October 28, 2024

| | |
|---|---|
| **BSE Limited**<br>P.J. Towers,<br>Dalal Street,<br>Mumbai- 400 001 | **National Stock Exchange of India Limited**<br>Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra - Kurla Complex,<br>Bandra (E), Mumbai - 400 051 |
| **Scrip Code: 543386** | **Symbol: FINOPB** |

Dear Sir/Madam,

**Sub: Transcript of the earnings call with the investors and analysts held on Thursday, October 24, 2024 - 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 Thursday, October 24, 2024**

In continuation to our letter dated October 18, 2024 and October 24, 2024, please find enclosed herewith the transcript of the earnings call with the investors and analysts held on Thursday, October 24, 2024.

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: 2024.10.28 17:48:59 +05'30'

**Basavraj Loni**
**Company Secretary & Compliance Officer**

Place: Navi Mumbai

**Encl:** As above

# "Fino Payments Bank Limited
# Q2 FY '25 Earnings Conference Call"
# October 24, 2024

| | |
|---|---|
| **MANAGEMENT:** | **MR. RISHI GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FINO PAYMENTS BANK LIMITED**<br>**MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER – FINO PAYMENTS BANK LIMITED**<br>**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 Fino Payments Bank Q2 FY '25 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your 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:** Thank you, Riddhi. Good afternoon, everyone, and welcome to Fino Payments Bank earnings call to discuss the Q2 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 bases.

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, and good afternoon, good evening to everyone. Thank you for joining us today for the Fino Payments Bank quarterly earnings call. I'm happy to announce that we have achieved our highest ever quarterly revenue and profit before tax in quarter 2 FY '25. Income tax is being applicable to us starting this quarter, and we are now contributing to the exchequer direct tax collection.

So that is a moment of pride for all of us because from a non-tax to a taxpaying company, we have been now moved in that direction in quarter 2 FY '25. Our revenue grew 27% in quarter 2 '25, 2% more than our guidance in quarter 1 '25. If you would recall, we had said 25% is the guidance for FY '25, but in quarter 2, we did 27% growth.

Our profit before tax grew at 33% Y-o-Y in quarter 2 '25. Our overall throughput grew at 24% Y-o-Y during quarter 2 '25, with digital contributing to nearly 44%. Our transaction count increased by 51% during this period, primarily driven by UPI. Further, we have also expanded our merchant distribution network by 22% Y-o-Y during this quarter. India has witnessed beginning of digital revolution over the past 2 years, and every institution wants to be part of the journey. Banks being at the fulcrum of this transformation of consumer payment ecosystem, we are enabling simplified real-time digital payment solutions to our clients and customers. We have made significant strides in upgrading our digital infrastructure, which has empowered us to effectively cater to both the D2C as well as the B2B segment.

On the D2C front, our digital initiatives continue to gain substantial traction with more than 44 lakh customers digitally active, influencing our renewal income. We have revamped our Android application and also present in iOS to provide user-friendly experience to our customers across multiple channels. On the B2B side, we have successfully established a profitable model, driven by strong fintech partnerships with more than 25 partners currently live on our platform. Our

UPI ecosystem continues to be a pivotal driver of our overall digital strategy. We commanded a 1.55% share of the total UPI transaction market in September '24 on the back of 63% year-on-year growth in UPI transaction volumes, underscoring the accelerating adoption of our digital payment solutions.

This progress has led to a notable growth in our Digital Payment Service segment which now accounts for nearly 17% of our total revenue. This growth not only reinforces our mission to drive digital financial inclusion, particularly in rural areas, but also lays the groundwork for sustainable revenue generation through the monetization of digital services. We remain committed to continuously meeting advances on our technology stack, ensuring we stay at the forefront of industry development.

We are now part of NPCI's new feature, Sandbox staying in UPI space, thereby demonstrating the functional and technological capabilities of the bank. These initiatives not only strengthen our market position, but also enable us to build a seamless technology-driven ecosystem that aligns with our broader transactions, acquisition and monetization strategy, which is the TAM strategy.

On our ownership business, that is the acquisition part of TAM, we are pleased to share that it continues to maintain the growth momentum. Our progress in acquiring new CASA accounts remain strong with around 275,000 new accounts being added every month. In this quarter alone, we have successfully added more than 820,000 new accounts, taking the total CASA customer base to over INR1.26 crores of which roughly 70% of them are active.

Our average deposit key to our future strategy grew at 34% to INR1,696 crores. Renewal income grew 51% year-on-year during this quarter to INR46 crores, testament of our customer's trust quarter-on-quarter. Our CMS business has also experienced substantial growth in volume recording a 49% year-on-year increase during quarter 2 FY '25. We are witnessing competition in this space, thereby impacting product pricing. We continue to diversify and add more customers and partners to maintain the growth.

Our transaction business witnessed de-growth driven by conversion of off-us customers to on-us customers as part of our TAM strategy, an uptake in UPI volumes in the D2C business. So the part of the de-growth in the transaction business is coming from the fact that a lot of our customers who were off-us platform for AEPS or DMT or micro ATM are now part of our on-us customers through our CASA accounts.

