February 03, 2025

BSE Limited
P.J. Towers,
Dalal Street,
Mumbai- 400 001

Scrip Code: 543386

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra - Kurla Complex, Bandra (E),
Mumbai - 400 051

Symbol: FINOPB

Dear Sir/Madam,

Sub: Transcript of the earnings call with the investors and analysts held on January 30, 2025 - Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: Earnings call with Investors and Analysts on January 30, 2025

In continuation to our letter dated January 21, 2025 and January 30, 2025, please find enclosed herewith the transcript of the earnings call with the investors and analysts held on January 30, 2025.

This disclosure is also available on the Bank's website i.e. www.finobank.com

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Fino Payments Bank Limited

BASAVRAJ SHIVANAND LONI

Digitally signed by BASAVRAJ SHIVANAND LONI
Date: 2025.02.03 14:49:00 +05'30'

Basavraj Loni
Company Secretary & Compliance Officer

Place: Navi Mumbai

Encl: As above

"Fino Payments Bank Limited

Q3 FY '25 Earnings Conference Call"

January 30, 2025

MANAGEMENT:	**MR. RISHI GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FINO PAYMENTS BANK LIMITED** **MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER – FINO PAYMENTS BANK LIMITED** **MR. ANUP AGARWAL – HEAD, INVESTOR RELATIONS – FINO PAYMENTS BANK LIMITED**
MODERATOR:	**MR. RAJAT GUPTA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to the Fino Payments Bank Limited Q3 FY '25 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participants will be on listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajat Gupta from Go India Advisors. Thank you, and over to you, sir.

Rajat Gupta: Yes. Thank you, Zico. Good afternoon, everyone, and welcome to Fino Payments Bank Earnings Call to discuss the Q3 FY '25 results. We have on the call with us today, Mr. Rishi Gupta, Managing Director and Chief Executive Officer; Mr. Ketan Merchant, Chief Financial Officer; and Mr. Anup Agarwal, Head, Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. I now request Mr. Rishi Gupta to take us through the company's business outlook and financial highlights, subsequent to which, we'll open the floor for Q&A. Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. Good evening, everyone, and thank you for joining us today for the quarter 3 FY '25 Earnings Call. It's a pleasure to connect with all of you as we reflect on yet another quarter of remarkable growth and profitability at Fino Payments Bank. I'm also delighted to share that this is -- this has also been the best -- bank's best 9-month performance. Our focus on expanding digital services, strengthening customer engagement and enhancing operational efficiency has delivered exceptional results.

In quarter 3 FY '25, our revenues surged by 25%, in line with our guidance, reaching INR461 crores, in line with our revised guidelines as well. We also posted a robust 25% year-on-year growth in profit before tax, driven by efficient operations and strong growth in our digital services. Our transaction value continued its upward trajectory with an impressive 26% year-on-year growth, largely driven by the increasing reliance on the UPI for daily transactions.

The share of digital throughput now makes us 50% of the overall throughput, which is a clear indication of our success in driving a digital shift of our target segment customers. This performance reflects not just strong financials, but also our long-term commitment to enhancing digital capabilities. Over the past few years, we have seen a remarkable acceleration in India's digital payment ecosystem.

As a key player in this transformation, we are focused on harnessing emerging technologies and investing in digital infrastructure that significantly strengthened our ability to serve the evolving needs of both customers and clients across the D2C and B2B segments. This transformation is reflected in our growing digital user base, now consisting of nearly 5 million customers enjoying seamless user-friendly experiences, thereby leveraging our technology usage.

Investments made in the last 2, 3 years have started reaping rich dividends. We will continue to build new digital products, thus leveraging our technology infrastructure in the years to come. As we continue to build a robust UPI stack, we are positioning ourselves to offer more tailored products and services to the B2B segment. This will enable us to onboard additional partners and scale our offerings, reinforcing our presence in the digital ecosystem.

Furthermore, Fino's contribution to the UPI market has grown from 1.22% in December '23 to 1.61% by December '24, which highlights both the accelerating expansion of the UPI ecosystem and the successful implementation of our strategic initiatives. Digital Payment Services now contributes almost quarter of the revenue pie, and will continue to remain key growth driver -- lever.

While competition remains a factor, our ongoing investments in UPI and its features are solidifying our position in the market and in the process, enabling expansion of our digital footprint. Simultaneously, we continue to focus on leveraging our physical network. Intent is to enhance transaction values through enhancing the product suite for the network.

Our efforts to bridge this gap are yielding strong results, reinforcing our commitment towards enabling financial inclusion. During the quarter, our business growth trajectory remained robust underpinned by exceptional performance across all core verticals, customer ownership and digital payments.

The continued strength of our CASA business serves a fundamental pillar of our strategy, not just driving annuity income, but also advancing our shift towards a customer ownership led model that prioritizes long-term sustainable relationships. We successfully added over 8.3 lakh new CASA accounts during this quarter, bringing our total base to more than 1.34 crore customers. The resilience and growth in our CASA book underscore the increasing trust of our customers place in us, with 70% of this accounts active -- remaining active.

This high level of engagement highlights the deepening relationship we are fostering with our customer base as they continue to rely on us for the daily banking needs. Another parameter for CASA, our average deposits, a critical driver of our future strategy, saw a remarkable 39% year-on-year growth, reaching to INR1,890 crores. The growth in CASA accounts and deposits is particularly encouraging as it signals not just an increase in transactions, but a broader shift in the consumer behavior towards long-term engagement with the digital-first banking solutions.

