August 03, 2023

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 July 31, 2023 - Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Ref: Earnings call with Investors and Analysts on July 31, 2023

In continuation to our letter dated July 24, 2023 please find enclosed herewith the transcript of the earnings call with the investors and analysts held on July 31, 2023.

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
SHIVANAN
D LONI

Digitally signed by BASAVRAJ SHIVANAND LONI
DN: c=IN, o=PERSONAL, title=8681,
pseudonym=be15eaffcf4dba3971e30ee1105428c2005facbaa7a7dccb6fc8a38bea5a7e0f, postalCode=410206, st=Maharashtra,
serialNumber=6218379125ad35ea1f529e34fdc467e4ab710ca0b69d84550d035b80b5898171, cn=BASAVRAJ SHIVANAND LONI
Date: 2023.08.03 15:38:33 +05'30'

Basavraj Loni
Company Secretary & Compliance Officer
Place: Navi Mumbai

Encl: a/a

"Fino Payments Bank Limited
Q1 FY '24 Earnings Conference Call"
July 31, 2023

MANAGEMENT: **MR. RISHI GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FINO PAYMENTS BANK LIMITED**
MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER – FINO PAYMENTS BANK LIMITED
MR. ANUP AGARWAL – FINANCIAL CONTROLLER – FINO PAYMENTS BANK LIMITED

MODERATOR: **MR. RAJAT GUPTA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Fino Payments Bank Q1 FY24 Earning Conference Call hosted by Go India Advisor. As a reminder, all participants will be on listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your 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, hi. Thank you, Leba. Good afternoon, everyone, and welcome to Fino Payments Bank earnings call to discuss the Q1 FY24 results. We have on the call with us today, Mr. Rishi Gupta, Managing Director and Chief Executive Officer, Mr. Ketan Merchant, Chief Financial Officer, and Mr. Anup Agarwal, Head, Investor Relations.

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

Rishi Gupta: Thank you, Rajat. Good afternoon, ladies and gentlemen. Thank you for joining us today for Fino Payments Bank earnings call. My opening remarks this time will be a bit longer because of the strategic initiative we have announced, so please bear with me. FY23 was a great year for us, and FY24 has started on a very positive note. Our TAM strategy, which is transaction, acquisition, and monetization, is delivering good results. We are happy to announce that this quarter's performance is a step in the direction to achieve the aspirations we have set for ourselves for FY26.

For the quarterly performance, we registered our highest ever quarterly revenue of INR348 crores with 8% sequential growth and 21% year on year. PAT has grown 85% year on year at INR18.7 crores with EBITDA at INR40.5 crores which grew 72% on an year-on-year basis. Our total throughput crossed INR75,000 crores for the first time in the quarter, growing 25% y-o-y and the total number of transactions also crossed INR40 crores which grew by over 62% y-o-y basis. Our distribution network continues to grow, and we have now built a merchant base of over 14.4 lakhs.

Our growth of high margin products consisting of CASA and CMS now constitute 29% of the overall revenue compared to 21% a year ago. Our own channel contributed to 65% of the overall revenue, much in line with our range bound guidance. The subscription revenue now contributes to 34% of the overall revenue compared to 25% a year ago, demonstrating a substantial jump in just one year. We are adding on an average 2.5 lakh new customers every month to our base. Our customer base now stands at 8.3 million and is growing by the hour.

This is helping us not only increase our annuity income but will also augers well towards our long-term strategy of SFB. Before we go into strategic discussions on SFB, let me first dwell upon my thoughts on other key aspects which I am monitoring besides the business growth. Digital. Our business continues to see strong traction on the digital banking side as digital throughput reaches INR18,000 crores in Q1 FY24, growing at 94% year-on-year basis. Digital throughput is Now 24% of the overall throughput as compared to 1% in Q1 FY21, which showcases the strong significant strides we have taken on our digital initiatives.

We continue to contribute more than 1% of the transaction volume in the UPI ecosystem, which is much higher than many of the known established banks. During the quarter, we have opened 34,000 savings accounts on a digital platform through our FinoPay app. In order to enhance our digital footprint, we are partnering with Fintech and during the quarter we partnered with Sequoia Capital-backed Fintech Hubble to develop India's first spending account. It offers a digital savings account powered by Fino Payments Bank.

We are looking at many more partnerships in the near future. In overall scheme of things in the long run, facilitating digital penetration and that too in a profitable basis is a key impetus for us in our strategy roadmap. Now let me come to technology. While we don't invest in building a brick-and-mortar branch network, but we don't shy away from investing in technology. We believe technology is the backbone of payments bank and will continue to be the case in case of SFB as well.

In line with that approach, let me share that our technology upgradation of following the core as well as review of our existing core banking platform is on track to deliver a much superior technology platform to cater to the business growth and future product offerings. We will continue to invest in technology to be future ready and enhance our digital offerings. With distribution, data and digital at our core, let me dovetail into our strategic agenda. In line with our long-term strategy, we are happy to share that our board has given us the go-ahead to upgrade our banking license and convert into small finance bank subject to the regulatory approvals.

We will apply to RBI in the due course of time. It will take around 24 months subject to regulatory approval on time before we start, we start operations as an SFB. Also, board has directed management to evaluate corporate restructuring for group consolidation. The restructuring will help us in streamlining the group structure and build long term value. I know some of you have questions apprehensions on how Fino or how Fino's SFB will be different from other SFBs in the market.

Let me clarify and reiterate, Fino continues to believe in its core asset-light approach and fee-based profitability. It will be a differentiated SFB. Let me dwell a little bit on the strategy now. It will be enhancement of license thus enabling us to become a payments bank plus plus model which means ability to raise higher amount of liability deposits and also offering lending products. This being a twin engines of growth for any bank. Second, lending to a known customer merchant who have been transacting with us for the minimum of 1-2 years.

