Fino | Payments Bank
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August 1, 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 July 28, 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 July 28, 2022

In continuation of our letters dated July 26, 2022 and July 27, 2022 please find enclosed the transcript of the earnings call with the investors and analysts held on July 28, 2022.

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

This information is also available on the website of the Bank 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
Q1 FY2023 Earnings Conference Call"

July 28, 2022

MANAGEMENT: **MR. RISHI GUPTA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - FINO PAYMENTS BANK LIMITED**

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

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

Moderator: Good day, ladies and gentlemen, welcome to the Fino Payments Bank Limited Q1 FY2023 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 "*" then "0" 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: Thank you Lizaan. Good afternoon, everybody and welcome to Fino Payments Bank earnings call to discuss the Q1 FY2023 results. We have on the call with us today Mr. Rishi Gupta – Managing Director & Chief Executive Officer, Mr. Ketan Merchant – Chief Financial Officer, and Mr. Sayantan Mitra from the investor relations team. 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. We 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 for 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. Fino's business model was conceptualized keeping in mind the problems of a common man, who does not have easy access to a neighborhood bank, who is unable to bank in normal banking hours and have many other constraints. Our vision was to provide all inclusive fintech growth to the set of people by making them not only comfortable with organized banking but getting them to move on to a digital banking. Over the years we created relevant products to service our customers. Our products like domestic money transfer, which is a remittance product, micro-ATM and AePS, which are cash withdrawal products makes banking easily accessible to the lowest rate of population and offers them differentiated services. These are normal banking products, which are there for everybody's use on a daily basis. The growth we saw in this model gave us the confidence that this business model is sustainable and scalable. This is also evident from the strong growth we have seen since the last five years. Our merchant base has grown by eleven times, our four-year revenue CAGR till FY2022 was nearly 40% and have been profitable for more than half the time of our bank.

While Ketan will discuss the quarterly numbers in detail I would like to take this opportunity to mention a few highlights for this quarter. We have delivered a very strong revenue growth in Q1, which is also sequentially higher than Q4 a seasonally strong quarter for us. This is the first time our Q1 has been higher than Q4 in so many years. Our PAT grew over 3x in this quarter and this is despite the investments, which are ongoing in the digital business. We have achieved an all time high of throughput of more than Rs.60000 Crores of which nearly Rs.50000 Crores plus were on non-digital side. This is also the first for us. Our digital impetus continues and for the Q1 FY2023 our digital constitutes nearly 16% of our total throughput. Our strong focus on customer engagement is showing results. Growth in our mature and high margin products is significantly high as you can see on the CASA side. Our product mix is evolving and moving towards high growth and higher margin products like CASA and CMS, which now constitutes over 20% of our revenues. Our ability to cross-sell is getting standard substantially so that in Fino 2.0 we can make cross-sell a sustainable part of our growth story.

Our focus is always being on profitable growth and being very competitive in our offerings, but we now have a very strong business with large physical presence and diversified income streams. We are future ready and additional investments are underway and this product will be rolled out in staggered manner over the next two to three quarters. There is still significant headroom for growth in Fino 1.0, which is our core business across product expected to grow at a CAGR of 25% around that level, but what really excites us is our next phase of growth, our digital initiatives, which will form Fino 2.0. This unique combination of physical and digital will elongate a secular growth period. Fino 2.0 is a natural evolution in the customer lifestyle journey and will enable our existing customers to move to the fintech value curve. My aim in long run is to take our customers from around Rs.400 to Rs.500 right now to Rs.1000 through our Omni channel presence and that shall cater to the profitability and ROE targets, which we have over the medium term period. At the same time our digital stack will help us target millennials a new user group, which will provide us with more diversified customer base and will enhance our product offerings. We believe that we have a strong strategic positioning in fintech base in India on account of three key factors. Our asset light business model, diversified product offering with good combination of high volumes and high margin product and having well invested technology stack, which gives us a unique edge by making us future ready for our next phase of growth.

