

November 04, 2022

BSE Limited
Corporate Relationship Department,
2nd Floor, New Trading Wing,
Rotunda Building, 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 investor and analysts held on November 01 2022 - Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Ref: Earnings call with Investors and Analysts on November 01, 2022

In continuation of our letters dated October 27, 2022 and November 01, 2022 please find enclosed herewith the transcript of the earnings call with the investors and analysts held on November 01, 2022.

Only information available in public domain was given to the investors/analysts.

This information 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 Loni
Company Secretary & Compliance Officer
Place: Navi Mumbai

Encl: a/a



**“Fino Payments Bank Limited
Q2 FY ‘23 Earnings Conference Call”
November 01, 2022**



MANAGEMENT:

**MR. RISHI GUPTA – CHIEF EXECUTIVE OFFICER –
FINO PAYMENTS BANK LIMITED**

**MR. KETAN DHIRENDRA MERCHANT – CHIEF
FINANCIAL OFFICER – FINO PAYMENTS BANK
LIMITED**

**MR. ANUP AGARWAL – FINANCIAL CONTROLLER –
FINO PAYMENTS BANK LIMITED**

MODERATOR: MR. RAJAT GUPTA – GO INDIA ADVISORS



*Fino Payments Bank Limited
November 01, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the Fino Payments Bank Limited Q2 FY '23 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 touchtone 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, Faizan. Good afternoon, everyone, and welcome to Fino Payments Bank Limited earnings call to discuss the Q2 FY '23 results. We have on the call with us today, Mr. Rishi Gupta, Chief Executive Officer, Mr. Ketan Merchant, Chief Financial Officer, and Mr. Anup Agarwal, Financial Controller. 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 will open the floor to Q&A. Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. Good afternoon, ladies and gentlemen, and thank you for joining us today for our earnings call. This quarter makes us the 21st quarter old in our banking journey, and I'm amazed to see the progress we have made over these past few years. Our vision was to make financial services to the last mile through technology-enabled solutions. As a bank today, the vision remains the same with focus on growth and profitability.

I would like to express that with each passing quarter, our confidence increases that we are on the right path and the right direction. The way we have grown in the last few years, especially during the last few quarters of macro issues, has given us more confidence that we'll be able to navigate through any uncertain environment.

Over the years, we have created relevant products to service our customers. Our products like, domestic money transfer, micro-ATM, Aadhaar enabled payment systems, make banking easily accessible to the lowest set of the population and offers them differentiated services. Basically, we are a bank for the common man. We are giving impetus on scaling our CASA and CMS verticals, which is also evident from the strong growth we have seen in these business segments in the last few quarters. We also believe that through cross-selling, these products will be able to boost our profitability.

Given our performance during the first half of '23, I'm confident of a strong H2. While Ketan will discuss the quarterly numbers in detail later, I would like to take this opportunity to discuss in brief a few highlights for the quarter.

If I move very quickly to Slide Four and Slide Five on the investor deck, we continue to deliver very strong revenue growth. In quarter 2 FY '23, our revenue grew by 25% over last year and we are confident of growing at 25% over the next few years as well. Additionally, this was one of our best quarters in terms of profitability as our EBITDA came in at INR 30.5 crores, which grew 71% on a year-on-year basis, and our PAT came at INR 13.8 crores, which grew at 75% on a Y-on-Y basis.

Our net revenue margin, which is a very important parameter for us, our net revenue margin increased from 30.3% to 30.9% in this quarter. Correspondingly, our net profit margin improved from 3.5% to 4.6%, not only on better revenue margin, but also on account of better cost controls.

We continue to grow our distribution network. That's the foundation, which we are building. Total merchant network at 12.2 lakh ending quarter 2 FY '23 was sequentially at 7% higher. Our digital footprint continues to expand, which grew at 208% on a year-on-year basis in Q2 FY '23.

Coming to our key focus areas of CASA and CMS. We opened 7.6 lakhs accounts in quarter 2 FY '23. This is by far our highest numbers we have achieved in the history of Fino. And this was against 6.2 lakhs, which we achieved in quarter 1 FY '23, taking our total accounts opened to nearly 60 lakhs, setting the base for a strong potential in cross-sell and upsell. Our renewal income, which is the annuity income, also has a substantial growth. It went up by 153% year-on-year basis, leading to an exponential growth in our annuity business.

While digital is catching up in rural and we are pushing that as well, cash is still the preferred mode of payment. Our CMS, the payment services, which we do on behalf of corporates, of which we have roughly 161 corporates as of now. Our CMS throughput continues to see strong growth momentum and we have already achieved 82% of our FY '22 throughput.

If I move on to Slide Six and Slide Seven, you can see the growth we have seen over the last couple of years, including half yearly and quarterly performance and our operational efficiency has led to continuous decline in our cost-to-income ratio. Additionally going forward, we are confident that we'll be able to further improve our cost-to-income ratio.

Slide Eight, if I look at, our product mix is evolving and moving towards high-growth and high-margin products like CASA and CMS, which shows that continuation on this across our digital impetus, CASA and CMS now constitutes 26% of our revenue, ending in quarter 2 FY '23 versus 16% in last year in quarter 2. That's a substantial 10% growth on the overall revenue on CASA and CMS, which is in line with our guidance which we have been sharing in the past.