We continue to invest in building new CASA products. We recently launched Gullak saving bank focused product. This is in line with our stated objective of gradually acquiring customers with high profile. Gullak is our first liability product variant, catered with minimum balance of INR1,000. This is to facilitate 2-way growth of annuity income through subscription product and additional impetus on liabilities through Gullak. Such other variants we will explore in times to come.

Our CMS business continues to demonstrate strong growth, wherein we have achieved 97.5% of the throughput of FY '24 in 9 months this year. This growth is driven by diversified client base across sectors with nearly 231 plus clients on the CMS platform. Together, CMS and CASA, our 2 high-margin products, contribute to 33% to the total revenue, highlighting their critical role in our financial performance, even as our digital business and customer base continues to expand.

Our transaction business, primarily the remittance business of open banking channel, has degrown in line with the overall ecosystem due to introduction of the incremental regulations effective November 1, 2024. I'm sure some of you would have read the news articles also in the last couple of weeks. Although there is an impact on revenue, there is negligible impact on profitability. This has also not impacted the conversion from off-us to on-us as part of our customer ownership strategy.

During this fiscal and specifically in the last quarter, we have made some humble beginning on loan products on a referral basis. Loan products through partnerships with leading NBFCs. We are seeing a good traction, and this will enable us to understand the lending ecosystem of our customers and merchants. I've been talking about our technology road map in the last 4 to 6 calls.

Our strategy around Hollow-The-Core initiatives continues to be the cornerstone of our transformation. We are on track to migrate to a new core banking platform that will enhance agility, efficiency and security. This strategic investment is not only about meeting current demand, but also creating a future-ready bank, supporting higher transaction volumes, innovative product launches and staying agile in an evolving regulatory and technological landscape.

We will continue to invest in technology to provide a simplified solution to our customers and partners. On SFB front, this is another future area which we are looking at. On the SFB front, engagement with RBI has increased in the last couple of months. And as you are aware, RBI announced formation of an external committee to review the applications on 20th Jan '25.

We have started building up the groundwork in terms of people, technology and distribution and plan is to go live within 1 year from the in-principle approval. Current phase is getting the bank prepared for robust processes required for enhanced license as and when it comes. As we approach the close of FY '25, I'm pleased to report that we are on track to meet and potentially exceed our financial and operational goals.

Our focus on customer ownership products and digital services, combined with disciplined cost management, technology-driven initiatives, innovations have not only strengthened our revenue base, but also enhanced profitability and gives us also a long-term steady outlook in the future. Looking ahead, we remain committed to expand our digital capabilities, form strategic partnerships and continuous innovation to meet the ever-challenging needs of our customers and partner in this dynamic digital space.

With that, I now hand over to our CFO, Mr. Ketan Merchant, who will provide a detailed overview of our financial performance for quarter 3 FY '25. Over to you, Ketan.

Ketan Merchant: Thank you, Rishi. Very good evening, ladies and gentlemen. At Fino, we take immense pride in what we have accomplished in a differentiated model. We successfully transitioned from being a transaction-focused entity to a customer ownership, thereby strengthening our business model. Our performance this quarter marked by the achievement of our highest ever quarterly revenue and profit stands a testament to the strength, scalability and consistency of our model.

Our revenue increased 25% to INR461 crores and EBITDA increased 19% to INR60 crores on a Y-o-Y basis. This achievement was primarily driven by sustained growth momentum in our customer ownership and digital services. Furthermore, our profit before tax for the quarter grew by 25% year-on-year amounting to INR28.5 crores.

Notably, we have been a tax-paying entity since quarter 2 '25 and despite this, we've delivered a higher profit after tax on a Y-o-Y basis, reaching INR23 crores. During the 9-month period, our revenue grew by 26% Y-o-Y to INR1,354 crores and surpassed the revised guidance of 25% that we had said at the beginning of the year. EBITDA for 9 months grew 24% to INR170.5 crores and PBT grew by 29% to INR78.6 crores.

Now before we go into the details of financial performance, let me attempt to put a strategic overview of our 9-month growth drivers vis-a-vis the full year FY '24 numbers. Our transaction count for 9 months is 237.5 crores, an increase of 13% over FY '24 full year count. CASA revenue at around INR312 crores and within that, the annuity renewal revenue at around -- at INR134 crores for 9 month FY '25 is higher than the full year FY '24 revenue.

Digital throughput, INR1.5 lakh crores for 9 months in FY '25, stands 15% higher than the full year FY '24 numbers. CMS revenue for 9-month period is around 98% of the full year '24 numbers. I'm pleased to report that our strategic investment in technology are driving tangible benefits, enhancing operational efficiencies and delivering great value. This is evident in reduction of our cost income ratio to 25.9% in quarter 3 '25 as compared to 27% in the same period last year.

These improvements reflect our focus on leveraging technology to optimize process and scale efficiently, even as transacting volumes and customer engagement continue to rise. One aspect, which is increasing is the compliance cost and our long-term endeavour is to carve out efficiency, which can compensate the increasing compliance costs.

Turning to our operational performance for the quarter. We processed 89 crore transactions in quarter 3 '25, that is approximately 1 crore transaction per day of 56% Y-o-Y growth. This resulted in throughput of INR130,000 crore with digital transactions contributing to 50% of the total, a trend we expect to rise further as we scale our digital service business.