And partly also because a lot of people are moving from cash to UPI. So both of them have led to some de-growth in our transaction business, but part of it is really offsetted by the CASA number and the CASA customers which we have. This is a very important factor, which I would like to emphasize on. CASA and CMS are our higher-margin products, continue to contribute close to 1/3 of our revenue pie, whereas digital payment services vertical contributes to 17% of the revenue pie.

In summary, 50% plus revenue is contributed by these 3 products and driving growth and profitability, whereas transaction business continues to remain funnel for customer accretion.

We will continue to leverage our widespread distribution network to enhance our product coverage. As outlined in our previous earnings update, we are in the process of migrating our core banking system and moving several applications outside the core, which we call Hollow the Core, making it more agile and efficient. This capex investment is aimed at streamlining our technological framework, enhancing transaction speed, managing larger volumes and bolstering our cybersecurity measures.

So this is one of our biggest projects right now, which we are undergoing, migrating our core banking as well as moving a lot of things out of core banking to outside core banking so that we can meet the enhanced demand whether on technology or speed or volume, and also ensuring cyber security at the same place. Once fully implemented, the new platform will significantly improve customer service, support the launch of new service lines and potentially pave the way for additional product offerings.

Our strategic focus on expanding reach and enhancing capabilities has enabled us to future elevate our performance, making this not only our best quarter, but also our strongest half year in terms of both revenue and profitability. Our commitment to driving sustainable growth through innovations and strategic focus is consistently producing strong results.

Our continuous investment in innovation and technology will further empower us to provide secure user-friendly banking services, specifically designed for our target market. We are maintaining profitability while successfully scaling the business with an increased emphasis on advancing our digital initiative backed by robust risk management framework.

Now let me hand it over to Ketan Merchant, our CFO, who will take us through the details of our financial performance. Over to you, Ketan.

**Ketan Merchant:** Thank you, Rishi. Good evening, ladies and gentlemen, and thank you once again for joining us today on our earnings call. As emphasized by Rishi, with our relentless focus on innovation, customer-centric solutions and deepening digital integration, we have posted our highest, both quarterly as well as half yearly, result in terms of revenue and profitability and are well on track to deliver high-growth trajectory this fiscal.

Just to summarize our number, we delivered a revenue growth of 27% in second quarter significantly surpassing the 20% average growth, which we've achieved over the past few years. This performance reinforces our confidence in meeting our full year growth, enhanced guidance of 25% for the fiscal. We are continuously scaling our acquisition platform by leveraging advanced digital solutions, data analytics and are expanding merchant network.

In Q2, total revenue reached INR455.4 crores, marking a 27% growth. For first half, revenue was INR892.3 crores, reflecting a 26.2% growth Y-o-Y. Margins have remained consistent, holding around 31%, both for Q2 and H1 FY '25. Our Q2 EBITDA was at INR57.2 crores, up 23.6% from previous year with an improved EBITDA margin of 12.6% vis-a-vis 12.2% in the prior quarter.

Our focus on operating leverage continues to deliver superior financial results, maintaining a cost-to-income ratio of 25.7% in quarter 2 '25, which is -- which we aim to sustain despite increase in cost for technology advancement and enhancing risk management framework, as Rishi alluded to. Another significant mark during the quarter, as Rishi mentioned, is the taxes, which are now applicable to us. This is a small milestone for us and demonstrates execution of our vision with consistent focus on bottom line.

On the operational front, we achieved a remarkable growth, processing INR78.4 crores transactions in Q2, a 51% Y-o-Y increase. For H1 FY '25, total transactions surged by 61% to INR148.8 crores transactions. Throughput for the quarter reached INR1.07 lakh crores, a 24% Y-o-Y rise with digital throughput accounting to 44% of the total throughput. For H1 of the year, throughput stood at INR2.13 lakh crores, reflecting a 31% Y-o-Y growth.

Additionally, our average digitally active customers reached 44 lakh plus in Q2, laying us firm foundation for future annuity income and monetization opportunities for us. As we continue to enhance our digital platform, we expect a greater adoption in coming quarters. We made significant strides in expanding our reach physically and -- our physical as well as digital platform.

We are on track to onboard an additional 1.5 to 1.75 lakh merchants annually. This will further extend our already extensive network of 18.5 lakh merchants, greatly enhancing our market presence and distribution capabilities across the country. This network spread supports our strategy to deepen the penetration and broaden access to our service in even the most remote areas. As I said, our margin in Q2 stands at 31.4%, largely in line with expectations, given the trust on digital business. CASA and CMS margins, Y-o-Y, are moderating as we had expected; however, annuity income, i.e., the renewal piece which Rishi alluded to, is compensating with the increased base.