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If we move on to Slide Nine, again a very important slide. Our subscription revenue share has gone up to 30% from 25% on a quarter-on-quarter basis, suggesting sustainable annuity income. Our focus on driving our business, which delivers relatively higher margin, is visible from the fact that our own business now constitutes 64% of the revenue compared to 62% in quarter 1 FY '23.

We maintain a strong growth outlook and our aim to achieve 2 million distribution points, 20 million CASA customers, double the wallet share on active customers to INR 1,000 per customer and increase digital footprint over the next three years, four years that is the goals, objectives on which we are working on.

Business momentum is good. Operating leverage will come in play, as you can see in this quarter as well, and monetization of transaction business into customer ownership will lay the foundation for cross-sell in the years to come. Investing in our FINO 2.0 avatar, we are targeting to reach out to our customers who are rapidly adopting to digital means of communication, entertainment, and payments. We are confident of growing at over 25% over the next few years, given that we are continuously increasing and widening our distribution network and adding new customers and products.

The journey ahead looks exciting as we aim to continue the momentum and explore growth opportunities. Overall, I can assure you that everything we do at Fino, our endeavor is to create a sustainable and creditable bank. With this, I would like to hand over to Ketan for his comments on our financial performance. Thank you.

Ketan Merchant:

Thank you, Rishi. Good afternoon, ladies and gentlemen. As Rishi mentioned, this is a very strong performance and a strong quarter for the company as a whole. Our financial performance was driven by strong operational performance and is a result of investments which we have done over the past five years in the business model.

Again, as Rishi mentioned, this quarter 2, we have completed almost 21 quarters of operations. However, point to reckon out here is, with 11 of those quarters have shown consistent profitability since the time we had broken even in quarter 4 FY '20. The unique thing about this journey has been the way we have evolved our customer relationships and our strong focus on customer ownership. You will see our focus on these aspects when I dwell into each of the segments.

Starting with CASA, Rishi has mentioned about our CASA journey as well. And I draw your attention on Slide 24 of our presentation. Our customer acquisition rate is on massive rise. This not only generates a subscription income, but also a strong renewal income, which is like an annuity income.

During H1, we opened 13.8 lakhs accounts, a 66% increase on a Y-o-Y basis, out of this, 7.6 lakhs accounts were opened in Q2, which is an increase of 1.5-x as compared to earlier quarter.

Now it's not only about opening accounts and it is also about diversification. I'll just give you some data in terms of the states where subscription accounts have been opened for this quarter.

MP constituted 18% of the new subscription accounts, followed by Uttar Pradesh which was 16%, Bihar 15%, Maharashtra 7% and Gujarat 6%. This also dovetails with our philosophy that we have further penetration to be done. Some of these models have worked right in our core areas and we are attempting it to replicate in East and South as well.

This is a key focus for the company, because this also becomes the baseline for FINO 2.0, which dovetails from the strong CASA base of FINO 1.0. Over here, I would like to mention that 34% of these accounts are active on digital payments as at 30th September.

Another key point which needs to be discussed is the growth of subscription revenue and overall debit card spend, which basically is a good indicator of business model predictability and shows how our presence in a digital ecosystem is unique. On a Y-o-Y basis, CASA grew by 97% in quarter 2 FY '23. Again, in terms of the CASA revenue, which are the states contributing it. In the descending order, MP, Madhya Pradesh constitutes 20%, Bihar is 18%, Uttar Pradesh is 15%, followed by Maharashtra 8% and Gujarat 6%.

Another important data point from a customer loyalty angle is average debit card spends. On a Y-o-Y basis, in quarter 2, overall debit card spends grew by 106%, while spends per transaction grew by 12% on a Y-o-Y basis.

Before I move to other segments, I would like to briefly discuss the digital investments of the FINO 2.0, which is natural extension of FINO 1.0, and which we've explained in the earlier call as well. And this investment has now started showing initial results.

The digital throughput is now 17% of total throughput and stands over INR 10,000 crores. The increase on a Y-o-Y basis is almost 3-x and this is extremely encouraging because this becomes the base for future cross-sells, which in turn would generate more fee income for us.

The next growth driver for us is CMS business. And here, I would like to draw your attention on Slide No. 26. CMS is a B2B business, and we enjoy a strong leadership position out here. On a Y-o-Y basis, the throughput in quarter 2 is doubled to over INR 10,000 crores. We have diversified base of 161 partners, and this comprises not only of NBFCs, but also e-com players, cab aggregators and diversification was our focus out there.

The diversification of partner base was a key focus, as I mentioned, and is showing results in terms of the growth of CMS, while the gross margins on a Y-o-Y basis are a little lower than what we saw last year, this has been our conscious strategy. The margin out here is in excess of 40%. Our strategy on CMS is to increase volume and maintain a healthy margin in the range of 40%.

Coming to the other transaction income or the transaction aspects of our business, which -- whether it's DMT or micro-ATM and AEPS, which are essentially the hook for our subscription business or for our other growing products.

On the remittance side, we were the first mover and it is also the oldest Fino product. We continue to enjoy leadership position here. It's a mature segment, but still important as it's a hook product, which I just mentioned it up, and enables entry into the Fino ecosystem. It is up to us and our field staff and our merchants, how do they capitalize the conversion or the footfall, which comes on account of remittance or micro-ATM or AEPS.