Meaning lending based on transaction history with lot of data analysis thus reducing the credit risk and building operational efficiencies in lending. The third approach will be on our Asset Lite approach. The Asset Lite approach by leveraging the existing distribution network, data and limited branch expansion backed by robust technology and tools. In any normal bank, you would see high fixed cost and high fixed asset model. But in our case, it will be very different with few branches and lot of merchants oblique BC points. These BC points will help in generating liability as well as will be the consumer of credit plus help us on lending as well.

Number 4, Fee based income will continue to be the core contributor to the revenue. Our own estimates show that 75%-80% of the revenue pie in the next five years will continue to be from the non-interest income compared to 10% to 90% for existing SFBs where 90% of the revenue comes from credit and only less than 10% comes from transactions, are really pretty much the opposite of that. Low cost of funds, that is higher CASA balance, our cost of funds will be 200-250 basis points lower than competition.

This I am already saying in terms of our experience right now and we would continue with that approach. At less than 2.5% average rate, we have been able to generate more than INR1,200 crores of deposit from our existing customers and merchants. We expect to substantially grow the liability franchise as our customer base crosses INR2 crores in the next 3-5 years. Boost to our existing payment services in B2B and B2C space. As you remember, we had mentioned that we are getting into payment space. We believe the B2B payment business is expected to grow once the limit of 2 lakh EOD balance restriction is removed post the SFB license.

We will be working on creating a very different SFB with no new requirements of capital to start with and will continue to be a transaction services bank with fee-oriented payment growth strategy and lending as one of the products only. We are committed to deliver superior performance and enhance shareholders' value. With this, I would like to hand over to Ketan Merchant, our CFO, to walk us through the financial results. Over to you, Ketan.

Ketan Merchant: Thanks, Rishi. Good afternoon, ladies and gentlemen, and thank you for joining our earnings call today. As Rishi mentioned, this quarter's performance showcases that we are in right direction towards achieving our stated guidance of FY'26 and will continue to grow at 20% Y-o-Y focusing on our acquisition strategy. As we mentioned earlier, our business model is such that with 20% annualized growth in revenue, operating leverage playing on, our bottom-line growth percentage is typically in the range of 2 or 2.5x of revenue growth.

Our profitability across past 12 quarters clearly demonstrate this strategic model approach is working to the core. Now let me start talking about the Q1 numbers. Our Q1 FY24 revenue is at INR348 crores which saw a Y-o-Y increase of 21%. EBITDA has grown by 72% Y-o-Y to INR41 crores, and our PAT increased to 85% Y-o-Y to 18.7 crores. Our Cost to Income ratio Q1 FY24 continues to remain at around 26% and we are confident that over a medium to long term we will be able to maintain this around 25%-26%.

This is despite the digital and technology plans which Rishi explained earlier. Our Q1 FY24 total throughput crossed INR75,000 crores, growing by 25% Y-o-Y and our digital throughput grew by 94% Y-o-Y to INR18,350 crores which now constitutes 24% of our overall throughput. Our debit card spends have gone up by 45% Y-o-Y. This is establishing that active customer base. For us, transactions, accounts, and the activity in the transaction is equally important.

On a product level performance, in CASA, our revenues have gone up by 63% Y-o-Y to 67 crores, led by strong growth in our renewal income, which is increased by 96% Y-o-Y. A strong renewal income which also reflects a healthy bottom line because the margin of renewal income as I have said earlier is around 75% or more. The secular uptick in our account subscription renewal rate points to customers' preference to bank with us, the service-oriented approach which we are saying.

Additionally, we are witnessing an increase in account balances of customers who transact digitally. Average deposit base for this customer has increased by 13% sequentially to INR1,221 for each account. As we add more customers, with most of them being digitally active, we expect to have a healthy deposit growth which is a cornerstone of our SFB model as well. Remaining on CASA, it is imperative to highlight that our digital customers' renewal rate is in excess of 80%, whereas the normal renewal rate is in around 60%.

CMS. CMS is our second high margin product and continues to grow exceedingly well as we enjoy the leadership position in this product. On a Y-o-Y basis, throughput in Q1 FY24 grew by 71% to over INR15,500 crores. At one point of time, this was dominated by BFSI. The diversification initiative which we worked on has resulted in quite a divergent CMS customer base which we have. To corroborate that with numbers, in Q1 FY22, 97% of our CMS business was coming from BFSI. Now it is coming to around 61%.

So, this is the diversification which we've done across 189 partners is what we have in CMS. Overall, CASA and CMS continue to outperform our expectations. These businesses are at a stage where we can grow at good rate, and we are confident that this momentum will continue. Very quickly going on our transaction business which is hooked to our acquisition strategy that is showing a muted growth and overall industry specifically in AEPS is also witnessing some challenges on account of cloning.

However, our endeavour is that business and footfall year will continue to drive our acquisition strategy which is a key element of business plan now and even in an SFB scenario. With respect to our strategic decision which Rishi alluded to in terms of conversion to SFB, we will be Payments Bank plus plus model i.e., service oriented, fee oriented and with lending as one additional product only. We continue our asset light strategy, ours would be a liability focused franchise and credit to known customers merchants having a relationship in excess of 2-3 years.

In this regard, would like to draw attention on slide 26 of our deck wherein our long-term strategy of liability generation has been articulated. Key aspect here is that if our CASA acquisition strategy goes the way we have envisaged, our liability franchise will indeed be a key differentiator. Some of the percentages in comparison with other SFBs, Rishi has already alluded to.