Now if I go over to individual business vertical performances, we are seeing strong momentum in UPI transactions alongside a growing base of digital customers. Our digital payment business now accounts to 17% of total revenue in Q2. Last year, this quarter, this vertical accounted to 5% of total revenue. So we moved from 5% of the pie to revenue to 17%. Revenue in digital is surging more than 4x to INR79.3 crores compared to INR18.8 crores during the same period last year. This has been a planned journey of past 2 years plus wherein we've been consistently investing energy resources and around INR90 crores plus of capex investment on an annual basis in technology to build capacity and drive digital vertical.

We are confident that this segment will continue to be a critical growth driver, further strengthening our position in India's dynamic digital payment landscape. Digital Payment Services growth drivers comes at a gross margin of around 20%; however, with the technology value chain, which we have built, this will result -- or this results in a material contribution to PBT due to no significant operating or human resources required in the digital vertical.

Moving over to another core product of ours, which is CASA. During the quarter, CASA revenue crossed INR100 crores for the first time surging to INR106.7 crores as the revenue. This growth reflects sustained momentum in our customer acquisition and retention strategy. Notably, renewal income rose to INR45.7 crores, or 51% Y-o-Y growth. Our CASA account base continues to expand reaching INR1.26 crores supported by consistent monthly opening rate of

2.7 lakhs new accounts in quarter 2 of '25. This is the monthly new account. The increase in CASA not only enhances our annuity income through subscription, but also provide stable foundation for future monetization.

Approximately 70% of our CASA customers are active driving more frequent transaction and higher average balances. Our efforts to shift from transaction led to customer ownership-driven models have been instrumental in ensuring consistent customer acquisition. Consistent acquisition in CASA has also resulted in our average deposits growing by 34% on a Y-o-Y basis i.e., it was INR1,267 crores in quarter 2 FY '24 to INR1,696 crores in quarter 2 FY '25. Due to alternate avenues of savings, banks are typically resorting to high-cost funds. In such era, our cost of fund continues to be around 2.2%, carving out a niche, which we intend to take forward even in an SFB scenario as and when license evolves.

Shifting focus to our high-margin CMS segment. It continues to represent 9% of our total revenue, reinforcing our standing as a key player in the space. CMS business delivered impressive results with a revenue growing at 22% on a Y-o-Y basis, reaching INR40.8 crores this quarter. Additionally, CMS throughput served by 49% to the previous year, amounting to INR21,818 crores. NBFC and MFI sector remained the core contributors accounting to around 56% of the total throughput. Competition is definitely having some impact on the pricing; however, we are confident of maintaining the growth momentum through leveraging our distribution network.

Our endeavor here is to maintain balance between volumes and margins. MATM and AEPS, as an ecosystem, have not been able to garner momentum despite increase in the direct benefit transfer funds from central and state government in H1 '25. This can also be attributable to uptake in UPI payment behavior of customers. Increasingly, the digital adoption is cannibalizing some amount of this business.

However, we will continue to focus on MATM and AEPS for enhanced customer engagement, increased footfall of our network ecosystem and, thereby, leading to higher rate of conversion and facilitating digital transactions. Our investment for this year on technology continues to be in the range of INR90 crores. This is something, which we had said at the beginning and we are on track to invest into technology this year as well, this will ensure that we are up to speed on our digital and technology platform.

Coming back to statistics. Over the past 3 years, typically, revenue and profit in H2 is higher by 5% to 7% over H1 and this year as well, we expect a similar trend. Looking ahead, we are committed to deepening our digital footprint, maintain strict adherence to regulatory standard. By continuously innovating and expanding our services, we aim to cater to a wide range of customers.

This is the example, which Rishi gave from Android to iOS on digital platform as well. Our goal is to seamlessly integrate cutting-edge technology with financial inclusion, enhancing both customer experience and operational efficiency. We are confident that the strategic direction will fuel our growth trajectory and strengthen our standing as a trusted leader in this sector.

With this, I would like to open the floor for questions. Operator, back to you.

**Moderator:** The first question is from the line of Ashish Kumar from Infinity Alternatives.

**Ashish Kumar:** Congratulations, Rishi and Ketan, for a good set of numbers. A couple of questions. I just wanted to understand. I know we've upgraded our revenue guidance for 25% this year. How sustainable do you think this is, let's say, 2, 3 years out? And the context is that the share of, let's say, the micro ATM, AEPS, the slow-growing business for us is now probably shrinking to around 30%. So how do you see that kind of play itself out?

**Rishi Gupta:** Thank you, Ashish. So on the sustainability, let me tell you how the ecosystem is also moving in a way. So the ecosystem is having in one way that the physical cash is coming down from a transaction point of view. Also, part of the physical cash or at least the transaction business for us has gone down because of our customers also becoming on-us customers rather than off-us.

So it's a factor of both on-us and off-us as well as the general ecosystem change from cash to digital, so that is one part which we have to factor into it. As we keep on increasing our customer base, the revenue shift will move from transaction to CASA, which from a company point of view is a positive business because our CASA margins are higher than the transaction business. One should not look at this in isolation.

