again come back to you in March because that will be the next six months and we'll update you where we are.

**Moderator:**

Thank you. The next question comes from the line of Pranuj Shah from J.P. Morgan. Please go ahead.

**Pranuj Shah:**

Sir, two questions. One is, we have clearly seen MFI growth overall slowdown and for good reason. And general feedback from the industry players is that even in FY26, at least even if it recovers, growth at an industry level is likely to remain slow. So, if we overlay that on your in general, assuming a 25% overall growth in FY26, MFI continues to taper off. So, does that impact your PSL objectives for '25 and '26 also? And a subsequent question to that, will that impact the overall cost ratios also because some of the efficiencies like you said, you had with the Fincare merger in FY25, those are unlikely to be present in FY26 and plus you will also have branch expansion over there. So, just something from the Opex perspective, trying to tie up the 1% odd cost to income reduction that you're expecting for FY26?

**Sanjay Agarwal:**

Again, I think very detailed kind of expectation on this call from us, but let me figure out like, I would say the whole integration is in place and the Fincare was running their own head office based out of Bangalore, they had their own IT system, they had their own control functions, all has been integrated, largely in this year. Maybe by next half year we'll be doing entirely done. So, there would be a lot more saving on the scale basis because the business has come to us. We have fully integrated their branch banking branches to us. We have fully integrated now the entire Fincare unit of lending except microfinance. So, I think synergy has been now there. The size has been there, the markets are there. So, we are, if we would have done on a standalone basis, this expansion would have required a lot of CAPEX, a lot of time to do it, but we have ready hand with us now. So, once we integrate with the entire umbrella, one umbrella, then the things start coming day one, right? So, that's the way we want to see that picture. In terms of SMF, we have a microfinance book, we do have the Agri banking book, we do have the SMF lending, then we do have the FPO lending, all put together by the support of the government guarantees also. We don't expect that we should have the SMF deficit and we should not do that, but in case it is there, there can be a cost there. But it's difficult to predict as of now because it's a long way to go. You're talking about the next five quarters. We have to do that kind of decision

in next March. So, I think it's a long ball for us to play. So, that's why I'm saying you that there is nothing, so we don't do much kind of OPEX based on our expectation that we need to build this book, or we need to build this branch, all those things. Everything is now BAU. We want to really build more our digitally efficiency. We're really working on our digital labor, right? We want to introduce the digital labor internally so that you know we don't depend on a human effort, other than depend more digital effort, right? So, I think a small, small thing, but the hope is this that we might be, it should be lesser than the cost of income what we'll do this year, so that we remain on the path to become a 55% cost of income in next 2 to 3 years.

**Pranuj Shah:**

And a second question, Rajeev sir, just on the MFI book. You have mentioned non-overdue collection efficiency of 98.5% as of the 3rd Quarter. Would it be possible to disclose how much this was as of December end? This is a non-overdue part and even on the forward rate of the MFI book from SMA to NPA, are you seeing an improvement there also in December?

**Rajeev Yadav:**

The December number inched up to 98.7% (collection efficiency) and that was the second best number in the calendar year H2. So, it was, and we can see that it's a stable outcome and we should work forward on that number. On the SMA books also, because of our strong staffing now in the recovery vertical, which we have done over the last six months, we have increased our headcount from 600 that we had on the recovery vertical as of June, we have reached a number of about 1500 and higher trained and stabilized team. So, because of that, our efficiencies coming from the SMA book, coming from the NPA books has also started seeing improvements. So, fundamentally improvements on both sides and the December number was about 98.7%.

**Moderator:**

Thank you. The next question Ritika Dua from Bandhan. Please go ahead.

**Ritika Dua:**

Just one question. On your opening remarks, you made a reference on the gold business and how you go faster there because of a regulatory change? Could you just elaborate on that? That's the only question I have. Thank you.

**Deepak Jain:**

So, there were 2-3 items in the Gold loan circular came through RBI in the month of somewhere in October. One was your BC model have to be revamped as per the new RBI guidelines. Like they said the business has to be done only through branches. BC have to come your branch and customer have to come your branch and storing and everything valuation everything have to be done in branch. So, that model has been shifted from the BC model to own branch model. The customer is now coming to your branches. And the second part that came in the circular was that the renewal which was happening in the industry will now move to , customer will have to repay the whole loan and then only the new loan will be given to the customer. Renewal has been completely stopped in the industry. So, that came in the RBI circular three months back.