We registered a 28% growth in Q2. We saw a margin compression because the share of the open banking channels has relatively increased on a Y-o-Y basis. We mentioned earlier as well, we are attempting to manage -- or we have a fine balance between open banking and our own channel in the ratio which we discussed earlier.

I now briefly cover AEPS, which has shown strong growth on all parameters. The point to recon now clear is the industry overall grew by 13%, though the throughput on Fino ecosystem increased by 53% in quarter 2. As a result, we've been able to significantly grow our market share from 13% to 9%. Point to recon again out here is, this has been a blend of our own as well as the open banking channel.

Coming to micro-ATM, while it continues to be a challenging segment; we are maintaining our dominant position though in terms of the way industry is. Cumulative market share of top five players at 83% of September 2022, Fino share in micro-ATM is more than of top banks like HDFC Bank, SBI, Kotak and IDFC.

While competitors are aggressive on commercials, we have ramped up devices to own merchants and registered a 10% growth Y-o-Y in active terminals on own channels. On an overall basis, we are performing in line with our internal targets. And we are stretching our teams in terms of the high-margin products to grow. We are delivering the growth of 25%, which we had mentioned in terms of guidance, and H1, we had seen a growth of 32%. Our bottom line is growing disproportionately as we had envisaged because of the model which we are running.

One more point, which is actually has being shown in the numbers essentially as well is the operating leverage play. This is very clearly evident from the cost income ratio of 26% in quarter 2 '23 versus 30% in quarter 2 '22. As Rishi said, we will continue to focus on controlling costs and minimizing costs and thereby enhancing our EBITDA and PAT margin. The digital throughput is increasing. We continue to invest. We have a long-term strategy on cross-sell, upsell and digital, along with our customer acquisition speed, which is on.

With this, I would like to open the questions for -- the floor for questions for Rishi and me and Anup to take. Thank you.



Moderator: Thank you, very much. We will now begin with the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Reminder to the participants, anyone who wishes to ask a question may press star and one at this time. The first question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have three questions. My first question is actually on the number of micro-ATM in the industry. So basically, I went and saw that RBI has revised all their historical data on the number of mATMs in the industry, and like I understand that there was a market share loss which was happening, but overall, also the market share now looks lesser than what the earlier RBI data had. So if you can help us understand what exactly happened over here and how have historical data of past two years, three years been revised. First is that.

Secondly, in your CASA, while your subscription and renewal income is expected to be strong, the other than subscription and renewal income for this quarter is also quite strong, what we call the SMS and other charges, right? If you can talk about what exactly is happening over there?

And overall, if you can tell me for the financial year FY23 if you have any guidance on what kind of gross margins or PAT margins can be build-in, because for both -- for the first 2 quarters, we have had a gross margin of 30.3% and 30.9% now, which is sort of behind the kind of trends we used to have earlier, which could be 33%, 32%, right? So if you could give us some guidance about the full year margin?

Rishi Gupta: Thank you, Shreya, for your question. See this RBI data on market share, I have not seen that data. And let me see the data and probably I'll come back to you on that, because we have to understand the parameters RBI has taken in their revised calculation. So we'll come back on that.

As far as your CASA subscription, SMS and other charges are concerned. As you can see, the CASA numbers are growing, as well as the numbers on the renewal itself has grown substantially. Now CASA constitutes 18% of our total revenue. And CASA renewal has grown by 1.5x on a year-on-year basis. So what is your question specifically -- on SMS and other charges?

Ketan Merchant: Let me attempt to take this question of -- Shreya, if I understood your question right. In addition to the renewal and the subscription revenue the non-subscription revenue has also been growing, right? That is that. So the answer to that, essentially lies is that, whilst 85% or odd is our subscription revenue, the growth is also being seen in non-subscription customer accounts as well. And here the state-wise geography is slightly different. Bihar is leading the pack in terms of the non-subscription revenue or the accounts which are not subscription based.



However, as a philosophy, our philosophy is to have more-and-more kind of a subscription accounts because that gives us an annuity income. But there has been a growth, specifically in Bihar, MP and UP in terms of the non-subscription CASA revenue as well.

Shreya Shivani: Okay. So you're saying that these are the non-subs, so how many products do you have in the non-subscription CASA category?

Ketan Merchant: So Shreya, the way it will essentially work is we have -- we have two products which are essentially there and we also have a Bhavishya Account, which is for the minor as well. Our main focus essentially goes, as I'm again saying it off is, the main variant is of 449 variant, which is there for subscription. And after that, we have two variants, more which are on a non-subscription basis as well. But the focus is subscription.

Shreya Shivani: Got it. And my last question was on the margin guidance, Ketan?

Ketan Merchant: So Shreya, on the margin piece, I've been saying across all the calls as well that we'll be balancing our margins between growth and profitability. The shift which has essentially happened between last quarter to this quarter is the share of our own banking. Our own banking share, which is a higher margin, has increased. So our focus for the H2 essentially continues to have that ratio.