Before I hand it over to Ketan on detailed update, I would like to mention following three key aspects emerging for this quarter from a strategic direction perspective. Our annuity income, which is basically our CASA subscription, which brings predictability to our model, has increased 4.8 times on a year-on-year basis. Our core product of growth CMS has increased more than two times on year-on-year basis. Digital base is being built for right cross selling in FY2023-FY2024 onwards. With this I would like to hand over to Ketan for his comments on our financial performance.

Ketan Merchant: Thank you, Rishi. Good afternoon ladies and gentlemen. I hope you have seen our presentation, which has been already uploaded. Over the next 10 minutes odd I will briefly talk about the performance in this quarter and also give a strategic direction how this quarter dovetails into a long-term plan, which we are doing. To begin with as Rishi mentioned in his comments we have delivered a strong revenue growth sequentially as well. To resonate it again what Rishi said if we go to slide #12 of our investor deck it actually clearly shows the trend for the past couple of years and how this momentum of Q1 stands out to be the best over the years. Our Q1 revenue was at Rs. 289 Crores a Y-o-Y increase of 40%. Our Q1 throughput at Rs. 60784 Crores has increased by 47% Y-o-Y; again this is the first quarter wherein we have had a non-digital throughput in excess of Rs. 50000 Crores. Coming to profitability on Y-o-Y basis our EBITDA has more than doubled to Rs. 24 Crores and we delivered a quarterly PAT of Rs. 10.1 Crores, a growth of 3.3x. This we believe is a remarkable achievement for a young company like us because we are still in the client acquisition phase and investment phase and monetization is yet to come. Before I cover each of the business segments briefly I intend to throw some light on the operational highlights.

As Rishi mentioned we are guiding you about our digital journey as part of Fino 2.0. This is going to be a medium term investment before business starts accruing on this new channel, but when we make the statement what essentially it means you would all agree that customer acquisition rate for Fino are on meteoric rise every quarter. This is generating healthy subscription and now on annuity income as well, but is the subscription income the only potential for the product, digital journey as part of Fino 2.0 is the answer to this. Let me attempt to substantiate this to you with some interesting data points emerging from India's digitization story. Our overall digital throughput has grown in Q1 FY2023 by 285% Y-o-Y, but more interestingly it is the Real Bharat, which is timing out in this Fino 2.0 journey. When I am saying it is Real Bharat it is about the states wherein the digitization journey for us has been taking an uptick. In FY2022 all Fino bank account holders from Bihar transferred Rs.28 billion digitally; the highest average value of digital payments per unique customer came in from Pondicherry followed by Telangana while most of the number of transactions per unique customers was in Telangana followed by Andhra Pradesh. None of the states having major metro cities like Maharashtra, Karnataka, Delhi, Tamil Nadu and other figured in the list. This just validates what I started off with basis of our investments towards digital in 2.0 with more used cases on the platform, we are confident we will be able to do more with these customers with the product suite, which we are planning to come on the digital as well.

Indication of increase in average deposit balances and average spends on alternate channel like debit cards are also very strong indicators for us in terms of customer loyalty. In fact the average debit card spends in Q1 FY2023 is in the knocking distance of Rs.3000 per transaction. This is a phenomenal growth considering the payment bank offering. It is not only about digital we have mentioned it of that distribution network continues to be core strength for us, our merchant base or distribution network continues to grow fast. The total merchant count has increased by 58% Y-o-Y and now our distribution point stands at 11.4 lakhs.

Before I cover each of the business segments I would also like to talk about digital investment. The investments, which we are making to build our digital stack, had started showing initial results. We have seen and Rishi earlier mentioned as well our digital throughput is now contributing 16% of the total throughput, now it is about how do we ensure in FY2023 and FY2024 the cross selling and upselling on this digital products. If I go to customer wise thing let me start off with growth products as Rishi had mentioned CASA. We opened 6.2 lakhs CASA account during the quarter. If we consider the footfall of offers transactions generated by our remittance micro-ATM, AePS and other transaction business the account opening will translate into a footfall conversion ratio of 2.3% that is the conversion ratio when the transaction business or the other banking customers come and transact on our merchant points 2.3% of those are converted into our account. Many customers transact more than once in our ecosystem and the conversion ratio will further improve with more customers and that is a strategy which we are working on. The account opening is the genesis of our customer ownership, which leads to a tremendous annuity income potential and also forms the base of our digital initiative. Remaining on the annuity income or mentioning about that, earlier Rishi also mentioned our renewal focus, renewal of subscription and we have grown our renewal income by 4.7 times on a Y-o-Y basis and also 26% on a sequential basis. As we further build on more use cases this is also start generating various transaction base fee income for us as well. All of this has been our key focus area as it built customers stickiness as seen in our debit card spends, which is increased from Rs.835 Crores to Rs.1521 Crores and 82% growth on a year-on-year basis.