**Sanjay Agarwal:**

Ritika, of course Deepak has given you a little bit but my understanding is this that first the LTV of a gold has been now standardized, whether be it a Bank or be it NBFC you can't give above 75% throughout the loan tenure and if there is no renewal then loan generally has only one year or maybe 18 month period you know. NBFCs were operating on a different terrain, banks were



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different, but we do not have any risk to it as a Bank because we are doing funding against gold. And the practice of those guidelines has been now stringent by the action of the RBI. So, I think nobody will take the chance. We have two advantages of the Bank. One, we have the cost of money. Second, we have a storage facility. And customers generally have more belief in banks, where the Bank lack is the delivery time of a loan, right? Because where the NBFC has made their expert because they have a very separate gold shop and all those things. So, we are also thinking about it that how we can master ourselves now when there is a level playing field available now, right? And we have the advantage of cost, we have advantage of risk weight and we have the advantage of brand. I think now it's a level playing field and I think many banks would be doing this now in my opinion but being with Fincare, Fincare is doing this business for the last 4 to 5 year, so they're actually expertise in terms of delivery in maybe half an hour kind of things, so we want to really replicate that to many of our centers. So, we have a distribution, we have expertise, there is level playing field, we have certain advantage like I already commented about, no risk weights and of course the cost of money. So, that should allow us to build a decent franchise there. But we are working on it. A lot of things have to be done to really come out with the final print.

**Ritika Dua:** So, just one clarification on the same. So, when you say that for the industry and I'm assuming whatever the circular is, it's applicable now for banks and NBFCs combined?

**Sanjay Agarwal:** Yes.

**Ritika Dua:** And secondly, when the rollovers have to stop, I don't have an exact percentage. What was the percentage which was getting rollover, but I'm assuming it will be majority?

**Sanjay Agarwal:** 50% loan of Gold loan was getting rollover by the existing lender.

**Ritika Dua:** So, now, customer say today I have a repayment due today, so I will come and pay the bullet today. So, then is it like now there should be a cooling.

**Sanjay Agarwal:** If the customer has to pay or somebody has to take over.

**Ritika Dua:** But for the same lender to repay, to again give the loan to the borrower, I repay you today and then is there a cooling period and then I'm eligible to pay?

**Sanjay Agarwal:** I think that's too technical. But largely, once you're dealing on a scale, it doesn't happen like this that somebody who have bridged the repayment and again the company can come back because you know that nowadays how regulatory is. So, in a split also, you also have to comply.

**Moderator:** Thank you. The next question comes from the line of Shailesh Kanani from Centrum Broking. Please go ahead.



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**Shailesh Kanani:**

Sir, just wanted to understand our strategy for CGFMU cover, we are increasing the percentage over there, the cover. So, what is the strategy, how high we are going to go, because it will entail some cost as well, right? And have we factored in that?

**Yogesh Jain:**

We know that our microfinance loans are eligible for this guarantee cover. We were doing for some of our micro business loan, unsecured micro business loan, and we were getting that guarantee. And these guarantees are very seamless. We are getting money. So, this is that experience. Now from this financial year, we have covered our microfinance loan. So, first quarter it was lesser and now maybe going forward, maybe around 90% portfolio of microfinance will be covered in this guarantee program. Yes, cost is there, but if we see the overall benefit of coverage versus the cost, right, it is much, much beneficial. And then of course there is no provisioning requirement if we cover under guarantee program. So, and then we see the working of these guarantee organizations, so there is lot of awareness and they also want to help right to reach the real financing to these people.

**Sanjay Agarwal:**

To add on Yogesh, what my personal understanding is this that government really want to help lot much borrowers in this space, be it a microfinance, FPO, SMF lending, Mudra loans, all those things. And we as a Bank are there for a distribution, right? So, I think a lot much efficiency has been built in entire guaranteed scheme from the COVID time. And I think there is a realization in the government that by giving a guarantee does not mean that there will be too many defaults because as a private sector, we do a lot much due diligence before we lend the money. Right? So, it's a combination of the private and the public partnership in terms of creating that atmosphere where we landed carefully, in case customer goes bad, the government comes and help us. And I think there is a lot much efficiency has been built in that whole credit guarantee system where we don't have to fight with the government because there is ample fund available and there is an allocation through budget, right? And they also have a target so the real lending can happen right and recently we saw the budget giving you that, a subsidy on the affordable housing space and there are not many state schemes nowadays, right? So, we as a banker are beneficial in my opinion where we need to understand those schemes. Really try to implement in our two distribution system and see how customers get benefit and in case of any default we can actually rely on this guarantee so that we remain secure. So, we as a Bank have taken this as a very seriousness because this is the way India is. Something will be taken away from us and something will be given to us. So, we need to understand both things equally and then build on. So, we are serious, but it won't be a large book. As of now, also, it's around not more than 4% book is covered under this. So, we want to remain there but not that much also that entire thing has been based on the government guarantees.

**Shailesh Kanani:**

Just a follow up means as you have highlighted in the past and today as well that Fincare acquisition will kind of strengthen the SMF portfolio. And currently, I think we are going towards or at least we highlighted that we might even take 90% CGFMU cover for the MFI business. But as I understand, the CGFMU cover is specifically for non-agri businesses. So, can you clarify how this 2 aspects would align and contribute?