We have to see the full bouquet when we look at the overall customer engagement, including the CASA revenue. So you have to see whether with CASA revenue and transaction revenue, is it making sense or not? Because part of the transaction revenue is moving to CASA income. Secondly, the digital business is growing and we have added a few lines of businesses as we grow.

Also, what is important is that in digital business, as all of us are aware, that's a very -- it's a little risk-prone business from the point of view of the issues around cybercrimes and everything else, which is happening around that ecosystem. So we have taken a very cautious approach from that point, too. The business growth, especially on the digital, can be far higher, but we are kind of moderating the growth to ensure that the compliances, the regulation, the risk is also factored into the business.

Having said that, we believe that, in the coming years, in the next couple of years, not only that our CASA and related businesses will continue to grow. We are also trying to see how we can recover the lost ground on the transaction business side, but also our renewal incomes have been substantially growing. As you can see, it's a more than 50% growth in this year.

So going forward, we expect that the run rate of 25%, we should be able to maintain, and by focusing on some of our existing lines of business and also pushing on some of the digital lines of business. Right now we are only working on 1 or 2 lines. We are planning to add a couple of more products into the digital side. And we believe that the growth in those products will be substantially faster than setting up a physical network.

So that gives us the confidence that we should be able to maintain the growth around 25% at least for the next couple of years. And then we'll see how the ecosystem behaves over a period of time. I think the related question on micro ATM and AEPS, I had already answered in this by suggesting that we have to look at in combination rather than in isolation. One thing, which is there, is that the micro ATM business seems to us that is because of the usage, cash usage in the economy coming down, we don't expect that the micro ATM business will substantially take a U-turn and move ahead.

We still believe that the AEPS business has a good market and it can grow. Some of it is also related to the risk factors that I just mentioned. So in whole, I think the AEPS and the DMT business should continue to grow, whereas we will probably see muted business on the micro ATM side.

**Ashish Kumar:** And moving on the margin side, how do you see the margins? Year-on-year, we are kind of flat on the EBITDA side, slight improvements on the net income side, are we on track to kind of see the PBT margins, the PBT margins get to a double digit over the next couple of years. Is that a fair assumption to make? Or that's -- given the fact that you are investing heavily on the product side?

**Ketan Merchant:** Ashish, Ketan here. Let me just attempt to answer this split into 2 parts. One is if I come back to the gross margins, while there is a 40 bps increase on a sequential quarter basis, as I mentioned in my earlier thing as well, we were expecting margins to be in the range of around 31%. This is a gross margin, which I'm essentially saying, and it is largely there. I think in my earlier comment, I just mentioned of one point is that digital, whilst it comes at around 20% margin, the contribution which it gives to PBT is far higher than our average PBT margin.

And this is attributable to the fact that whilst we rightfully invested around INR270-odd crores, including INR90 crores investment expected in this year, but it really leads to a benefit of non-operating cost or the non -- any other cost, which comes below the line of the gross margin for other products.

So the improvement essentially because of the contribution of digital, which it brings to the bottom line, is something which will be a point to reckon with. So if you ask me on a pointed basis, what is the expectation for around next 2, 3 quarters? I will say it remains in that range. Going forward and, I think, it comes back to our TAM strategy. Transaction and acquisition is going good. Renewal, which comes at a far higher margin, which we've discussed, is something which we'll keep on growing on an annuity basis. So that will lead to an accretion. Customer accounts are growing of as well, so that will continue the funnel coming across as well.

So all the investment, which we've essentially done or the guidance which we have given and where I essentially mentioned that typically, H2 is 5%, 7% more. That is after factoring the investment, which we've done. With new products coming in, the way digital has come, with monetization avenues increasing over the next couple of years and the new products, which Rishi was also alluding to, we expect that the margin more or less will -- on the gross margin will remain same. For the reason which I just explained on digital, the more the digital contribution comes, the bottom line impact enhances of. So we'll just take it in terms of the increase in growth volumes as well as the margin, which comes across.

**Ashish Kumar:** Sure. But the target to hit the 10% on the PBT side, that's still -- over the next couple of years, that still remains a target?

**Ketan Merchant:** Yes, that is something, which we had envisaged of that we gradually move across and as we are definitely moving across and the milestone, which Rishi alluded earlier towards that we're coming. So that is our aim to get to the margin on a double-digit over next couple of years or more.

**Moderator:** The next question is from the line of Kunaal N. from Emkay Global.

**Kunaal N.:** Sir, I just wanted to ask, in the B2B digital space where we operate, are you noticing any competition from the larger banks? And if they enter this space, what do you believe will be our key differentiator to maintain a competitive edge over them?

**Rishi Gupta:** So thank you, Kunaal. I think in this -- so the biggest thing, which I believe in digital is that everybody is equal. Because if you have an old bank and a new bank, you have branches, you have people on the ground, digital actually is the biggest equalizer for us from that point of view. So you are right, there is already competition, which is coming from some of the established large banks who are quite active on the digital side. But the market is big, and I think all of us are there in the market, and this market share, which we have gained is also from some of the existing players, so to say. I think the differentiator for us is that we are a new bank.