Our operational momentum has been bolstered by innovative product development, such as expansion of our digital stack and successful implementation of our advanced UPI switch. This is a point which we've been communicating over the last 1 year, and the results are coming through.

Now with 97% of pincodes covered -- coverage across India, we continue to lead in the financial inclusion and the digital enablement. Our merchant base has grown to 18.7 lakh, reflecting an 11% increase this quarter. And as Rishi alluded to, from here on, the focus is to enhance activities of merchant and enhanced activity ratio of our own merchants point.

Coming to our product level business performance, we've been making significant investments to strengthen our digital business, as we explained earlier, and the results are evident. Our digital payment business now -- is now on planned accelerated growth trajectory with revenue growing nearly 4x from INR28.8 crores in quarter 3 to INR109.7 crores in the current quarter. INR28.8 crores was in quarter 3 FY '24 and INR109.7 crores is the current quarter 3 FY '25.

Key drivers of this success are leveraging our proprietary UPI switch, which has enhanced efficiency and scalability of our payment solutions and strategic partnerships, which we've established to expand our reach and deliver seamless payment experiences. These advancements have positioned us as an equal competitor in the digital payment space.

Our CASA base has experienced a consistent growth of 50% on a Y-o-Y basis and we anticipate this trend to continue with CASA being the growth drivers for our enhanced focus towards ownership. CASA income touched INR112 crores in quarter 3 '25, a 51% increase compared to previous year.

And the number of CASA accounts grew to 1.34 crores with over 9,000 accounts being opened on an average each day. We're also seeing a strong customer loyalty with renewal income rising by 52% on a year-on-year basis to INR47.8 crores. Additionally, around 65% of our new customers are becoming digitally active and adopting UPI for their daily transactions.

This growth reflects the success of our shift to a customer ownership-driven model, which is supported by a growing base of digitally active customers. Earlier, I had given some flavor of our 9 months performance surpassing the full year FY '24 numbers. In this context, it is to be noted that our renewal annuity income for quarter 4 over the past 2 years, or typically over last 2 years has increased by -- in excess of 25% over quarter 3.

While there are set of customers who are yet to use Fino as primary bank account, we are optimistic that introduction of small finance bank model will allow us a broader range of products such as recurring and fixed deposits with attractive interest rates. In our other high-margin products, CMS revenue recorded 11% Y-o-Y increase, reaching INR40.7 crores, while throughput grew by 23% on a year-on-year basis to INR21,927 crores.

We have -- as we had mentioned earlier, the take rate for CMS is becoming increasingly competitive and may remain such. So margins are likely to be range bound. The major contributors to this growth remains NBFC and MFI sector, which together account for around 57% of the total CMS throughput in FY -- in quarter 3 FY '25.

AePS throughput saw 19% year-on-year growth, reaching to INR8,142 crores in quarter 3 and contributed a 34% rise in revenue, now standing at INR31.6 crores. Despite ecosystem challenges and ongoing transition to digital transactions, we remain reasonably confident in the market potential of AePS business, given the focus of Government of India for the usage of AePS for withdrawal purpose.

Our API remittance business for the quarter or the open banking remittance business for the quarter was impacted by new guidelines, as Rishi alluded to. This resulted in an impact of around 5% in the revenue. Despite this, we are on track to achieve our guidance of 25% for FY '25. If in financial terms, I need to classify the growth drivers.

I would state that CASA, which is 24% of revenue pie is well poised for growth. Digital at 24% also carries the momentum of growth. Treasury and CMS together constitute around 20% and are strategically placed as well. Business model is evolving in a manner wherein due to ownership and digital focus, around 2/3 of our revenue pie constitutes of products with decent momentum, and these are products with better margin.

Coming on the cost and the investment side, in FY '24, we had invested around INR80-odd crores in technology. In FY '25 till date, we have invested around INR120 crores in -- which is 50% more than FY '24. And we are on the course to invest as and when it is required. Our strategic focus is on strengthening the digital ecosystem, IT infrastructure, core banking systems, cybersecurity, RPA and product innovation to improve operational efficiency and business performance. Our business model has factored this investment for growth.

With this, I would like to open the floor for questions. Rajat, over to you.

Moderator: The first question comes from the line of Amit Mehendale with RoboCapital.

Amit Mehendale: So in your opening remarks, I think you mentioned that you've invested about INR120 crores so far in FY '25 and about INR80 crores in the previous year. Can you share some details on where these investments have gone in and what type of accounting treatment are we doing there?

Ketan Merchant: Amit, Ketan here. This is something which we've been saying it off. In fact, the whole intent of getting the primary capital was also to enhance our technology and digital plus stack. I think we have been investing, and this is the technology number which I've essentially said. We are not losing our asset-light model, so it's not that we will invest into infrastructure or heavy infrastructure other than technology.

So all these amounts, which are quoted, are in the technology space. Within the technology space, I think Rishi alluded to a point of Hollow-The-Core and CBS migration, which we are doing. In addition to that, over a period of time, whether we mentioned about UPI switch or all the other initiatives, which we've done over the last couple of years for bringing the technology this thing.

So these are all capex expenses, which I was referring to. And these would be treated as depreciation depending upon the kind of speed, which is typically a hardware will get depreciated over a 5-year period and a software will get depreciated over a 3-year period.