Eventually, we want to shift and which is what we have said earlier, over the next couple of quarters and more going into a two third, one third kind of a scenario. And once that happens, there is a natural increase in the margin as which we have seen. Also to add both the growth drivers, one is CASA, that carries a margin of 58% and CMS is carrying a margin of 41%. And those are the growth drivers, which are going to happen for H2 and subsequent quarters as well, so we are expecting a reasonable increase, a steady increase, not an overnight one quarter increase into the margin.

Shreya Shivani: So 1H you are planning to put more of the products, which are sort of on your own banking channel or your CASA and CMS, right?

Rishi Gupta: Absolutely.

Ketan Merchant: Yes.

Moderator: Thank you. Reminder to the participants, anyone who wishes to ask a question may press star and one at this time. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Congratulations for a good job done. So I had only one question. We see a borrowings number of around INR 700-odd crores in the balance sheet. Given the fact that we are largely -- or we are a payments bank, why are we kind of carrying this kind of borrowings?

Ketan Merchant: Ashish, thanks for this question and it's a very good question. Whilst we keep on canvassing ourselves as a transaction bank, and which is what we are, wherein 95% plus of our revenue comes from fee income. At the end of it, along with our banking license, we have some leeway in terms of overnight borrowings. If you see, yes, the borrowings are INR 700 crores. But if you see on the asset side, you will see that investments are essentially INR 1,200 crores.

So there is an opportunity, which we have got that where we have borrowed and we have also done G-Sec investment. These are risk-free G-Sec investments, and there is a natural spread of anywhere in the range of 60 to 80 basis points as well. So this is how we are essentially doing it up. One more aspect which is borrowing is sometimes uses for overnight settlement at times, which is required for working capital kind of a thing.

So both these numbers taken together, and to be looking at the kind of the investment asset growth with the 60 to 70 basis point margin or spread, which we are looking at, is our reason for high borrowings. And these are overnight borrowings.

Ashish Kumar: But in the current environment where the interest rates have become so volatile, do you not see that the risks have been gone up or is there an MTM loss that we have had? Or are the investments also less than a year?

Ketan Merchant: Thanks again, a fantastic question. The kind of margin which we are essentially having it off, it's a straight curve which is happening. So whilst overnight rates are also increasing it up, we cannot go for a very long-dated investments, because as a bank, most of our investments, barring own funds, have to be within one year kind of a thing. There is a re-pricing of assets also essentially which happens off.

So there has been a stress testing, which was done as well, and we had a good cushion when the entire thing has done. Now in last six months' time, we've almost seen a 190 basis point increase in the interest rate. I can still say that there is a healthy margin, which we are still coming off because of the nature of the curve, which is there.

This situation can come if we are -- if any bank is very long and there is an inverted curve. But we can't be long or we are not long and there is no inverted curve, which is there. And as I said, this is not a long-term strategy or this is not a strategy. These are incidental benefits which we just try and get out of our license.

Ashish Kumar: Okay. Now that's helpful. So on an MTM basis we are saying that we haven't taken any loss -- MTM

Ketan Merchant: No, there is no loss, which has come on account on MTM basis.

Ashish Kumar: Okay. And even after this gain from this thing, we are still at 11% ROE. So when do you expect us to kind of cross a 15%, 16% ROE threshold?

Rishi Gupta: So the way the numbers are going to go up in the H2 and maybe in FY '23, '24, you should look at an ROE of above 15% for sure in its FY '23, '24.

Moderator: Thank you. Reminder to the participants, anyone who wishes to ask a question may press star and one. The next question is from the line of Sri Karthik Velamakanni from Investec. Please go ahead.

Sri Karthik Velamakanni: I want to focus on your CMS business, where obviously the growth rates are very high. But from what we understand, speaking to a lot of the micro finance and NBFC management teams, they are focusing a lot on digital collections and especially using UPI for collection. How do you see the risk of this business getting disrupted by the product made by NBFC management to decide the selection process?

Rishi Gupta: So good question. So when I look at the CMS business, and we have roughly 161 clients and you can see the number has grown substantially over the last one year. Our CMS throughput has also crossed INR 10,500 crores, which is a 94% growth on a Y-o-Y basis. Now it constitutes roughly about 8% of the overall revenue for us.

For us, what is important and Ketan mentioned in his speech in terms of the diversification, which we are focusing on the CMS side. At one point, our NBFC and the NBFC MFI portfolio was roughly about 85% to 90% of the overall number. Now that number has come down to roughly about 60% also. So substantially, we are able to diversify ourselves in other businesses also. Not only the fact that we are engaging with NBFCs, NBFC MFI, we are engaging a lot with e-commerce, logistics companies, cash management companies, even banks have now started to use our portfolio or our CMS business, which we do largely because of large distribution, which we have been able to set up across 12.2 lakh distribution points across the country. So we see the CMS business for us is still at a stage where we can grow at a good growth rate.

As you can see in this year alone, we have grown substantially over our growth, which we had last year, because of the effort, the teams are doing both at the supply side as well as on the demand side. And a large part of the CMS inflow is also used for cash withdrawal purposes. We don't expect that the business will slow down at least for some time on the CMS side as you go forward.

Sri Karthik Velamakanni: The other question is RBI has launched the UPI facility for feature phones. Have you seen a rapid take-up of that into hinterland?