So our technology, our digital stack, our UPI Switch, everything is comparatively new and we don't have any legacy issues. Plus the level of services and the efficiency we are able to bring to the customer in terms of clients, who have -- in business, you know there will be some service issues. So the amount of, I would say, the focus we are able to bring, I think, is far more than other large banks because this is one of our core income. But for other banks, maybe this is one of the many incomes they have. So these are a couple of things, in fact, which is there.

Then the technology, we have a good in-house team of technology people, digital people. I think the UPI Switch, which we created last year, it's been 1.5 years. It's giving us good results, and we are able to meet the demand, which is there in the market. And I would say the 24/7 service, which I just mentioned earlier, is a couple of the differentiators we have. Obviously, over the period of time, we are building up a bigger UPI stack for our B2B business. So that will also help us in getting more products and more clients. So competition is already there, let me put it that way. Winning that competition is what our share is right now.

**Kunaal N.:** Got it, sir. And I think even your size will be one of the big advantage as well, like when compared to the larger banks. Since you are relatively smaller, it will be easy for you to implement the new technologies or adapt to newer technologies whenever they are coming up, right? So I just have one more question. So that is regarding renewal income. So could you share the percentage breakdown of revenue from first year renewals and the second year renewals and so on because I think Ketan previously mentioned that the third year renewal rate was at 90%. Are we still observing a similar trend?

**Rishi Gupta:** So I don't know whether we have that 1 year, 2 year, 3 year data right now with us, but we can definitely get back to you on that. But largely, I would say, if you look at the total renewal income, there is a growth of 51%, so to say. And as we see more people using digital platform and UPI platform, we are seeing a better renewal percentage also coming from such platforms, but we will come back to you separately on the first year, second year. Do we have that...

**Ketan Merchant:** Kunaal, whilst we do not have the percentage data, but what we had earlier said is that typical does our -- after year one is there largely an amount of stability, which is essentially there in our renewal. That trend essentially largely continues. So I just give some statistics, which will help you and the rest of the guys also to help. If I just go to 4 quarters back, our renewal income for the quarter was INR31.4 crores, that led to around INR39.9 crores, then INR40.4 crores and this quarter, it is INR45.7 crores.

So we are adding around 8 lakh odd customers with the renewal rate largely remaining on track and, I think, what we've done over the last 2 years is attempt to apply a lot of data analytics in terms of the propensity and the probability of the renewal. So as we speak, as we sit now, from a behaviouralization perspective, we expect largely the trend to continue.

**Kunaal N.:** And lastly, if I can just squeeze one more question. So we have observed significant growth in our digital payments business. So could you elaborate on how -- on the new UPI features we have introduced? And additionally, are we aiming to increase the share of the digital products from our B2C products as well? Or will continue to focus on our B2B segment?

**Rishi Gupta:** So both the businesses run parallelly as such, so it's not like we are kind of compensating the B2C and the B2B. So B2B business is going in their own momentum and the B2C business is going in their own momentum. So both of them are running on a parallel track. What is helping us is that the UPI capabilities help us to get more clients on the platform and also help for higher retention on our customers, so to say.

Without going into a lot of details on the UPI features, what we have on the UPI system, if you can refer to Slide number 23, in the presentation, that will cover broadly all the features, which we have currently and also shares -- it also shows the Fino's contribution to the UPI ecosystem, which was at 1.04% in June '23, and it has gone to 1.55% as of September '24, on the backdrop of a high growth on the UPI ecosystem also.

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

**Shreya Shivani:** First, just wanted some data keeping questions in terms of what was the share of own channel in our revenue of INR455 crores? Second is the new subscription CASA revenue, so that is INR24 crores last quarter. What is that number this quarter? And that's my first on data keeping. Second is, can you help us understand where the SFB license is? And when can we hear back from the RBI? I think last quarter, we didn't have any updates on that matter.

And third question, is I've read somewhere, and I had heard somebody speak that there are certain kinds of frauds, which are happening in the MATM and AEPS ecosystem, not from the level of the MATM providers, but, say, a Kirana store owner would make the lady swipe her finger twice, but would give her money only once saying that first time it didn't work out and stuff like that. And then NCPI brought in some changes to the way these transactions are done.

Is there any color you guys have on this? Have you had such frauds in your -- have you heard of such frauds in the ecosystem? Any color around that would be helpful.

**Rishi Gupta:** Shreya, so on the first question, our new to bank accounts, our revenue was INR 24 crores and INR 27 crores in this quarter, so there is a INR 3 crores jump on that. Our own channel, our own revenue is now 76% and 24% on API, so that has substantially gone up from 72% in previous quarter -- and 69% in quarter 2 of last year. So from 69% to 76%.