Amit Mehendale: My second question is on digital payments business. So how do you see the growth trajectory -- revenue growth trajectory over, say, 2-, 3-year period? What type of CAGR can we expect?

Ketan Merchant: Amit, again, the digital momentum is essentially good. I am not making a future guidance out here. But I can just say, if you went back to my earlier or my concluding statement that it continues to be the growth driver. If we actually see it of now, it has become 24% of our revenue pie. The point is that the digitalization of India is increasing it off. A lot of transactions, which were earlier done is being put across.

As regards to a specific number, currently, we have not set our mind for the guidance. But if you want a directional aspect from our side, we are well poised to grow in the current momentum. At some stage, in Q1, we may think of coming out with a structured guidance as well.

Amit Mehendale: Sir, but do you think 20% -- upwards of 20% is a reasonable thing to expect?

Ketan Merchant: Amit, you are adamant to get the number out from me, but if you look at it -- currently, we've grown by multiple times, albeit on a very lower base, but, yes, this is a growth driver. And if this year, we had given a guidance of 25% and the way this has grown, so definitely, yes, we are 20%, more than that -- a lot more than that.

Moderator: The next question comes from the line of Naman Jain with Ventura Securities.

Naman Jain: Congratulations to the management of Fino for such amazing numbers. My first question pertains to your merchant network. So compared to previous few quarters, it can be seen that the addition in the merchant network have slowed down. So could you please elaborate on what happened?

Rishi Gupta: You are right in terms of -- see, what is happening is that, the ecosystem is also evolving. As you can see, 50% of our revenue is now coming from digital services. On the ground also, we are seeing that a lot of people have opened our accounts, a lot of people are moving from cash to digital. So that is where we see that the addition to the merchant network has also affected because the opportunity also on the field is kind of not growing to the level which it was growing a couple of years back.

So having said that, our business, as we move into digital, will not get impacted. But just the opportunities to do more products. If you look at our transaction business, it was around 40%-plus 1 year back. Now it is in the region of 25%, so this definitely affects the revenue and income for the merchant. So that is where the interest has also come down.

Secondly, also, that the growth of merchant ecosystem has become quite spread out already in the country. So to go into newer geographies and to go into the same geographies with more merchants also may result in some revenue loss or income loss or some other existing merchants. So we are also getting a little bit more careful in terms of adding only that many merchants in a particular geography so that we don't cannibalize their income in a way. I hope it answers your question.

Naman Jain: Secondly, although your digital segment has been performing very well. In this quarter, we could hear a sudden spike in the throughput, right? So from INR47,400 crores to INR59,000 crores, that is essentially around INR12,000 crores being added. So is there something specific that happened?

Rishi Gupta: So a couple of things. One is that, this being a festival quarter, so some of the growth numbers, which you are seeing, got also preponed in a way. So the growth because of the quarter, it has come up. Secondly, some of the merchants and partners, which we added in the month of September, their volumes have started to come in this quarter. So I think those couple of things are there.

The only thing in digital business is that you have to follow a risk-calibrated approach. And you can keep on growing, but you have to control your risk in a manner because as you can see all across the fraud and the cyber issues are paramount when it comes to digital. So as a bank, we are also following the same prudent policy of risk-calibrated approach when it comes to digital business as such.

So that's why, but this quarter was specifically because of higher number of merchants and partners which got added in the last quarter, which numbers started to grow and the festival season, plus this is also a B2B business, so more partners and merchants result in higher volumes as well.

Naman Jain: And my last question is regarding your SFB license. So any update you can share on that?

Rishi Gupta: I think I already shared in my opening remarks in terms of two updates. One is on the fact that RBI is engaging with us with their set of questions. And secondly, they have announced formation of external committee for approval. So those are the two updates.

Moderator: The next question is from the line of Shreya Shivani with CLSA.

Shreya Shivani: One data keeping question. If you can just share your CASA revenue breakup from new subscriptions? So last quarter, this number was INR27 crores. What would that be this quarter? First is that. Second, on the new merchants, the merchant count, I quite didn't understand that. For example, last year, between first quarter to third quarter, you had added like 2.5 lakh merchants, right?

This time, the merchant addition seems to have slowed down or plateaued. This is over the 9-month period. It's not plateaued, but it's lower than what the trend has been in the past. So is there some change in strategy over there? How much of the 18 lakh merchants are own merchants currently?

Ketan Merchant: Shreya, let me just take the first point. If I understood your question right is, you were looking at the subscription revenue for this particular quarter. It is around INR26 crores for this quarter. It's a subscription revenue for new accounts opening for this particular quarter. Second question, if I do understand right and what Rishi alluded to is in terms of the merchant network, I think Rishi mentioned that, so I'm not repeating it off.

We are going in a manner where we can -- and this is also covered in mine and Rishi's comments as well that we're going in a manner that with 97% coverage, we still have new merchant additions coming, but our focus increasingly would also be going towards the activity ratio of the merchant. How do we enhance?

How do we increase our product? If a merchant is doing 2 products, maybe we get them on 3 or 4 products, so that's something which is going to be our focus and increase the activity ratio.Your third question, if I do recollect is the gap between -- or the breakup between own and the API merchants, right? Our own merchants is in the range of 8 lakhs and the remaining 10 lakhs is the API merchant.