The limited point which I essentially want to make on this slide 26 is to have a low-cost fund, a low-cost liability base, we do not have to do anything out of the blue. If our 2.5 lakh new customer acquisition continues and we are in the range of around 35 lakh, 40 lakhs new customer accounts and we manage to increase the quality, our liability base or our CASA base which low-cost liability would be indeed a real differentiation between us and the rest.

Our low-cost funds, robust technology, analytical tools and asset light approach will provide a cutting edge over players in the market who rely on lending only as a primary approach. Since FY '22, as part of our TAM strategy, along with physical, we have been steadily making strides on the digital side and the results are overwhelming.

We have invested quite a bit on our digital stack, including putting our FinoPay in app application and pushing on the UPI transaction. We will continue to invest in technology, largely on the capex front to upgrade, capacity build up and be ready for in line with our strategic directions. However, our operating leverage will continue to play, wherein our revenues will continue to grow higher than cost.

Finally, I would like to reiterate that at Fino, we have already cracked the transaction part and we are further looking to fuel the acquisition of users, which would then further set the stage for monetization. We have largely been a rural-focused bank catering to a segment of customers that prefer assisted services. Now the focus is on making ourselves future ready and for that we are strengthening our digital footprint through our Fino 2.0 initiative.

With this, I would like to open the floor to questions. Rajat, back to you. Rajat, are you there?

Rajat Gupta: Yes, we can take the questions, please proceed.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Gala from Nuvama. Please go ahead.

Yash Gala: So, my question is, as we see from the PPT, the contribution of BC model to total revenues is roughly around 10%. So, I just wanted to know how will you offset this revenue once you become an SFB and you are no longer allowed to do this. That was the question.

Ketan Merchant: You are right and couple of points on the statistics side as well. Over last couple of years our BC model has not been growing. Since the time we became bank, we are focusing on a B2C model and our kind of a customer base. To answer your specific point, I would like to put two, three thoughts out here. One is as Rishi said, it is around a 24-month journey wherein we convert into SFB.

Second aspect which is very important and which Rishi alluded earlier in his opening comments as well is that there are lot of payment related initiatives which can be done currently which are not being because of our regulatory liability limit of 2 lakhs, we are not being able to do through. So, our strategic model, the way we have envisaged is around INR110 crores or INR150 crores of the BC income which is there at a margin of around 28%. We can more than compensate that with a relatively higher margin products as well, whether it is on the payment services or also on account of the liability franchises which we can do on low-cost funds and needless to say there will always be a lending as well.

So as a part of our strategy we have envisaged that and the growth factor which we are seeing is after factoring that BC banking may not be allowed in the SFB scenario.

Moderator: Thank you. The next question is from the line of Dixit Sankharva from Emkay Global. Please go ahead.

Dixit Sankharva: Hi, sir. Thank you for the opportunity. So, sir, my question is around the reverse merger. So, what all the assets are holding in the holding company and apart from the FINO shares, any valuation exercise we have done and what will be the timeline for this reverse merger to be completed?

Ketan Merchant: Hi, Dixit. Ketan here. Let me just put a perspective to that. What our board has agreed upon is look at avenues of consolidation. So that could be anything. Consolidation can be happening through a merger, through a reverse merger, so various kinds of options which we will evaluate. At current stage, have we reached a stage where we know we fixed upon an option, are we looking at an inter kind of a company between the holdco and the opco? The answer is essentially no.

Our understanding is that the bank is a primary franchise of the group as a whole. So, keeping that in the context, all the options would be evaluated. As regards to your point on the timelines, I think it's a bit too early to mention about the timelines as we've just got a nod to explore it off and this between the various companies in the group and the bank, this would be explored and we shall keep you guys updated as and when there is progress.

Dixit Sankharva: Okay, sir. Sir, the question is in the CASA. So, are we looking for any tie-up with the other companies for CASA?

Rishi Gupta: So, on the CASA side, as I mentioned earlier, we right now have our own CASA which through our merchants, we are now planning to start CASA with one partner somewhere in this quarter and so that will be the first tie-up which will be do. CASA being a highly regulated KYC product, we are going very slowly on that. So, one tie-up which is already in the advanced stage should get announced in this quarter.

Moderator: Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Sir, I think it's good to hear that we are now actually going on the path of becoming SFB and all. So I just want to understand how we are going to add up more digital partners in this journey because I think our as you have mentioned on the television also you are going to be like SFB++ which is more digitally I would say penetrated and all and how do we see things actually you know moving ahead for us from these partnerships and all because I think we really don't have done there any kind of large lending so far in that meaningful manner. So how do we see panning out for us as a thought process and strategy?

Rishi Gupta: So Utkarsh on the digital part as we mentioned earlier, 24% of our transactions now are coming on the digital platform. It is largely a UPI platform which is being used for digital transactions. We continue to grow that ecosystem. About 2 years back it was less than 1% now it is more than 24%. We have already started to invest quite a bit on the FinoPay app as well where you could see the FinoPay app offers as many solutions as any other bank app is there.

Thirdly, what we are planning to do is we are trying to do partnerships with a lot of B2B players. So, one player we mentioned is Hubble, there are two or three more partnerships which are also underway which will get announced during the course of the year. So, our strategy as a Payments Bank Plus Plus model is on building up the liability and the lending business.

And looking at the fact that we have a huge distribution, a lot of data for our customers and merchants, and the digital ecosystem which we are building gives us the edge that we can really build up a very differentiated, completely new kind of a franchise as far as SFB is concerned, which can be a really a Bharat ka Digital Bank. So that is what our endeavour is.