So this is in line with our commitment that we'll continue to build on our own channel revenues. On the SFB side, there is -- where the process is on, we are already working internally on our technology platform, doing some pilots also around the credit piece. We are having some conversation with RBI at that, as of now. But in principle, we don't have any date for any -- for an in-principle approval as of now.

So coming to your third question around the micro ATM AEPS, we have not heard of any micro ATM fraud per se. On the AEPS, if you remember, we had mentioned this last year around this call last year in October that the AEPS frauds have gone up because of something similar to what you are saying.

And also some of the data, which got leaked out from various industry, various government bodies and other entities and that led to some AEPS fraud. That has been largely brought into control. I'm not going to suggest that it is completely zero. There would be some kind of this small incident or specific incidents that you referred to. And -- but largely at our level, this is not something which is keeping us awake in the night right now. It's much, much under control compared to last year.

**Shreya Shivani:** Got it. Very useful. And just the follow-up on the SFB thing, you said you are doing some pilot programs, which segment are you guys piloting on, any details you can give out on that?

**Rishi Gupta:** Right down, largely around merchant loan, which is merchant overnight loan kind of a product and gold loan as such. We are also looking at LAP and some affordable housing assets, but these are things which will come up over a period of time.

**Moderator:** The next question is from the line of Jitark Shah from Bay Capital.

**Jitark Shah:** Sir, just 2 questions. First one on the deposit side. So I believe that the deposits are fairly stagnant over the past 6 months, like fairly flattish. So if you could just throw some light on that, where do you see your deposits going up in the next couple of years? And second was a follow-up question on the last question that the previous participant asked on SFB. So where do you -- like if you could throw some more light on what are your plans going forward on SFB once it comes in. So like are you planning to have more systems and processes inbuilt and underwriting processes and all? Or how you would like to take it forward?

**Ketan Merchant:** Let me just take the deposit piece first. And again, I'll allude to what I mentioned earlier in my comments as well. The fair way of looking at our deposit whilst typically, what gets published is the period in balances. I said, on a year-on-year basis, we've increased by 35%. That number earlier was around 45%, last time 49%, in fact, in the previous quarter. Your assessment is right.

We are as a banking industry because of the alternate saving avenues, which are going the way they are going, deposit mobilization is not going to be essentially simple for all the banks. However, I referred to my earlier communication maybe 2 or 3 quarters back, where we had put up a long-term vision in terms of how will we garner deposits over the next couple of years as well.

The point to note out whilst deposit is becoming challenging in the current environment or the growth is muted; for us, openings of new accounts is something, which is a real driver for us to grow, which is why a 35% of Y-o-Y growth is what we have seen. Around 8.5 lakh accounts, which we opened on a quarter on an average basis, definitely enhances our prospects of having more deposit growth than the rest. How does the future turn out to be, I think, no banker is really being able to judge that of as well. But with that and with a 2.2% kind of cost of fund, which we have, I think we are not too much concerned about our growth momentum because of the acquisition of CASA, which we are seeing it of.

What number it turns out to be on an average 35%, 25% or 45% is something which I think we will evolve. But we've also started focusing on enhancing our deposits and the alternate platforms, which we are looking at as well. We will also enhance our target segment in terms of -- through digital and through otherwise as well enhancing our deposit base. That was my answer on deposit. If you wanted a future growth projection over the next couple of years, I'm sorry, but it is quite challenging for us, anyone to predict on that.

Second one was on the SFB front, right? What is the processes and, basically, if I understand it right, the preparations, etc., which we are doing? I'll just top up of what Rishi said in the previous question. He mentioned about the focus areas which we are looking at. Our endeavor has always been to be a different kind of SFB. We are not going to essentially become a brick-and-mortar SFB by just having too many branches, etc.

What are the preparations which we are doing? We have set up internal teams in terms of making products. We were doing pilot, which Rishi alluded to other things as well. Currently, underwriting is something which anyway, we can't do. We are doing referrals, but the preparation of processes and end-to-end preparation of how the documentation flow, how the merchant network will play its part, how digital will play its part, is something which is being worked out.

On the systems and the technology side, Rishi alluded earlier as well that we are anyway shifting to the new core banking platform, which is Finacle, over the next couple of quarters. And a lot of it, we have got it out. So in that transition as well, whilst it does not factor the SFB, but there is a thought process in terms of the flow, which is doing as well.

So the basic preparations of conceptualizing teams in terms of system, processes and pilots currently on the referral are being worked out so that once -- as and when the license evolves, we are relatively better prepared to go on a differentiated SFB model. And mind well, we'll continue our liability growth. We keep on saying this as well that even in the SFB scenario, we will continue to be a liability-first bank.

**Moderator:** The next question is from the line of Naman from Ventura Securities.

**Naman:** First of all, congratulations on the set of numbers. My first question is regarding the CMS segment. As earlier said by you, that although you do have a positive outlook regarding the AEPS segment because of the digital economy and cashless economy and all those factors, the outlook regarding MATM is a little bleak. So do you have a similar view regarding the CMS segment? And if not, could you elaborate on that?