Shreya Shivani: Got it. So on the merchant count -- and this strategy will continue for some time, is it? I mean is there a merchant upper cap or something like that you're looking at, that we've changed our focus that we'd rather increase the productivity of each merchant? Or it's just a trend for now before we start launching our credit products, I would assume you would want your merchant count to increase further, right?

Ketan Merchant: Yes, I think it is not a cast in stone that this is the only merchant which we want to reach through. However, yes, we are enhancing the quality of the merchant and what more we can give it to them and what more they can give it to us as well. In terms of -- as you rightly said that with enhanced product or at a relevant stage when the enhanced license also evolves.

We can actually categorize or monetize the activities of the merchant as opposed to only the numbers. So the answer lies is that we continue to grow. But yes, the focus will be on to enhance the activity ratios.

Shreya Shivani: Correct. And just last follow-up. On your credit products, you did mention in your opening remarks that you started with -- I know that you are waiting for our SFB license, but you are not allowed to do anything right now, right? So you've only started building the team or you've started some pilot programs also?

Rishi Gupta: So a couple of things. One is that, we are allowed to do referral lending business, but we can't give referral DG. So we have started a couple of products with a couple of NBFCs on lending purely for referral business. Secondly, also, we have started to -- from an SFB preparation point of view, we started to talk to people, understand the ecosystem better and also look at various technology options, availabilities, so to say.

So very initial work has started, that too also we started once we started to get queries from RBI and also we heard about the committee, which has been formed. But more importantly, from a product understanding and a customer understanding point of view, some referral products we have started around 3, 4 product categories.

Shreya Shivani: Right. And these are -- you are basically lending to -- the borrower here -- the customer here is your merchant, right?

Rishi Gupta: Both customers as well as -- our merchant as well as our customers, both of them are there.

Moderator: The next question comes from the line of Akshay from Investec Capital.

Akshay: Sir, just 1 question. You have already guided for 20% -- 25% revenue growth. So what measure will you take to ensure that this growth is sustainable in the future, potential market and changing consumer behaviour, particularly like shifting from cash to digital transaction? And second one is related to your cost-to-income ratio.

How do you foresee, like what your guidance for the next year or next couple of quarters? What would be your cost-to-income guidance for the coming quarters or the next years?

Ketan Merchant: Just slight correction. Whilst we said that the business momentum is good, we've given a formal guidance for FY '25. As we speak, we've not given a guidance in terms of FY '26, FY '27 as things stand now. However, both, I and Rishi covered the kind of growth momentum and we actually categorize. If you go back to what I just said, that maybe around 2/3 of our products or 2/3 of our revenue pie, which constitutes products, which are reasonably on growth stage, so the growth momentum is essentially there.

Your second question in terms of the cost, you saw what I just said that from a 27%, we've gone to 25.9%. Now a couple of points which we have to note out here is, and this goes back to the first question, which perhaps Amit had asked is that, yes, we are investing into our technology and that investment is happening. That line also keeps on -- I mean the cost keeps on coming into depreciation as and when it's capitalized.

So we've build that scale. So there is an operation leverage or the scales of economy -- economies of scale, which is expected to come through. We will keep it as tight. Rishi also mentioned it, that is one virtue and we continue to be an asset lead model, and only investment which we essentially do and do it as heavy is technology and digital.

Again, we've not kept a target that what do we go through, but it will be a very, very tight cost monitoring, which we essentially follow it off. I don't know if you had any other point to ask?

Moderator: The next question comes from the line of Kunaal from Emkay Global.

Kunaal: Sir, in your opening remarks, you had mentioned that you continue to build new digital products and more tailored UPI stack. So I would want to understand like what are the -- can you please elaborate more on like what kind of digital services or partnerships or offerings you will be offering in this front?

Rishi Gupta: So let me just cover both on the B2C and the B2B side. On the B2C side, which is our own customer using UPI, so we have now added all kinds of UPI products. Recently, we mentioned about the UPI Circle as well as UPI Autopay, so we are ready -- and UPI Credit also. So we have all the relevant UPI applications right now on our UPI stack on the B2C side. On the B2B side, we recently -- not recently, about a year or so back.

And that's where you see volume growth, we started the UPI Collect services, which is the UPI payment aggregators account services, in which we do the UPI pay-in. Over and above that, we plan to start other services, which may not be in the UPI, but include IMPS and NEFT also as a payout services. We have also recently started to do PPI, which is prepayment -- prepaid instruments also with a couple of partners.

We should see the scale-up happening, both on payout as well as on PPI in the first to second quarter of the next financial year or in the coming financial year. We also plan to go into B2B POS business. So these are a couple of digital payment businesses, which we are planning to roll out. As you know, UPI MDR is currently zero. So that is where there are no real revenues which we get on B2C side on the UPI. But it kind of strengthens my customer in a way.

So indirectly, I get a higher renewal, higher liability and a more active customers on the CASA side. So that's the benefit on the B2C side. On the B2B side, we have multiple arrangements and partners right now. We have 25 partners who are live on our pay-in services.

Kunaal: That was helpful. My next question is, sir, despite healthy deposit growth and healthy internal accruals, I could see that our borrowings has been increasing for the past few quarters, sir. So what's the strategy behind that? Like is that to invest in technology? Or is there any other rationale behind it?

Ketan Merchant: So there is -- we do not fund technology or for that matter any other asset from the borrowed money, okay? We are a scheduled commercial bank, and we can participate into the borrowing and the lending program, which is run by the Reserve Bank of India through repos and reverse repos.