Rishi Gupta: So right now, it is more of a -- stage -- in the pilot stage itself. So once it gets rolled out, then we'll have to look at it. But we had seen the star 90, star 9 feature also, which came out a few years back. Feature phone usage for payments is still not very easy, comfortable mode like smartphone. But we will have to see how the results of the pilot goes by and then we'll be able

to come back. Maybe another few quarters it will take for us to see how it will feature. The USSD experience, did not go that well on the feature phone side.

But if the feature phone experience on the UPI goes well, that will be good for us also, because that will lead to further stickiness of the customer. Our UPI throughput will mean it will go up, and we can see -- expect a higher subscription income coming for us. So UPI, while it may be a cost on one side, but we look at this as a stickiness, as a cross-sell opportunity for us. And the data which we are seeing is that the customers who are more active on the UPI side, their renewal rates, their balances are far higher than a non-UPI customer.

Shri Karthik Velamakanni: And lastly, there's been some talk about increasing the inter-change in micro-ATMs and some of the other AEPS products, etcetera. Have you seen any progress there?

Rishi Gupta: So this has been a long-standing demand from the industry that when the ATM charges were increased from INR 15 to INR 17, the same should be done for micro-ATM AEPS. I think this is still under discussion. We have not factored that increase in our projections and we continue to work on the current pricing mechanism. But we will be very -- it will be good for us from a financial point of view, if the price increase happens sooner than later.

Sri Karthik Velamakanni: So when you define your take rate for both AEPS and micro-ATM, it's just an implied take rate, right, based on your average ticket size?

Rishi Gupta: Yes.

Moderator: Thank you. Reminder to the participants, anyone who wishes to ask a question may press star and one. The next question is from the line of Umang Shah from Kotak Mahindra AMC.

Umang Shah: Just a few of again. I wanted to understand, let's say, if we were to look out -- look for almost like, let's say, six to eight quarters out, how should we vision our revenue mix? I mean, clearly, our growth drivers are kind of changing? And given that CASA and CMS both are now reasonably sizable in the overall revenue pool, so how should we look at the revenue mix going forward?

Ketan Merchant: Umang, thanks for the question, Ketan here. I think let's just do it in two aspects. One is we've said that on an overall basis, we try and grow by 25% and we are on essential track out there. You are absolutely right that we are -- the base of CASA and CMS are increasing it off and in the past we've seen a growth of 97% or 86%. With the higher base, definitely, this kind of growth will not come in.

However, in our anticipation, we are looking at anywhere in the range of 35%, 40% plus kind of growth on a sustainable basis over the next eight quarters. This may also be in a manner that in the immediate couple of quarters, the growth may be higher. Overall, a 40% kind of growth or 35% to 40% kind of a growth is what we are envisaging on CASA and CMS.

However, the point to note essentially out here is it is not only currently these are growth drivers. As Rishi just mentioned it off, our customer acquisitions will also have the avenues of cross-sell and upsell with the digital stack also which we are making of. So there is an element of other products also which will come through.

We have also got some new products. And I've mentioned it in my earlier call as well that maybe FY '23 or last quarter or subsequent year first quarter is where we should -- we can start having some sort of income, which will be bottom-line coming from these products as well.

Umang Shah: Okay. And -- but just a little more clarity on CMS. So have we also ventured into retail cash management services or it's still predominantly e-commerce players, NBFCs and the likes of them?

Rishi Gupta: We have also ventured into retail services also and constitutes of roughly about 2% of our overall 6.5% of the overall customers -- of the overall collections for the month of September.

Umang Shah: The other question was on your guidance related to the ROE achievement. Let's say, if we were to target a 15% sort of return on equity in FY '24 and a 25% sort of revenue growth, which implies that the margin expansion next year should be reasonably higher. Is that a fair assumption to make?

Rishi Gupta: Yes. In fact, the number was minimum 15%. So we are not saying that we'll stop at 15%. Our own calculation, the way we are looking at it will be higher than 15%, but yes, 15% for sure.

Ketan Merchant: Umang, in addition to the margin play, this is also about the operating leverage, which both Rishi and I earlier mentioned it as well. With the volumes essentially increasing it off and the cost control measures, which we are putting will also give us a higher leeway in terms of PAT margin and eventually a higher ROE in addition to the margin which we just discussed.

Rishi Gupta: So Umang, what I would say from my lane is that is, for me this quarter two FY '23 was a directional number. If you look at across the segments, on revenue side, on net margins, on EBITDA margins and on PAT margins, on your API versus own, you would see across all the parameters, this is -- there has been a jump. Somewhere it is substantial jump, somewhere it is -- the numbers are lower.

But on an average, there has been a jump which is there. So from us directionally when we look at it, you can make your own assumptions how the direction will be over the next six to eight quarters. But we are quite confident looking at the efforts and the results we have seen in quarter two.

Directionally, as I mentioned also in my opening remarks, directionally, we'll see to be a better place or in terms of most -- a lot of control on revenue as well as on cost as we move into H2 and then into -- for FY '24.



Umang Shah: Okay. And just last clarification, which I wanted on Slide number 24. We have debit card spends per transaction. This includes just the cost spends or also ATM withdrawals?

Rishi Gupta: This has also include the ATM withdrawals, all put together.