**Rishi Gupta:** So on the CMS side, if you see, our total throughput has grown by 49% to nearly INR22,000 crores in this quarter. We are seeing a good momentum on the total throughput or the total requirements of CMS from our clients because of the competition which is there. There is some drop in the take rate, which has happened in the last 6 months. I think we have come to a stage where we have kind of bottomed out on that take rate. It should not further go down is what we believe. And the throughput is being at this level and should grow in quarter 3. The only thing which is to be seen is that the NBFCs and the MFI business contributes a large chunk to our total CMS.

And we are seeing some slowdown, which has happened on disbursements in that segment. While it may not affect us too much in quarter 3, but maybe quarter 4 or next year, which may come to some mix, which may affect us to some extent. But having said that we are now also adding a lot of nonfinancial services kind of companies into our cash management services. So we are quite positive on this outlook on CMS on the back of 49% growth, if I see on the transaction and 22% growth on our total revenue.

**Naman:** And sir, follow up on my question, as we know that we are shifting from our current core banking system to Finacle. So could you elaborate on that? I mean, what exactly does Finacle have that our current CBS does not, and what primary reasons are there for this shift?

**Rishi Gupta:** So a couple of things, rather than going into the features of Finacle, so we -- our entire FIS program was once run on an ASP model, which is not an in-house application, but a third-party application hosted at their environment. So we are now moving completely to our own platform, the Finacle. And this was built somewhere around 7, 8 years back when we were building up the bank.

So that transaction volumes, which were projected at that point of time when we built up this entire system, and the solution, we have, I think, surpassed that by multiple times. So FIS system doesn't allow us to grow from where we are for the next 5, 7 years, looking at the growth in the transaction volume. .

So both on the transaction volume, the speed, the features which we want to build, the cybersecurity and other areas, we are moving a lot of applications, which are part of the core platform right now to outside the core, as I mentioned, which is called Hollow the Core platform. So that's completely being built in-house and both the projects are running in parallel. And we expect that in the next 6 months, we should be able to commission our platform -- new core banking platform, and that should significantly give comfort to our business teams and to our clients with better efficiencies, better speed and better volumes to handle.

**Moderator:** The next question is from the line of Shreyans Jain from Electrum Capital.

**Shreyans Jain:** Sir, I am new to the company, so firstly, congratulations on the set of numbers. Can you just explain to me your business model, like how are you different from the other players in this space?

**Rishi Gupta:** I think that's a very long question...

**Shreyans Jain:** In short if you can give me...

**Rishi Gupta:** To answer. I would suggest you to meet Anup and have a conversation. On our earnings call, I can't explain the business model. If there are any specific questions with regard to the quarterly call or quarterly earnings, then you can ask. Otherwise, I would encourage you to set up a meeting with Anup, and he will take you through the entire business model easily.

**Shreyans Jain:** Okay. I have just 1 or 2 questions. On the transaction income, sir, you are charging that from other banks or the customers? How are you charging?

**Ketan Merchant:** Shreyansh, I'll -- it is given product by product. I will not elaborate. I think that will get covered in your detailed conversation with Anup. Just to keep it simple, the way the product works is for the DMT or the remittance, as it is called, there is a charge element which is coming from customer and this is not unique to Fino, but all across the industry. For everything else, it's essentially the interchange income, which comes through. But again, like Rishi said, encouraged that a 1-hour sitting with Anup will actually completely clarify in terms of how the money comes across as well.

And also, if you just go across to some of our old investor decks, maybe I don't remember of 3 to 4 quarters, maybe 1 year back, we have, on a simplified basis, have explained each and every product in terms of flow as well. So maybe you can look at that and then through the IR guys, and we will speak to Anup, it will help you to simplify the model understanding in your mind.

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

**Ravi Mehta:** Just a question that the remittance in DMT, which is kind of a slowing or dying business, why has the take rates gone up? What is driving it? Also on the UPI payment front also, I see the take rates going up. So if you can just explain this.

**Rishi Gupta:** So on the -- I have to first try to say it's not a dying business. It's a business, which is giving us more than INR100 crores of revenue in this quarter, so it's definitely not a dying business. As I mentioned earlier, again, I'll repeat, cash to UPI is one factor. And secondly, a lot of customers who used to do remittance are now part of my CASA customers so you see this in an entirety. Having said that, the remittance business did change in the pricing for the end customer in the month of August, but that has not resulted in a bigger margin for us because part of that higher price has been given out to the merchants and distributors and in between people because of the cost inflation and everything, which has happened.

So a part of the rise has come to us and the larger part of the rise has actually gone to the merchants and the distributor. That has also partly offset the number of transactions because of the price rise. We expect that in the coming quarter, the volume should come back to some level after the increase in the price. And on the -- secondly, on the digital, I think it's the mix of customers.