So most of these borrowings are constituting of the call money lines which we can take and there will be relevant investment increase also, which we have seen throughout. So these are not borrowings for funding any assets. We are adequately and more capitalized for that and have, as you rightly said, good internal accruals. This is purely a treasury play, which we do that.

Kunaal: Okay. Just 1 last question. It was regarding AePS -- sorry, the remittance product. I think that take rate has increased in this quarter as well. So what was the main reason behind the same?

Ketan Merchant: The remittance take rate is largely determined by the market forces as well. So yes, there was an element of an increase which happened, maybe not in this quarter, but slightly earlier as well. What we -- in remittance, what we were referring to, and as I said it earlier, is that there has been some change in the regulation wherein KYC is required to be enhanced for the person who is not even having the account with -- for the purpose of remittances.

So I think that is the big change which has essentially happened. As regards to the take rate, yes, it has changed from the end of Q2, if I'm not mistaken, and the impact is being seen now.

Kunaal: So will this take rate continue in the future as well?

Ketan Merchant: This is -- okay, it's a difficult question. It's a market-driven take rate, but we see it will remain range-bound.

Moderator: The next question comes from the line of Dhruv Shah from Fincap.

Dhruv Shah: Sir, my first question pertains to your digital side. We have seen a reduction in the live partners. Last quarter, it was 25, this quarter it's 23. Can you just elaborate on why has there been a reduction in the live partners?

Ketan Merchant: So sometimes what essentially happens is there is -- as Rishi said, currently, we are on one particular aspect in terms of pay-in. That is a product which we go live with, or this is the product which we are providing the B2B services. And just to give a perspective of the entire digital stack that all the partners have more than 1 bank essentially, which they are tied up with.

We also -- Rishi mentioned it, that we also have a risk-calibrated approach in that sense. So based on all of these factors, there might be an up and down, which would be happening in terms of the usage of the partners.

Dhruv Shah: Fair enough, Ketan. Ketan, can we expect some UPI incentive considering this time we have done...

Ketan Merchant: UPI incentive. So again, these are something, whether it's UPI charges or any specific incentive, that is something which is decided -- at least incentive part is decided by the government and they just communicate it off. There has been some history that some meaty incentives should come through off. If you meant that they will allow the banks to charge on UPI, well, that is something which the ministry will be working on it as and when they do.

Rishi Gupta: We are waiting for that day.

Ketan Merchant: Yes, that will be a big impetus, given our 50% of throughput is from digital.

Dhruv Shah: Right. Ketan, you rightly alluded that you don't want to give guidance on the revenue part. But can you just give us a broad sense, what kind of margins can we now expect considering digital is now 24%, I'm talking ex of SFB?

Ketan Merchant: Not that I don't want to give the guidance. What I just said is essentially, we've given a formal structure guidance in the past, and we stuck to that. On your regards, to the direction of the gross margin, I think currently, it has increased by around 70 basis points. That is a function of two aspects. The remittance, which is a low margin has, because of the regulation, gone down. Again, do we expect margin substantially changing from here on in either direction?

The answer is no. Over a long run period, as and when digital is enhancing it off, the contribution which digital essentially makes to the -- are not in terms of the gross margin, but the PBT contribution, which is currently at 6.2%. Generally, there will be an upward impetus as and when we grow the digital because digital point essentially contributes slightly more. One point, Dhruv, you need to be cognizant of is we'll continue to invest as well so that we are future ready.

Dhruv Shah: Fair enough. And Rishi, just the last question. When do you see core banking platform going live because the question is also that our default rate on UPI is high because we have not moved to the core banking system. Once we move that default rate also goes down, right?

Rishi Gupta: So two different things. Default rate has not to do with the core banking platform. That's a switch. And our default rates are not high. It's in line with the industry and better also. And declines also has to be seen, between business decline and technical decline. Sometimes declines are more on the business side, which means that the person doesn't have the money, and he has a chance to transfer in anticipation, the credit would have come.

So technical declines are definitely much lower than the industry. The second part on the core banking platform, we are at a stage where we have started our testing on some of the applications, which have got built up on the core banking and also Hollow-the-Core. We expect in the next 3 to 4 months, we should be going live on this product.

Moderator: The next question comes from the line of Ravi Mehta from Deep Financials.

Ravi Mehta: Just one thing. I heard you right that you're trying to increase the activity ratio of merchants. I just wanted to understand out of the 8 lakh own merchants that you have, how many of them are active and how many of them you can activate? Is it like more activity per active merchant or there is a pool of dormant merchants and you want to activate? Just wanted to get a sense that with the same set of 8 lakh merchants, how can the growth keep continuing?

Ketan Merchant: So there are two things. Firstly, it is not the same set of 8 lakh merchants. So it's not that we will not expand our merchant base. We will definitely attempt to expand our merchant base as well. What Rishi and I were alluding towards is that the focus which is going is -- if a merchant is doing an X product, maybe we will make him slightly more active on a couple of other products as well. So that's what the philosophy which we are following across.

The entire BC business essentially works is when you have a merchant and which is not active, it would not contribute to himself, will not contribute to us as well. So that is the focus which we want to go through. And there is an unnecessary element of risk and compliance, which we have to follow for that particular merchant.