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

Ashish Kumar: I just wanted to check in this the CASA accounts that we opened up, between the subscription based, and having our own CASA-based accounts, does it now -- given the fact that the interest rates have moved up by almost 200 basis points and we're more at normal. Does it make more sense to have those CASA customers as our own customers? Or does it make sense for us to still pass them on to another bank on a subscription-based?

Rishi Gupta: So in this -- sorry, let me just clarify, Ashish. Whether you -- whether it's a new CASA customer or a subscription, this is our own customer only, because subscription means that is in the second year, new means is first year. So that's the only difference with the second and third year, maybe fourth year, but that's the only difference. So whether you look at new CASA subscription, they are our own customers, whatever we opened for another bank comes under BC income. So those numbers are not included there.

It's good you pointed it out. So let me clarify for everybody on the call. The CASA number of 7.6 lakhs is Fino customers. Fino customers have opened account in Fino banks, not -- which who have opened accounts through Fino in some other banks. That number, we don't mention in this and that is -- that goes into the other bank.

But these are our own customers. And you are right. So as you would see, our deposits have also gone up substantially in the last one year because of the base, which is just grew by 77% on a year-on-year basis, which is substantial growth. And obviously with interest rates becoming better, we are expecting a higher treasury income on these accounts.

Ashish Kumar: Sure. And how do you see the CASA number? Because it's almost, as you said, it's gone by almost 75%, 80%. So how do you see that number balance, let's say, in the next couple of years? Do you see that 70%, 80% CAGR kind of a number or 60-plus kind of a CAGR on that number?

Rishi Gupta: So the base itself has gone up now, 60 lakh accounts we have. And while we believe there are a lot of people who already have a bank account but would like to come to Fino Bank because of multiple convenience, simplicity, responsible bank, all that put together.

So we believe the numbers will keep on going up. To look. at 60%, 70% growth over a higher base maybe a little bit stretched. But definitely, we are looking at -- like we have done about 2.5 lakhs on an average in this quarter. Our target would be to look at 3 lakh plus over the next couple of quarters as such, maybe in the quarter 1 or quarter 4 of FY '23 or FY '24, we should look at an average around that number.

So we will continue to focus our strategy, as I mentioned also, is moving from -- is not moving, it's adding to our transaction income. So as the transaction income keeps on going up, we keep on adding more customers and then it leads to more higher annuity income. And then a host of other benefits, which we get whether on treasury or otherwise on CASA.

Plus the renewal income in the next year gives us a substantial higher margin product because in the second year, we don't issue a debit card, so that cost we saved. So substantially, the margin goes up by about 15% to 20% in the next year, when it comes up for renewal. So CASA is a very good strategy from transaction to ownership to cross-sell is what we are focusing on as we continue in our payments bank journey.

Ashish Kumar: Sure. And in terms of CASA just remind me, how much do interest do we pay the customers?

Rishi Gupta: 2.75%.

Ashish Kumar: And do you see that given the fact that some of the other competition started to increase rates, do we see that that kind of increasing?

Rishi Gupta: I don't think so because in our case, savings, people have looked at fixed deposits as a saving mechanism money, which are there in savings accounts are largely transaction money. If I look at any new -- even SBI has come down. They have reduced their rate, while they have increased on the FD. On the savings account, they have reduced it from 2.75% to 2.7%, something like that. So I don't expect that the savings account interest rates are going to substantially or go up in the next year.

Ashish Kumar: So Rishi, what I was trying to ask is that while we are at 2.75% and we compare ourselves to some of the larger names. But if I look at it slightly differently, our average CASA balance is around INR 10,000 per account.

Rishi Gupta: No, it's about INR 1,100 per account.

Ashish Kumar: INR 1,100 -- sorry, INR 1,100 per account. So is there a way to kind of increase that number substantially higher given the fact that we already have these customers to buy a factor of 2x, 3x, by let's say, offering us staggered interest rates, so that people don't even have to go for FDs to the other banks because a lot of the merchants might be having a much larger cash balances.

Rishi Gupta: So in our case also see, Fino -- money which people keep in savings account in Fino is largely for transaction purposes. We don't promote ourselves as a deposit-taking bank. We promote us as a transaction bank. And people who transact more with us, whether through our multiple debit cards, withdrawal options or UPI or digital, tend to have higher balances as such.

In one of our slides, in fact, we have mentioned that in the first quarter of FY '24 -- FY '23 versus FY '22, our average balance has gone up from INR 1,100 to INR 1,490 around that level. So you will see that as we are going forward, our balances and the customers are also growing. That is again a factor of more transactions under trust, which is getting built up from a customer point of view.

And your point is well taken. We are pushing, yes. So FY '21 to FY '23 from INR 1,107 to INR 1,490, if you look at Slide number 11. So your point is well taken. And we are also trying to see if we can build -- push more on building up balances in those accounts because now with the treasury income or some income coming on the treasury side, it becomes beneficial for us.

We believe through making them more transacting more active through a lot of nudges, which we do whether through our own platform or to clever about platform, we believe we have seen a growth in our balances and that is the journey we will continue to push. So you should look at the higher balance growth in the years to come.

Moderator: Participants to ask a question you may press star and one. The next question is from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: I have a few questions. One is can you just share where are you just in terms of realization on a CASA account right now. And --

Moderator: Sorry to interrupt you, Mr. Sridhar. The audio is not clear from your line, sir, please check. Mr. Sridhar, your audio is breaking from your line, sir. Mr. Sridhar, we request you to please rejoin the question queue.