Coming to our second growth product, which is CMS the B2B business that is also growing very strongly and continues to be a growth driver. The CMS ecosystem has substantially increased. Our strategy as I had mentioned in the earlier call is also to diversify the partners or diversify the industry in which we are giving CMS services. Our partners are no longer only financial services or NBFC and MFI we have new partners who are cab aggregators, OTT platforms, e-commerce players and many such customers. The data point out here is the throughput share from financial services partners, which was at 93% in Q1 FY2022 is now in Q1 FY2023 at 60%, diversification of income in this B2B segment is key strategy of us and we are achieving it off. Today we have a large client base of 152 clients, which was at 131 a quarter back, on a Y-o-Y basis the revenue has increased by 1.6x to Rs. 21 Crores. There is a strong potential of cash digitization in India and this segment will continue to see the growth. Whilst I am talking about the growth I should also mention and this is again something which we have been mentioning in earlier calls as well. Margins in certain cases are expected to moderate and are indeed moderating. In CMS margins are moderating and still above 40%, but volume growth and diversified industry strategy makes us confident for growth and profitability here. As shown in slide 13 CASA and CMS our growth products and highest margin products have taken higher share of our revenue pie. In FY2021 the share in the revenue pie for these two products was at 12% and now it is at 21% and our growth strategy continues that CASA and CMS our customer acquisition spree will continue in line with our strategic plans.

Going on to the next customer segment in micro-ATM and AePS the transaction business or the legacy products which we say, what we have done is based on the market feedbacks we have started showing these two segments separately, so let me just first start off with the AePS. Our AePS constitutes or the market size of AePS is 5 times that of a market size of MATM and that has shown growth on all parameters. Industry on a Y-o-Y basis for AePS has grown by 28% and we have grown by 40% here again margins as we had given earlier guidance are moderating, as our share of open banking in AePS has increased from 26% to 40% on our own AePS channel and our own AePS channel has grown by 10% and open banking shares has gone up from 26% to 40%.

Coming to micro-ATM, micro-ATM this business is seeing some headwinds and though we continue to be a dominant player out here it is important segment that serves entry point for the new customer it is about the footfall conversion, which we had mentioned earlier, remittance AePS and micro-ATM continues to be driving footfall, the 2.3 conversion, which had earlier mentioned as well, so that is our strategy. Competition intensity in the segment is high and margins are again moderating. Industry wise the number of micro-ATMs has tripled in last two years, but the growth is missing over the last two to three quarters. Our strategy out here as I earlier mentioned is to continue to focus on this segment from a conversion perspective and a footfall and also to maintain margin and not go on fierce price competition the way it is being seen in the industry.

Coming to the one third part of our business, which is remittance post-COVID the growth is stabilizing on a Y-o-Y basis we have seen a growth of 67% though on sequential basis we have seen a growth of 3%. For remittance it is a critical part again as we mentioned it for the micro-ATM, it is the first entry point whilst the low margin product, but it essentially gives us access to the customer base and helps us to convert. We have strong presence in states where remittance are high like Gujarat, Karela, UP and Bihar. Amongst the business momentum continuing I also wants to put following points on the table. I have spoken about margins; margins currently whilst moderated from earlier quarter are higher than still over 30%. This is a function of our strategy to take balance approach on long-term growth and profitability. Our endeavour continues to build a sustainable base for customer acquisition the point which I have retreated earlier and that too on a profitable basis and use our legacy transaction business to mobilize the acquisition and thereafter as Rishi said put a platform for cross sell. Our open banking business is growing at a faster pace; however, in the long run we would keep the balance between open banking and own channel in the ratio of 33:61.