And now coming to your last point of our own 8 lakh merchant, how much are active? Let me just check with Anup and come back. Okay. He confirms what I was thinking across is, around 40% of the merchants are active. Do we have a target to make that 40% to a different thing? The answer is essentially no.

But do we intend to go in a manner that if a same merchant is doing only 1 product or 2 products, get them on to 3 products and thereby overall increase his skin in the game for the evolution of the business model, which we are looking at.

Ravi Mehta: So out of this 40% active merchant, how many of them would be doing CASA?

Ketan Merchant: Typically -- and again, I will not say how many of the people are -- how many of the merchants essentially can do CASA or registered for CASA. If I just jog my memory right, currently around 40,000 merchants are the ones, which are doing CASA.

Ravi Mehta: Okay. And that number can grow?

Ketan Merchant: Yes, that number -- it is our endeavour to grow that number as well that as and when it comes through. But the point to remember is that we are very selective in giving our CASA opening to the merchant. As we all know, with being a listed entity, there is an element of -- rather being a bank, we are very cognizant of our KYC and the processes which we follow.

So we, on a selective basis, based on the performance, will try and enhance this number from 40,000 from hereon.

Ravi Mehta: Okay. The point of asking is that the accounts opened is already well more than 1.3 crores. So maybe if this 40,000 set of merchants are kind of exhausted their footfalls, so can you activate the next set of 40,000? Is that the thought process I was trying to think through?

Ketan Merchant: I'll attempt to answer this in two manners, okay. If your question is that will the new-to-bank customers, which typically we are growing at around 8,500 or 9,000 accounts on a daily basis, has that reached a saturation point? The answer to that is no. And to answer your second point, yes, there is an element of churn also which happens within this 40,000 as well. So it is not that within a particular district, if it's done, then there is no growth coming across.

So on this particular point, I do not think we have an element of doubt that we will -- our current run rate of opening the new customer or new CASA accounts will be anyway impacted by it. However, as you rightly said, yes, our endeavour would be to get the net active also more from 40,000, which can be the same or the new coming as well.

Moderator: The next question comes from the line of Prateek Giri from Subh Labh Research.

Prateek Giri: Congratulations on a good set of numbers. Ketan, pardon my ignorance, I just wanted to check about this downfall in the remittance business. So are we seeing recovery in this post this compliance or regulatory issue, which led to this downfall?

Rishi Gupta: So let me just try to address this issue. See November 1st, RBI came out with this new regulation, which there are multiple changes, which were rightly made by the regulator to ensure that the hygiene of remittance business continues. So all of us were expecting that with these new guidelines, there will be a drop of about 20%, 25% business volume as such. But some of the other alternatives people have started to look at to do remittances, which have consumed another 20% of the drop. So right now, there's a drop of 35%, 40%.

We believe that of that 20% alternate options that people are looking at, at some point of time, that will come back to the normal remittance business growth. But we definitely feel that it will not come to the original levels, which we've seen in last year. But 20%, 25% drop will be there from those levels, and some recovery should happen. See November, we had a big drop. December, we had a recovery. January is more or less the same as December.

So over the next 2, 3 months, there should be some recovery, but the number will never reach the original numbers, which were there before the regulation change happened. And that was the reason of also the new regulation to come in.

Prateek Giri: Understood. So even in the due course of, let's say, 2, 3 quarters, you're saying this revenue number will not reach the previous height, which it has achieved, is it?

Rishi Gupta: There are two reasons also. One is that, see, a lot of our customers who are doing remittances have now become our own customers. And my estimate is that if I look at the 3-year to 4-year trajectory, 15% to 20% and maybe even more, customers who were remittance customers have become my CASA. So anyway, that business has moved from remittance to CASA in my own business. So that is a permanent shift, which is there.

The rest of the business, which was there, which were people who were not on my CASA platform, but were on my remittance platform, I expect a 20% to 25% permanent dip in that business because of the regulation change, and that was expected also. I expect that some recovery will be there from the level at which we are over the next maybe 3 to 6 months, but still 20% to 25% drop will be there from the non-CASA customer kind of a profile business.

Prateek Giri: Understood. And Ketan, so just a follow-up on this, so the amount of money, let's say, which we used to make from a customer doing remittance and now amount of money which we are making from him, if he is a CASA customer, so does that economics favour us? Or how does that look?

Ketan Merchant: No. I think this is -- the answer is actually in the investor deck and in a simple language. It is extremely good cannibalization, which we can do. Just to corroborate that, 4% to 5% is the margin for a person doing remittance. He may do it over a couple of times in a year as well. And year -- the first year margin itself for our CASA customer is 50%, the kind of difference which we've essentially said. It doesn't end out there.

I think it's also the customer ownership, which we essentially say, it's always nice to get the customer on your bank account, which we call from off-us to on-us and thereafter, a lot more things can be done with the customer as well. So this is a very good cannibalization for us. And that is our thought process as well, use this footfall or remittance as a hook product and make them into your own customer.

And Rishi just added that this is how we have completely planned our move from transaction to customer ownership strategy.

Prateek Giri: Got it. So the amount of money which we are making from a customer for, say, 5 to 10 transactions a year is higher than -- is lower in CASA because there LTV is high, that's what you're saying?

Ketan Merchant: Yes, yes. It doesn't end out there. As we said, we also have a float which essentially comes through, then there is a lot more which can be essentially done. And then there is a renewal, which comes every time the subscription product, which we are doing through. So from an economic sense, CASA is far more this thing -- the customer who is there in CASA, that is compared to remittance.