Rishi Gupta: Chandra we are not able to hear you.

Moderator: Sir, we'll take the next question from the line of Kamal Khatri from ASML Holdings. Please go ahead.

Kamal Khatri: Actually, I have three questions, one is when you mentioned your CASA income; does that also include the interest income, which we earn on the customer balances?

Rishi Gupta: Yes.

Kamal Khatri: What's your plan on the BC income? We have seen that it is reducing from quarter-on-quarter. So what's the long term plan on that? And I was also seeing your employee cost has reduced. It has reduced marginally, but what is the reason for reducing the employee cost?

Ketan Merchant: Yes. So Ketan, here, I'll just take your question in maybe the reverse order first. There has been a reduction in the employee cost, a marginal reduction. As we said, we are working on the operating efficiency kind of a thing. We have had a reduction of around 80 people in terms

of our headcount and that is what it is leading to. One is that. Second aspect was in terms of your CASA, right? Sorry, can you just repeat your CASA part?

Ketan Merchant

Sorry, I will take the BC one. BC income, yes, we had been saying that as a strategic part, we see income is something which we continue to process with some kind of our existing clients. It is not, have been identified as a growth driver. Our focus is increasingly shifting to a B2C kind of a product where we have larger control and lesser volatility as well.

So from a BC standpoint, in times to come or in a couple of quarters and a couple of years, do we see a strategy of growth out there? Our consistent message essentially is no. We will sustain the current existing client and try and make more out of that rather than aggressively pushing for an increase in our B2B income. This is line with our strategy to enhance the B2C. Sorry, the third one was on the CASA. And your question was, does it cover the treasury income on CASA, right, that's the question was?

Kamal Khatri

Yes, that's right.

Ketan Merchant

No, that is coming into others. That is separately classified. This is essentially largely transaction-based CASA income.

Moderator:

We'll take the next question from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar:

Sir, I just wanted to know what's the realization right now which you're making on the CASA per subscription? And while you said the renewals are up 1.5x, what have been the renewal rate?

Rishi Gupta:

So on the realization is roughly around INR 360 to INR 375 per account, which is there on the show. On an average, if I include the subscription and non-subscription put together, will be around INR 325 or so. And on the renewal rate, as you mentioned, we are at about 60% odd in terms of recovery on the renewal side from the CASA, from first year to the second year and the year onwards. I hope it answers your question.

Chandrasekhar Sridhar

Yes. And do you think some talk which you made that you're kind of sort of thinking of a small finance bank license, I don't know what your thoughts are on the same.

Rishi Gupta:

So there has been a lot of discussions we have been doing on this as such from a small finance payments bank to small finance bank. And if I review from a lot of bankers as well as RBI angle it's a natural transition, which is there. From a business sense point of view, it makes more business sense as it enhances our product bouquet. So we look at payments bank to SFB as an enhancement of a product bouquet rather than a lending bank per se. So there's a big difference in the thinking.

We are a transaction-focused bank. Our 100% income comes from transaction roughly INR 1,000 crores plus of the transaction income, which we did last year. Our business is the way we build up is through merchants rather than branches. And with merchants also, we have been able to raise maybe INR 1,000 crores of deposits put together. So that's been a unique model, which is there.

So even if we convert or transition into an SFB over the next two, three years, it's going to be largely a transaction-focused bank, where data monetization will play a big role. And it will not be an asset-driven bank to a large extent. It will be a cross-sell transaction-driven bank. That is what we -- on the lines that which we are thinking when we look at as an SFB.

Just to clarify, SFB will be up roughly about 18 to 24 to 30 months process, depending on when you apply, you get approval, then you transition, you get the technology in place. So it is not going to happen over the next -- the conversion or transition may not happen over the next 18 to 24 months.

Chandrasekhar Sridhar: And just -- can I ask you, where are we on a tax shield right now? Just how long do we go on a zero tax rate?

Ketan Merchant: Yes. So currently, Chandra, Ketan here. Currently, based on our internal modeling, essentially, which we have done is, we will continue to have the accumulated losses coming to us for this year and part of next year as well.

Chandrasekhar Sridhar: Okay. So for the next year, somewhere in the middle of the next year, you start doing that?

Ketan Merchant: Depending upon the kind of the growth rate which we are essentially going through.

Chandrasekhar Sridhar: Understood. And just now just given where the market cap is and given that we have some -- there is a reasonable amount of cash. Is there a thought process on any buyback or something which you're doing or are we restricted because of Fino PayTech shareholding?

Rishi Gupta: We are not -- at this stage our focus is on building the bank and to focus on our performance percent. You can see the numbers are showing on that account. We are not looking at any buyback at this stage.

Ketan Merchant: I think Chandra, just to elaborate on this. The primary proceeds, which we have raised, we essentially wanted to put to use for making a good profitable digital tech-savvy bank, which could generate the ROE, which Rishi mentioned in the earlier call as well. So that is where our thought process is that utilize it for these purposes and continue to deliver strong results, which is -- what we've seen in quarter 2 as well.