And we have already made a lot of inroads, the technology upgradation and everything which I spoke about technology and digital actually gives me lot of confidence the way we are progressing on some of the aspects and not investing in building a brick-and-mortar system but investing in building up a digital and technology ecosystem. So that's what we are doing, and we will continue to grow our digital stack as we move into the next direction.

Utkarsh Maheshwari: But I think as far as the transaction goes digital that is fine, I mean when you are going to process the loans and all, then you need something at the grass root level to understand, underwrite and everything. So how do we plan that, because over the next 24 months if you are transforming into a Bank, need to keep a eye on, to keep a control on that, what underwriting is done, how is done?

Rishi Gupta: So that is where we think putting together a differentiated approach. Our underwriting will be more on technology and data, largely to start with through our existing customers and merchants for whom we already have the transaction history, we already know the balances, we know where they are spending, how they are spending. A lot of that we will be doing.

Our business on credit will be largely low value credit rather than high value credit. Initially it will be more of an individual and a merchant-based credit. Over the years it will become more from unsecured it will be more of an individual and merchant-based credit. Over the years it will become more from unsecured it will become more secured.

So, underwriting and everything else will be more technology driven and at the back end rather than taking decisions at the front end where the files will be sourced. Because our existing customers and merchants itself will be a huge number to go for in the initial years.

Utkarsh Maheshwari: That is agreeable, but do they have that kind of need in terms of loans and all. I mean merchant may have a need but are you sure about the customer that they are taking some loans and all or how is it?

Rishi Gupta: So, we already have data of which shows that some of our customers have loans from other MFIs and NBFCs and they have taken loans because we can see the credits coming into our bank account. So, we expect that some of their customer base will move to Fino because of the saving account and the history which we have.

Utkarsh Maheshwari: So, you will be giving them a better rate to come back, come to you from as a change?

Rishi Gupta: Yes, obviously because as I mentioned and Ketan also mentioned the fact that our liability franchise it is a much lower cost of funds compared to the other SFBs. So, the benefit of that also to some extent will be passed on to the customer and he will be able to both customer and merchants he will be able to get loans at a reasonably reasonable price much better than some of the other players who are there in the market.

Utkarsh Maheshwari: I just want to understand what could be our cost advantage of a low cost when you say low-cost CASA is it like 200 300 bps or something less than that over the competition?

Ketan Merchant: So Utkarsh, if you just go back to the slide 26 which I alluded to, you know typically as I said if we just continue to open with our acquisition strategy, we can build anywhere in the range of around INR7,000 crores of liability base by not abnormal numbers of CASA. We are looking at anywhere a differential in the range of 250 basis points from the normal SFB. It can be more as well, but that is a differentiated approach which we are going to.

Utkarsh Maheshwari: Okay, just last question before I just come back to the queue. You mentioned about that Fino app, right, FinoPay app. So, if I want to just understand how many new users have signed in this current quarter and what kind of offering is available to them, because I think you have mentioned only 7.0 lakh average users quarterly. So, what is the new addition to the app, if you can just help me out with that?

Rishi Gupta: Yes, I will come back to you with the exact number, but 2.1 lakhs have been the new users in this quarter.

Utkarsh Maheshwari: Okay, and I mean basically this is more like you know this app is going to be available for all the users that is how you have to make it.

Rishi Gupta: Yes, all Fino, you have to understand that our Fino bank customers are not the top end they are the low pyramid of the market. So, for us when we see large part of them, nearly 40% 45% of our overall customer doing UPI and about 20% of them on FinoPay, that gives us very encouraging response to the digital story which we want to build because somewhere India is becoming more digital. So that will help us in as we go into that journey will help us in our digital credit portfolio which we want to build.

Moderator: Thank you. The next question is from the line of Gautam Shroff from Nuvama. Please go ahead.

Gautam Shroff: Hi. Thank you for the opportunity. First of all, congratulations, Rishi. Congratulations, Ketan. Very well done. Thank you. My question is that we are focusing on high margin on network business. And this is one of the fastest growing that I understand the portfolio, CASA and CMS. But overall, gross margins are down 100 basis points year-on-year, and 150 basis points quarter-on-quarter. How do we explain this?

Rishi Gupta: So, this is more with regard to, while Ketan will get into more details, but from my own, this is just a product mix change which is there, which has happened. One item in case of CASA because the chip costs has gone up substantially in the last six months to one year, may be more than a year now. So that has also impacted to some extent our CASA margin, that is the only impact on the CASA margin because of the increase in the chip cost.

Apart from that, it is largely a product mix issue which is there between the overall business, Ketan.

Ketan Merchant: Gautam, thanks. I think one point which Rishi essentially explained was on the CASA chip. However, I just want to add one point out here is that this is important. While CASA chip costs will continue for larger part of this year. Our renewal income, which is now 38% of our total CASA comes at a 75% plus margin.

Last year the same renewal income was in the range of around 32% of the total CASA income. So, there will be an offsetting which will come, if not fully but to a large extent. Couple of more points in terms of this thing is Rishi just mentioned earlier in his comments as well that we intend to keep our own account and our open banking in a particular range.

Just to give a number on that and that will explain on a Y-o-Y basis own and API or own and open banking was in Q1 '23 was 62% 38%. In Q1 2024, it is 65% and 35%. In the immediately preceding quarter, which is quarter 4, '23, that percentage was around 67% and 33%. Definitely, we want to keep it range bound and we will continue to keep it range bound. That definitely has an impact which is on coming on our bottom line as well.

Second aspect which I would also just want to trade off is typically if we go by the trend, first quarter is the profitability, there is a very steep growth which comes essentially, and this is on the expensive side as well. Our operating cost, which is in quarter 1, '24 is around INR69.6 crores. In Q4, '23, it was INR62.7 crores. In Q1, '23, it was INR64 crores. So somewhere over the period of time, and that's how our business model is also generated or made to be, is that the margins, whether it's patent margin, and I know what you are referring to, if you are saying sequentially Yes, sequentially EBITDA was 13.3 in last quarter now it's 11.6.