**Ketan Merchant:** Ravi, on the second point of your -- and your assessment is essentially right as well that digital B2B, the take rates are wearing off. I think I'll just draw back in retention, which I said last time is that this is a B2B business where we are gradually building it up across various partnerships, which are coming. So largely, this is a function of a partnership, which we are doing and within the pay-in business as well. So the take rate in this, now as we speak, we have somewhere around 25-odd B2B partners coming across. Take rate is also varying depending upon the industry and the partners, which we are doing it of.

So that's what we are looking at it currently. And one of the slides which we've essentially put and I don't remember, Slide 24 or so, the way the digital and UPI, it's a PwC report. We are just at the beginning of our UPI or our digital journey, not only we, but the industry as a whole as well. So that will evolve and in terms of our take rates and margins as well. But we're not expecting any larger challenges in margins out here currently.

**Ravi Mehta:** Okay. So essentially, you're saying that the UPI payment revenues, that take rate can improve because of the different partnerships that you're entering and remittances part is more or less the customer who was off Fino is now transacting on Fino and, hence, probably there is some improvement in take rates.

**Ketan Merchant:** No, there are 2 things, which Rishi said on remittance so that we are clear is, there was a change in the pricing also, which had essentially happened in August. Second aspect, which is happening is that some of the remittance cannibalization is happening on account of off-us coming to on-us and the customer is becoming our own CASA customer as well. And that -- those are the 2 reasons why the changes have happened.

**Moderator:** The next question is from the line of Vishrut Bubna, who is our Individual Investor.

**Vishrut Bubna:** Just wanted to ask a slightly more fundamental question around the CASA product. Going forward, do we intend to always stich with the subscription-based product? Or as we transition into an SFB, we intend to offer like multiple forms of a CASA product more similar towards, say, other banks? How do we see this product evolving, going forward?

**Rishi Gupta:** Yes. Good question. Actually, we have a mix of both subscription as well as non-subscription products, but we try to highlight in our presentations are roughly -- is about the subscription product, which is about 55% of the overall new accounts, which we generate. So -- and the 45% is largely the non-subscription products, which are there.

**Ketan Merchant:** Your question in regards to the future plan, which we've done in terms of SFB, as we explained in terms of the product focus, which we've done, we will -- our focus remains on CASA, but we are attempting to enhance the target segment as well, whether it's the women digital account or it's the balances account. Currently, our account is largely the subscription account, which, Rishi explained is, focusing towards transactions. As and when we are moving towards that, whilst the focus will remain on low-cost liabilities, but there are multiple products, which also we are planning to come through.

**Vishrut Bubna:** And then just a second question around the credit product or the credit part of the business that you were mentioning earlier. So I think you had mentioned gold loans, so I was just curious that has all of the sort of back end for that already been built as part of Hollow in the Core exercise at the LOS, LMS, the underwriting part? Have you already spent the money in -- for the building all of that in-house or where are we in that stage for lending, given that lending would be a product once we...

**Rishi Gupta:** Right now, the Hollow the Core or the core platform, which is there are only for the payment business. LOS, LMS and related technology stacks for credit will come up post the in-principle approval. But having said that, we have engaged with a lot of vendors and technology companies on that. So we have a fair bit of idea in terms of what LOS and LMS offerings are there and how we want to build up on that. And the gold loan specifically is largely right now because we can't give any -- we can't take credit on our own books or we can -- we even can't give any guarantee or loss guarantee against it, so these are largely referral.

But what we are trying to understand is, for such products as well as merchant loan and small ticket loan, is there enough market and how is the recovery? What kind of customers to target? What kind of analytics to build on? So transaction data to look at? So those part of hygiene parameters, you can say, or the basic parameters, which are required for any credit business is something, which we are focusing on right now.

**Vishrut Bubna:** Understood. And then just one final question. I believe you have, I think, 10% minority stake in Paysprint. I'm just curious, has that played into any of the build that we are doing on any of the products that we offer? Or is that just completely independent and more of an investment?

**Rishi Gupta:** So Paysprint is a strategic investment. It's not only a financial investment and the API business around AEPS, DMT, we use -- they use our platform also. They are also one of our Pay-In partners as well.

**Moderator:** Ladies and gentlemen, that was the last question. I would like to hand the conference over to the management for the closing comments. Thank you, and over to you, sir.

**Rishi Gupta:** Thank you, everyone, for joining the conference. On the back of 27% growth on our revenue and 33% growth in our PBT, some tax impact, I think we have had our best quarter since our inception as a bank. We are also focusing on building our platform around CASA and CMS and putting emphasis on how do we grow our transaction business from here, though part of it is moving to our own customers. Digital continues to be a strong area for us, and we expect that the B2B digital business and the overall business, digital business, including UPI customers will grow as we move into the next few quarters, so to say.

Technology stack is something, which is one of our biggest projects, and we look forward to -- for it to be ready by the end of this financial year because a lot of new products and development is also tied up to the new technology platform, which will get ready in the next 6 months. And with this, again, thank you for being with us for this earnings call. Thank you very much.

**Ketan Merchant:** Thank you, everyone.

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