Moderator: The next question is from the line of Rahul, an Individual Investor. Please go ahead.

Rahul: So my question is on the borrowings and the subsequent investment.



- Moderator:** Sorry to interrupt you, Mr. Rahul. The audio is very low from your line. Please increase the volume of your device.
- Rahul:** So my question is on the borrowings and the subsequent investments you are making from that borrowings. So what is the kind of expected returns from those investments? And what that is the worst case and the best case return you expect?
- Ketan Merchant:** Yes, Rahul. I'll try and answer those as well. But let us actually reiterate it off what Rishi and I mentioned earlier as well that we are a transaction-led bank. We have a regulatory license, which gives us a leeway, but that is not our primary business. We are having some opportunities, which we will try and use it off.
- Now coming to the question, what is the kind of return, which is expected it out of this? We are anyway looking at somewhere around a spread of 70 to 80 basis points, which I had earlier said it up. In certain cases it was -- earlier it was also in the range of around 150 to 180 basis points.
- Our investment total not only constitutes borrowing, it also constitutes some of our balances, which Ashish was earlier alluding to. As a payment bank license all the customer deposits, which we get, we end up paying. On the saving account, we end up paying 2.75%. And we have the leeway to deploy it into 1-year G-Secs. And that's where the margin essentially is anywhere in the range of 300-odd basis points. And for all the reasons, which Rishi earlier elaborated, we'll try and maximize that in the current interest rate scenario.
- Rahul:** Okay. So I understand this is for short-term opportunistic investment, because if I go by the numbers you've shared like 70 basis points to 80 basis points. So it is not a huge number that we should be going after, right?
- Ketan Merchant:** No, I think I can reiterate. Yes, it is opportunistic. It was huge at some point of time. But we are not going to change our strategy from a transaction bank to a balance sheet bank.
- Moderator:** Thank you. The next question is from the line of Vishrut Bubna, an individual investor. Please go ahead.
- Vishrut Bubna:** So just wanted some more information regarding the 10% acquisition in PaySprint. Sorry, if I mistook the name. Just curious as to how you're integrating that into the current stack and how you all are going about it? And if there are any plans on further increasing the stake based on performance or any such parameters?
- Rishi Gupta:** So in the case of PaySprint is an entity which is building up an API stack. We have a substantial business from that. I'll just share the numbers. I'm getting it from my team. So we'll -- in terms of how much business we have done through PaySprint. We are also doing some technology development through them. We have done our first tranche of disbursement as

such. Looking at the performance, we may look at second tranche also by March, which is there.

Our total holding will be about -- 12.9% is the maximum holding which we are looking at. In this year, we have done business of roughly INR 6,500 crores of throughput through PaySprint.

Moderator: Thank you. The next question is from the line of Prasad Kulkarni, an individual investor.

Prasad Kulkarni: My question is basically on the product distribution business, basically third-party product distribution business, which is something like loan referral than third-party insurance product distribution and third-party mutual funds or distribution. So how is that business is shaping up presently, sir?

Rishi Gupta: So on the third-party products, we have been doing loans on graph of banks and NBFCs in the last few years. We on an average, you should do around INR 100 crores of loans for a bank. On top of it, we have started to also offer consumer loans as to the dealers and merchant loans also.

We have seen that there is a jump of roughly 47% in the quarter 2 over quarter 1 from INR 40 crores to INR 57 crores if I get the numbers correctly on our lending piece. Insurance, we -- from INR 40 crores to INR 59 crores, there's a 49% jump on our lending, which includes the gold loan as well as the other loans asset without the BC loan. BC loan is over and above this.

And on our insurance, we have started to partner with more insurance companies and we have started to see some uptake on insurance. Let me tell you both lending and insurance are our bottom line driven businesses rather than the top line.

Mutual funds, we received the approval from the regulators. We are in the process of integrating with the partner. So maybe in quarter 4 or -- quarter 4, we'll be able to do that. And also international remittance is also under user -- closed user group, as I mentioned earlier.

Prasad Kulkarni: Sir, one more question. Is there any plan to get into own insurance products for bottom of the pyramid or low ticket mutual funds?

Rishi Gupta: So we will do it through partners only. We don't plan to platform insurance as in sort of mutual fund like that.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Sheryl Samuel, an Individual Investor.

Sheryl Samuel: Congratulations on the excellent results to Fino team. My question is as follows. I believe there are some reserve merger plans from the parent company, PayTech versus payments bank. Could we get a state update on that?



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Rishi Gupta: So as per the regulation after five years of completion of the bank, we -- there is no promoter holding restrictions on Fino PayTech. So the plan to merge with Fino PayTech and Fino Payments Bank is definitely which is there in our Right now, we have not taken any internal approvals or applied to the regulator on the same. Whenever we will do, it will be noted to the stock exchanges.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Rishi Gupta: Thank you, everyone for your participation today. As you can see, a lot of hard work has started to give us better results both on the margins as well as revenues. Our strategy around diversification, adding more businesses on the ownership side has also started to give good results. The cost controls, the operating leverages have started to benefit us. And as we go forward, you should see better numbers coming from Fino in quarter 3 onwards, whether it's on the margin or on the cost controls and on the revenue side, so thank you for participating again, and stay invested. Thank you.

Ketan Merchant: Thank you very much.

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