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- Sanjay Agarwal:** It's covered, SMF is also covered. We have taken the clarification. And just to elaborate more, if you take a guarantee, guarantee commission can be paid by customer to the agency. We can lower our rate because it's a coverage on our default and we can take our service charge and there is no risk rate. So, if you see the industry was suffering from the higher rate kind of narrative, then you are suffering from what type of risk rate would be there on the MFI book and then how much charges we charge from that book that all will address by one stroke of the guarantee offered by government. So, we can lower our rates, we can charge judicially and there won't be any risk rate because the government guarantee.
- Shailesh Kanani:** So, basically, nutshell, even the angri business is covered. That is what I wanted to understand.
- Sanjay Agarwal:** Yes.
- Moderator:** Thank you. The next question comes from Piran from CLSA. Please go ahead.
- Piran:** Just one question I had regarding this MFI industry rule from four lenders per borrower to three, which is coming from first April. Has the industry proactively started with three or are there first three?
- Sanjay Agarwal:** We have started. We can't comment on the industry. We have started.
- Piran:** When you say that December was better than October and November, this you are talking only about collection efficiency on standard loans.
- Prince Tiwari:** Yes, that's correct.
- Piran:** When you said that December was better than November, you were referring to the collection efficiency on non-overdue loans?
- Rajeev Yadav:** So, it was better on the SMA buckets collection efficiency also for MFI and also it is better on the disbursement. So, pretty much when you look at all the key variables, it was a better month and directionally it was indicating that we should have a better outcome in Quarter 4.
- Piran:** And this 98.7, what would it be in a normal scenario, let's say one year back or two years back?
- Rajeev Yadav:** So, FY24, we were about 99.4% on that metric.
- Piran:** So, you still have like 70 bps per month turning overdue more than usual.
- Rajeev Yadav:** Versus last year? Yes, that is the correct number.
- Moderator:** Thank you. We'll take the last question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.





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**Nitin Aggarwal:**

I have two questions. First is on the cost income outlook. If I look at very commendable cost control that has certainly helped like in delivering rightfully on the profitability front. So, while you have given a full year outlook and but how should one look at the forward years because earlier we were looking to do 60% cost income this year and now that has changed to 57-58. So, will this cost income improvement sustain and will we like improve further in the coming years or will we like stagnate here or go up from here? So, how should one look at it? That's the first question.

**Sanjay Agarwal:**

Nitin, that's our belief and that's the way we want to work upon that our cost to income should reach 55% as soon as possible, but I can't define as soon as possible right now because there are too many variables, right? But we are not doing anything in our expectations, so we have become more in terms of reality that let's manage today because there is always a charm in Bank to do new things. But we already have built so many product lines, so many verticals, and we need to get the scale in that level. We want to build more secured asset class, we want to build more commercial banking, we have AD-I, we have the wealth business, we have the insurance business, we have the credit card, we have the MFI. So, there's a lot much is there on the table for us and we just want to be more focused there. Our IT has done a lot of investments. People, we have already, have done well with them in the last seven years. So, now the idea is to be more effective, through the monitoring, supervising, asking questions, even introducing the digital efficiency through digital labor or AI and all those things. So, that has already begun. So, the idea is to really be lower than this current year but this current year we can be around 58% or maybe 59%, 1% here and there. But next year, our focus should be that we should be lower than this, but still we need to be crossing this Quarter 4 hurdle and then regroup ourselves and see our growth aspiration. And of course, in that relation, build your Opex, right? But there is a focus, you know, on that particular piece and you have seen our effort in last now nine months and that will continue.

**Nitin Aggarwal:**

And second question is like we have been moving pretty close to our earlier ROA guidance. However, if you look at our own book PCR ratio has moderated over the year to now 61%. So, what are your thoughts on managing this trade-off between the ROA and the PCR and any particular level that you will wish to maintain for the Bank?

**Sanjay Agarwal:**

So, Nitin, our PCR is coming down because there is a new fresh off loans which is becoming an NPA. We are not carrying the legacy. If you write back the technical write off in our PCR calculation, we are north of 80%. But we have very prudent write off policy also that so that we don't hang on the bad assets on the balance sheet. So, if you ask me and if you carefully see the internal calculation which is not available to you, our secured asset is around 60%, our unsecured asset is around 80%, even our MFI business is around 67%-68%. So, in my opinion it is well covered and as we move more deeper and deeper, we will guide the market, but endurance is to keep around 70% to be honest. But let's see how we want to reach to that level because there are challenging times as of now. There are not many write-offs, and we just want to clean up our balance sheet every time. So, it's not worrisome for us. It's a tactical number, which can be addressed as we move forward.



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**Moderator:** Thank you. Ladies and gentlemen, I would now like to hand the conference over to the management for closing comments.

**Prince Tiwari:** Thank you, Sagar, and thank you everyone for joining this call on today's Friday evening. And thanks for all your questions and your support. In case you have any further questions, you can reach out to the IR team at any point. Thank you and look forward to seeing you again next quarter.

**Sanjay Agarwal:** Thank you so much and we didn't wish you, but very Happy New Year.

**Prince Tiwari:** Thank you.

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