However, the nature of our business is such that, Quarter one is typically the lowest in terms of these margins and as we go during the year, it peaks in Q3 and Q4.

Gautam Shroff: Great. Thanks a lot, and all the best.

Rishi Gupta: Thank you, Gautam.

Moderator: Thank you. The next question is from the line of Renish from ICICI. Please go ahead.

Renish: Yes, hi Rishi and Ketan. Congrats on a great set of numbers. So just two questions. One again on the corporate restructuring bid. So, what will happen to the microfinance business we have under the parent?

Ketan Merchant: Renish, hi, Ketan here. Technically, this is an agenda or the headache of the really HoldCo. And HoldCo, when they have initiated this conversation on corporate restructuring, they are well within, aware of the regulation that there cannot be an NBFC and a bank coexisting within the same group. So, I'm sure that at a HoldCo level, there is some solution which is coming out on the NBFC, MFI.

Renish: Got it. And let's say when as a company we want to apply for SFB license, we will be applying through the existing entity or from the parent?

Rishi Gupta: We will be applying through the bank, payments bank.

Renish: Okay, we will be applying through the operating company only, right?

Rishi Gupta: Yes, as well as payments bank can convert into an SFB. If you want to apply as a separate entity while regulation allows payments bank and SFB to coexist within the same group is my understanding, but we would like to convert from a payments bank to an SFB not apply as a separate SFB under the holding company.

Ketan Merchant : Renish, just a point on here which we mentioned earlier as well that typically by the regulatory guidelines, a payment bank which is completed five years of operations can apply for a conversion and that is the essentially the window or the avenue which we are going to utilize.

Renish: Okay but then what about the promoter holding I mean, if we do reverse merger then practically there will be no promoter but then for applying SFB, we need promoter right?

Rishi Gupta: So, for Payments Bank, we have already completed five years, which is a required scenario for a promoter to be identified. RBI anyway looks at diverse holdings and you would have seen RBI has approved quite a bit of holding company and subsidy reverse merger. So, we don't expect that to be a challenge because we are already meeting the five-year criteria of a promoter under payments bank.

Renish: Got it, sir. And so just a last question on the SFB part, so I do hear you about, our SFB will be differentiated from, all of the other SFBs in terms of the continuing with the asset light model. But do you foresee any, let's say, P&L impact because of that on the opex side? Maybe it could be towards, let's say, a licensing expense or some bit of expense on tech, etcetera.

Ketan Merchant: Ranish, hi, Ketan, I'll just try and take this. Let's just start off with what we said is overall process is a two-year process. So, let's just go back in a scenario wherein is there any kind of a P&L impact coming in the first two years or the immediately two years of operations? The answer is, no. The second point which essentially, which Rishi also alluded in his comments was that, from a capitalization perspective as we speak, we have enough capital and more wherein we can essentially, and it is also about the accruals which are coming to us in terms of the profitability which we are hearing.

Third aspect is yes, there can be, there will definitely be some sort of a technology investments which will come, there will be a credit team as I think earlier Utkarsh was also indirectly alluding to. So, all of that will be built over a period of time. However, the benefit or the differentiation besides the low cost of funds which we discussed, it is also about what, we said earlier, the way we are looking at is a payment bank plus model. 75% to 80% of our income even in the first couple of years of operations on SFB would be through payment bank.

So somewhere our lending institution or the model which we are building will be largely the payment bank engine will actually fund it off as well. As regards to how the specifics, I think those are being worked out and we will keep you updated as we go forward towards this journey.

Renish: Got it. So, let's say to summarize this, SFB from day one, let's say assuming today's day one, and we apply for SFB, there will be no impact on the P&L?

Ketan Merchant: Yes, we just mentioned, someone earlier said, as in when we get the SFB license, there will be a regulatory point, which will come whether BC banking can be allowed. As per the current regulations, BC banking cannot be allowed. That is constituting around 8% to 9% of our revenue. That we have to work out. However, the incremental revenue which comes at the time of SFB, not only on account of the lending or the cost of funds, which we have explained, but also on account of payment services model is far more to compensate any of these aspects.

Renish: Okay, got it. So, I think what we see at your BC relates to banking revenue. Okay, thanks Ketan, thank you Rishi and all the best.

Ketan Merchant: Thank you, Renish.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi, thank you. Congratulations on a good set of numbers. I have two questions. First is on the CASA book. Can you give an update against the INR1,200 crores of CASA deposits that you had last quarter, which included customers and merchants? What is it as of June? And if you can help me understand the, you've given the renewal income of it, can you give me the new subscription revenue part of it as well.

Now my main question with the CASA book is that, if I go with your FY ‘28 aspiration of about 27.5 million CASA accounts, if I project it in my future and if I use the same rate to project my deposits on balance sheet, I am not able to reach the INR6,800 crores. So obviously you are looking at a higher CASA balance per customer or per account. So, what is going to be the strategy? Are we looking at newer customer segments? If you can give some color around it because obviously the balances are growing, the deposit book will grow much faster than the number of accounts at first.

Second is on, again, coming back to the loan question, instead of going into the SFB side, I think for the past couple of quarters, you've been talking about how you're doing multiple pilot programs on gold loan or other loans with your merchants. So, if you can help us understand and probably it'll give us a little bit more comfort on how a Merchant driven Banking model can do loans.

I can understand underwriting, and disbursement will be done digitally but collection and everything could you tell us any learnings you had through your pilot program so that is easier for us to understand. How you will be scaling up your lending side and how much will your lending book become by FY '28, if you can give us any estimates on that.