Prateek Giri: Understood. Mr. Gupta, I have a second question on this capex, which we are doing. With mostly 5, 6 products being stable now, should we see this capex getting stagnant? Or is it even right time to ask that question because I know you have been trying to transition to a small finance bank, et cetera? But the point here is the current set of products, which are like

5, 6 products, which we have, are more or less stabilized. So should we ask that question at this point of time?

Rishi Gupta: I think your answer lies in your question only because it is not the right time because we are in investment phase right now. And whatever we have built -- in my remarks also I said, whatever we have built in the last 3, 4 years, we are seeing the benefits of that coming whether it's digital, volume. See, the volume of business, the kind of cybersecurity efforts, the initiatives which you have to do on your other technology platforms.

I think technology is the only place where we invest and we'll continue to invest because that is required for our business because we are a technology company. So if we stop making investment in technologies, then where do we invest money? Because we have to invest in building technologies for the future. We are also looking very actively doing a lot of artificial intelligence.

In fact, we are rolling out a couple of things in the next 3 to 6 months on AI also, which will further strengthen us as a bank and help us in delivering better results and better efficiencies. So we will continue to invest. I don't think so, at least -- if the technology development itself stops, then this question may be relevant. But otherwise, I think the things are only becoming more and more when it comes to technology.

So don't even think of a time where you will -- the technology investments will stagnate.

Prateek Giri: Understood. Lastly, I have one last question on the AePS. So I understand this number in revenue, which we are making from this is getting a little slower in growth. But I want to understand that the tech stack, which is used in AePS, can it be cross utilized for some other services, like can it be used for cash deposits or something which is currently being used in cash withdrawal?

Rishi Gupta: It's a little technical question, but I think the storages and others can be used, but otherwise, whatever is the platform of AePS is a separate platform and other platforms are separate. But storage, yes, storage can be used. Only the storage, I think, can be used.

Moderator: Due to time constraint, we will take one last question. Next question comes from Kartik from BPA Advisors.

Kartik: Congratulations on a great set of numbers. I want to understand further regarding the digital revenue. Total revenue YTD comes around INR250 crores with a throughput of INR150,000 crores comes to around 17 basis points. So can you help us understand how this revenue is coming from? And what is the major breakup of these 17 basis points?

Ketan Merchant: I think before going into the numbers, I think Rishi also explained. The digital, we have to look at it into two facets. One is the B2C, where we had earlier mentioned that around 65% of our new customers are getting digitally active when we said we constitute 1.61% of the overall

UPI stack as well. That is a D2C, which helps us in terms of the customer stickiness and there is no direct revenue.

I think Dhruv earlier also asked the same question that, is there any direct revenue which comes onto the UPI on the D2C kind of a scenario? So a simple math in terms of revenue versus the throughput may not be the right representation of looking at the business because of the D2C reason, which I just explained.

Second aspect, which we earlier spoke about, is the B2B businesses wherein we are giving the UPI Collect or the UPI Pay-in as we say. That is the 23 to 25 partners, which we just mentioned about active. There is a take rate, which is different for each of the contracts, which we are essentially doing it off. So our current source of digital revenue growth, okay, direct growth, the other one definitely comes to the higher or the subscription.

And the renewal rate which we look at, that is D2C. Our B2B essentially comes from the revenue, which comes is from the B2B, the Pay-in and UPI Collect, which we just mentioned. Here, Rishi earlier mentioned that we are -- over the next couple of months or quarter, we are planning to have more avenues, which will come through. So we will provide more products to our B2B partners.

Kartik: Just a follow-up question. When you mentioned there is a different take rate, can you help us the range of the take rate you have agreed with your B2B partners?

Ketan Merchant: It is an emerging business, and it's an emerging this thing as well. So the range is quite varied as currently which we are looking at. We have more or less average which comes to -- yes, that's my guessing as well, in the range of around 30 bps, which we are looking at, that will -- sorry, I stand corrected, it is 20 bps, which is what the broad average looks like. But again, it is not a very representative because of the reason, which I just explained.

Moderator: Ladies and gentlemen, that brings us to the end of the Q&A session. I now hand the conference over to the management for closing comments.

Rishi Gupta: Thank you, Rajat, and thank you, everyone, to patiently hear us and engage with us on the questions, which you had. Just to reiterate, our growth has been in line with our guidance of 25%. Our PBT growth has also been at 25%. We continue to invest in building up our technology stack, and we will not shy away from making investments in getting the best technologies, whether on performance or on artificial intelligence.

We continue to invest in building up the UPI stack as well. And as you can see, the digital business has given us a good growth as such. Our CASA business, which entails new customers, renewal income, liability income, transaction charges, continues to grow. CMS business has also seen a substantial growth as such.

More than that, I would say, when I look at some of the questions which used to come 2 years, 3 years back, that we have only -- we have 2 products only in which only CMS and

CASA were growing. Now I think with digital and roughly 75% of our income coming from growth businesses, I see that as a big opportunity for us to leverage on it. Having said that, the SFB application is also moving, if I look at from a last quarter point of view.

So all the things are turning out to be good from the last quarter and for this -- from the last year also, not only on the growth, but also on the direction for the next couple of years to come. And we continue to look forward to your support and guidance as we move ahead with our journey. Thank you very much.

Moderator: Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.