Ketan Merchant: Yes, Shreya, thanks. I've been writing what you just said. Let me just go in sequentially. In terms of our deposit balances, on an average, and I'll say both average and period, so that, it is a very, it gives the right kind of a perspective. On a sequential basis, between March and June, on a period end basis, our deposits are largely flat. However, if you saw on the average deposit size, the average deposit between these two quarters have increased by around 13%. And that's the point which I essentially made.

Now, your question remaining on deposit, how are we growing? I again take you back to the slide 26, where we have just put our thoughts. If we are opening anywhere in the range of around 35 lakhs account or in that range, whatever that number we put. And our average balance's continues to increase. Here in '28, we are seeing that from 1200, which is the current average balance, we will go to 2500. That will be a staged manner. But even if we keep on opening it off, so that actually gives us a good amount of impetus coming on our average balances. And that is how the liability franchise or liability balances which we book.

You and I both know that in terms of EMD or the merchant business these are added numbers so we can't even comment at what 31, March and 30, June. We are focusing on the average balance out there essentially. Remaining on liabilities you mentioned it that, are we looking at increasing the profile of our customers. The answer is yes, we are. Rishi mentioned that we opened some 34,000 digital savings accounts and we are widening our net as well, while focusing on the real Bharat or the rural Bharat where we are there.

However, there is an expectation built in our model as well that, an average balance of customer will go double from year on over next five years. That is in regards to our entire CASA strategy or the liability strategy. Everything else is a moving and a variable factor. One thing emphasis is about the new customers which we are opening up.

Your second question is on the lending side. If I did understand your question, you were saying that, how are we going to build a lending? And by FY '28, how do we expect or what should be the lending book which we are there? Here I'll just put up thought of our strategy essentially as Rishi earlier said is that it will be largely to the known customers. We have by the time we go into SFB; it is likely that, we are expected to have, somewhere in the range of around 20 lakhs accounts or in '26, '27, we are expecting two crores of customer liabilities.

Now, our first aim would be to monetize those. How will we monetize? Most of these guys will have, data, we will have data with them for at least three years, if not more, two years to three years. Going back to the point, which we are saying that our larger book would be the merchant loan which we are looking at.

The merchants who have been interacting, who have been earning essentially through us is something which we will look at. So, that will become the larger component of the book. Other thing is the 2 crores customers, who are getting high-cost credit currently, those we will try and convert to us. We have a distinct advantage in terms of the low-cost liabilities which we have explained off and gradually, we transit into a auto loan and more secure products as well which will be coming through.

So that is our plan in regards to the credit which we are looking at. We are not going to go aggressive in terms of credit. All of this taken together will result in still lending income being in the range of around 20%, which means that our expectation if I am saying in my opening statement that we go 20% year-on-year in terms of our growth, our payment business and some of the new avenues which comes to us on account of the INR2 lakh restriction getting lifted will essentially help our payment services to grow as well.

Shreya Shivani: So the one thing that I was trying to ask over here is, I understand the underwriting, disbursement and all of those that I think you've explained it in your presentation as well, but particularly on around collection which is which may become a heavy part of on your opex because you only have 2,000, 3,000 employees on your payroll. I mean how will that work out? That will be one of the key questions when you start a lending business.

Rishi Gupta: So, from a collection point of view, two ways in which collection will happen. One is that because we already have an account with the people, with our customers and merchants, the same account can be used for collection purposes. Over and above that, you would recall CMS is one of our big products in which we do a lot of collections for NBFCs, MFIs and likes of other companies. With more than INR5,000 crores now on an average, we are collecting every month.

We believe the same engine can be used for collections as well when we get into the SFB model. But largely collections will be coming from the direct credit which will come into their account. Over and above that if required, we will also set up ecosystem of agencies if required at a later point of time depending on the collections. As somebody asked us earlier, because of our cost of funds being much lower than the other competition which is there in the market will help us to offer loan also at a much reasonable price compared to the other competition, which makes us believe that the collection should also be reflected from the fact that our loans will be at a lower price.

Will also result in a higher collection from a rating review point of view as well. So, three things, one we credit into the account, we have already a CMS engine which is running and thirdly because our loans will be more affordable compared to the other peers, which should result in better collection. So those are the three things I can say as of now. But over the period, if required, we'll have to build-up a collection agency model, which bases our experience we have seen. We have been able to build it quite significantly otherwise also.

Shreya Shivani: Got it. Thank you. So just last one clarification. Is your banking model, is there an equivalent we can look at somebody who is doing merchant driven loan model anywhere across the globe, any peers…

Management: Yes. There is one company in Brazil, which is a Nubank. You should look at that model that is very similar to what Fino will be. So, they started with transaction banking through a merchant model and now they got into credit, and they got big into credit card and everything else. So that is I think they have some 7 crores or 8 crores customers on their platform. One of the largest ecosystem which has been created in Brazil, which is following which Fino is in a way, independently we have been doing, what we have been thinking is independent of that. But very similar roadmap and similar business lines like Nubank. Look at that it's a very interesting company.

Moderator: Thank you. The next question is from the line of Dipika M from Axis Bank. Please go ahead.

Dipika M: Thanks for taking my question. So, I wanted to understand what is your target of maintaining your cost to income ratio? Although, I find it to be low even for a payments bank, but after getting into an SFB, given you may not be able to do BC banking, or you have to get an agency for collection and employees will also increase. So, what's your target on cost to income?

And my second question was, current average balance in your CASA account is around 1,200 and aspiration is up to 2,500 for FY '28. So how does the INR2 lakh balance limit removal help you given that you will still be a rural focused bank?

Ketan Merchant: Hi Deepika, Ketan here. Let me just take the first question first in terms of cost-income ratio. You are right, 25%, 26% for a retail bank is lower. However, I think, just go back to the genesis of Fino, we have always maintained that we will be an asset-light model. The way it essentially works is, rather than branches of brick-and-mortar, as Rishi said in his points, we operate through these touch points. So that is something which will continue. If I just go back to my opening statements, I just said that our model is structured in a manner and we have seen that testimony of last 12 quarters that if our revenue grows by 20%, our bottom line is scheduled to grow by anywhere in the range of 2x to 2.5x of that growth. And that is something which we are dovetailing into our SFB model as well.

In terms of whilst we will continue to invest into technology and digital which we have done, which we have done on a phase basis, and we will do that as well. But we will not lose the asset-light nature of our business, whether it is in the payment bank avatar or the payment bank plus, plus avatar, which we are looking at two years from now or at least two years from now.

Now the question comes is how does a typical SFB function with such low operating cost? The answer to lies -- here lies in two aspects. One is the question which Utkarsh earlier asked and even the preceding one, I think Rishi's answer to Shreya. I will take the credit underwriting or the order or the collection piece in a very simplistic manner. I think Rishi explained in the earlier question is it's not that typical feet-on-street approach which we are going to adopt. We have our merchant network, we have our back-end processes, we will leverage that, we have the experience on the CMS piece as well, where we are doing more than INR15,500 crores of throughput or collection if we can say, in a quarter. So, all of that will dovetail into our collection strategy without making it too asset-heavy.

In terms of dispersal or in terms of mobilizing deposits, currently we have INR1,200 crores of deposits without any significant branches or these are collected, or these are mobilized through our merchant point only and that is what we dovetail, or we will continue to doing it off. Lending anyway is simple, sourcing of lending is simple, it's about the quality of sourcing which is more important. So, if our merchants can actually mobilize deposit and it comes back to the point, I'll address your average balance points separately, but if we happen to open 2.5 lakhs plus accounts on a monthly basis, lot of these aspects in terms of liability building even for SFB will be sorted just by the business flow which we have currently built through.

Now coming to your last point, yes, in slide 26 we have mentioned it off that we will be looking at increasing the customer base. Now, does it mean that we will be shifting our focus from a rural to a non-rural kind of a base? No. Are we going into the upper strata of the demographic Indian population? We will gradually grow into the upper kind of a business model as well, in terms of liability franchises. There will be some deposits which will be there, more than INR2 lakhs, definitely. However, more than INR2 lakhs point, which Rishi and I both eluded was to facilitate a B2B business. Once the INR2 lakh deposit balance is gone or that restriction is gone, it will help us in growing our payment services with B2B where lot of business currently is getting restricted because of this.

So, to answer, asset-light is the core, and we will always continue to be that. Operating cost matrix very-very super important for us we will not spend unless there is a requirement. We intend to continue that DNA in our SFB as well and the INR2 lakh limit restriction helps us in our B2B business. Digital overplay which we are doing will help us in terms of increasing our balances from 1,200 to 2,500. That's my perspective.

Dipika M: I have one more question. So, can you elaborate on how you get your cost of deposit to 100 bps to 250 bps lower than your competitors?

Ketan Merchant: Yes, again, as I said, if you go to slide 26, we have to just put a perspective out here in FY '23, and this is, I'm seeing previous March, we had 75 lakhs accounts, now we have around 83 lakhs. Our aspiration number of FY '28, and I'm just reading it from the slide, is around 27 million, if we are adding 3.5 million to 4 million account on a steady average balance. Also, this leads to a number which is around 4x the existing numbers on that our average balance is which is 1 to 1.6.

Currently we can bring out to 2,500 for the reasons which I just said, that deposit balance will become 6,875 from 1,200 now. Our belief is that in the target segment where we are or our focus is, we may not have to shell out too much of cost of funds if our acquisition engine works the way we have envisaged or our acquisition engine works the way it is working for last five quarters six quarters.

Dipika M: I got you sir, thank you.

Ketan Merchant: Thank you, Dipika.

Moderator: Thank you. The next question is from the line of Vishrut Bubna, an individual investor. Please go ahead.

Vishrut Bubna: Yes, hi. Just wanted to understand as to how saturated, in your opinion, is the AEPS market opportunity and going forward, do you feel that there's room for AEPS to grow beyond rural areas to places where instead of maybe building an ATM distribution, AEPS is a better go. So, has it saturated to a point where even as for your strategy moving towards UPI is going to be the way forward for even the more rural strata?

Management: So, when we look at the India opportunity, see, India has 1.4 billion population with nearly 800 million people who don't have proper access to financial services and banking. And we have just started the payment bank five years, six years back. So, the opportunity is quite big. And from opportunity point of view, we are just focusing on right now on transactions and now moving to accounts. The monetization piece which will come from the lending is about to start once we convert from a payments bank to an SFB piece.

As far as Aadhaar Enabled Payment System, AEPS is concerned, government is moving very fast in terms of subsidies and disbursements which used to happen in kind to now subsidies and grants which are happening into the bank account of the customer directly, which is direct benefit transfer. So AEPS volumes are expected to grow from the last year levels. We have seen substantial growth in the AEPS in the year '21-‘22 and to some extent in ‘23 because that was the migration, or the thinking process change in the government from transferring the money through the old system to the direct benefit transfer.

Now that part has been already taken care of. Now whatever incremental allocations are happening on the budget side, whether on P M Kisan, NREGA scholarship that are now moving into AEPS framework. So AEPS has become the de facto framework for all kinds of direct benefit transfers which are there.

And looking at the success of direct benefit transfer, we believe that this ecosystem of AEPS will only become stronger and better over the period of time.

Vishrut Bubna: Yes, and going forward, do you see your primary driver deposits coming from your digital channel or are you still like what how are you going to be investing in terms of acquiring those deposits and channels?

Rishi Gupta: Our primary channel continues to be the physical network of merchants which we have built up so they will continue to be the primary source of accounts for us. What we are now pushing more is moving people who have been acquired physically to work with us on digital framework whether on FinoPay, whether on UPI because we have seen people who are active on digital platform even though we have acquired them physically continue to do more transactions, continue to do have more renewal, continue to have more balances. So, you can say we are a very physical kind of a bank. Physical to digital is the road map which is there.

Over and above that, we have two sources through which we acquire digital customers. First is through our own B2C piece which is there through the marketing initiatives. And the second is through the partnership initiative which we have just started with Hubble.

As I mentioned earlier, we will probably have one or two more tie-ups in this financial year on account of that.

Vishrut Bubna: Thank you. Great and congratulations.

Management: Thank you.

Management: Thank you very much.

Moderator: Thank you. The next question is from the line of Sachit Motwani from Motilal Oswal AMC. Please go ahead.

Sachit Motwani: Hi, Rishi and Ketan. Congratulations. Just one question. You mentioned about B2B within the payment services. Can you help me understand, would this be margin diluted?

Ketan Merchant: Hi Sachit. Again, as I said, the way we have to look at it is typically our payment services will replace or we will use it more because if we get more than 2 lakhs kind of a thing. There are two aspects which we are looking at it. We have in the past said that our own to our open, we want a skewing towards our own. We have been largely successful to keep it range bound. I can say that the payment services margin would be far-far better than our open banking margin.

As regards to the other products, I think it is you know, as in when we are launching our payment services which goes beyond to this thing, we will have a look at that coming through. However, it will definitely be better than our sort of open banking margin. Hence, it will have a positive impact coming on the bottom line.

Sachit Motwani: Got it. But in the interim, would you need a higher float as well?

Ketan Merchant: No, Sachit. Actually, for doing this business or for that matter any business is for ours, we enjoy higher float inward coming, we are not required to keep any float or nostro account if you are alluding towards. In the, until now in our only payment bank avatar, we have not specifically emphasized on liability building. This is what it comes to us based on the acquisition which we do.

So, if your question is, will it lead to a benefit in terms of higher float? The answer is essentially, yes. On a staggered basis, there will definitely be a benefit which will come on that. If we have to maintain any float, for facilitating this, the answer is, no. That business is somewhere where it will give us float rather than we have to put a deposit or anything else with anyone else.

Sachit Motwani: Okay. Got it, sir. Thanks.

Ketan Merchant: Okay Sachit. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Agarwal, an individual investor. Please go ahead.

Deepak Agarwal: Hi, Rishi. Hi, Ketan. Congratulations on a great set of numbers. My questions are to Ketan. One is we have seen an 11% increase in the opex, is there any major drivers of this? Is there any one-off into this? And second is, how much is our total borrowing as of June '23?

Ketan Merchant: Yes. Hi Deepak. Yes, you're right. On a sequential basis, we have seen 11%. I mentioned the numbers earlier as well, that it's an account of, you know, our Q4 was 62.7, we have a 69.6. Couple of points which we have to be cognizant out here is, in the Indian sector, April dovetails the growth in terms of the employee emoluments as well. So, of these 10.9%, if I can just say around, 5.5%, 6%, if not more is on account of the employee emoluments which we have started from 1, April onwards.

There is one more aspect which has come out here and I mentioned it in my earlier comments as well that AEPS industry as a whole is going through a cloning kind of a scenario. This is an ecosystem challenges which have come across. So there has been some operational loss not only for us as players but all players across. It depends for some players it has come in last quarter for us it has come in this quarter. So that approximately would be in the range of around INR2 crores. I would not want to call it a complete one-off. However, this is a number which is far higher than what we have anticipated off. So, these are the two reasons on the main reasons on the sequential differences between on the operating cost

Sorry, your second question I missed was, on the borrowing space, yes. On the borrowing piece, if I go between March and June, the borrowings have increased by somewhere in the range of around INR400 crores. My investment together has increased by around INR500 crores or INR480 crores to be very precise. So, wherever we are getting an opportunity to leverage our payment banking license, we essentially do that and currently our yields are good so that our borrowing pricing is completely outpaced by the incremental yields which we are getting on the T-Bills.

Having said that, just to reiterate it off, we do not take long-term positions as a payment bank. off, we do not take long term positions and run a mismatch of ALM book.

Deepak Agarwal: Understood. Thank you so much.

Ketan Merchant: Thank you, Deepak.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comment.

Rishi Gupta: Thank you everyone for joining us. I know it's a busy week as far as analyst calls are concerned, earnings calls are concerned. But let me reiterate the fact that we had a good quarter, and we continue to stay focused on our 20% growth target. Our DDD strategy on Distribution Data and Digital will become the cornerstone as far as the SFB transition is concerned. As we mentioned, SFB transition, first step we have taken by taking the board approval, now we'll be applying to RBI and then build-up the model and the technology over the next two years and then the SFB operations will start subject to all regulatory approvals.

As we mentioned also our SFB will be more a transaction focused with lending as an opportunity and I mentioned always that we run payments and liabilities like a bullet train and lending will always be like a goods train. So, we will be very focused in terms of the approach we take on the lending piece. Liabilities will continue to be the focus for us as we want to build-up a liability first bank and then do lending on top of it.

With this I again extend my warm wishes and thank you to all the participants. Thank you.

Management: Thank you very much.

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