Before I close I would like to give some insight in terms of our strategy or a mid-term outlook. We are attempting to deliver 20% growth in our transactions to mature business. This growth would also bring in operations of scale advantage to counter inflation as is being seen specifically in the technology and digital world. Our AePS business is showing much stronger growth prospects than anticipated as I had mentioned earlier. CASA CMS would continue to be the growth drivers and thereafter creating more cross sell and upsell opportunities. The digital throughput is increasing, we are investing and it is a plan for us to have a long-term strategy wherein Fino 2.0 would dovetail cross sell, upsell and digital along with the customer acquisition spree, which is currently on. With this I would like to open the floor for questions for me and Rishi to take. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin with a question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of f Sri Karthik from Investec. Please go ahead.

Sri Karthik: Thank you. A couple of questions, one on the balance sheet and then one on the business, with respect to your balance sheet management what I was wondering is why have we been increasing our borrowings on the balance sheet side and especially given that there is more a treasury operation and an increasing rate environment has that led to a material treasury loss for us during the quarter those two on the balance sheet front, third question on the business I want to understand the renewal rate on CASA customer base? Thank you.

Ketan Merchant: Hi, Sri Karthik, Ketan here, let me just first attempt to address the balance sheet point, you are right, if you see on the balance sheet side our borrowings from Rs. 249 Crores have gone up to Rs. 581 Crores, now again here it is nothing to do with a long-term strategic borrowing, these are all overnight borrowings, which are essentially there, your second point and if we go to the asset side as well our investment, which was at Rs. 631 Crores has gone to Rs. 1102 Crores, so there is a whopping growth out there as well. On the point on the losses on the balance sheet which couple of other financial players are doing the answer to us is no whilst the repo rates and the rates overnight have gone up our treasury has had actually generated more profit than this thing, this is based on our position which we had taken last year and we continue to. The point to essentially note out here is unlike the traditional banks we do not have an HFT positions wherein any mark-to-market losses get impacted out here; however, we are making for the CASA balances, which are coming and if you are seeing out here as well the deposits have grown from Rs. 500 Crores to Rs. 581 Crores a 16% growth coupled by the other EMD deposits also which we get, we are playing in a manner that we are net positive for this quarter and there is a stress testing analysis, which is done that even if the overnight rates go up to 200 basis points or 225 basis points further we will continue to have profit only, sorry that was on the balance sheet piece. On the second question you mentioned something on CASA, but it was not clear, can you repeat the question?

Sri Karthik: I was asking one year renewal rate on the CASA customers given that you have started to report your renewal revenues?

Ketan Merchant: So our renewal rate for CASA you are right, our renewal has gone by 4.79x in this thing, so we have a renewal rate, which is in excess of 50% when the customer is coming across, so every year when a customer comes more than 50% of the guy comes and renew it next year.

Sri Karthik: Thank you. I want to come back in the queue again.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead.

Rahul Maheshwari: Good afternoon. Three questions, first can you…

Moderator: Sorry to interrupt, Mr. Maheshwari, your audio is breaking up.

Rahul Maheshwari: Am I audible now?

Rishi Gupta: Let us try. Mr. Maheshwari, please continue.

Rahul Maheshwari: I will get back in the queue.

Moderator: Thank you. The next question is from the line of Anuj Narula from JM Financial. Please go ahead.

Anuj Narula: Sir, thank you for taking my questions. Sir, I have a couple of questions, many of the other banks are offering zero balance accounts, which are free as well, so just wanted to understand how do they capture more market share here then we are charging a subscription fee for maintaining a bank account with us and another question is what are the key business verticals that we have focussed that we feel would constitute for the larger share of revenue mix in the next two, three years and how do we plan?

Rishi Gupta: Let me answer the first one, see in our case while we also offer a zero balance but we are not focusing on that account that much, our ability to get subscription and open more than 2 lakhs accounts on a monthly basis consistently is testimony to the fact that there are people who are ready to pay, now free zero balance accounts or free accounts have a very low activeness and a very low transaction business and if you see our balances have gone up by 28% from Rs. 800 odd to Rs. 1100 odd on an average basis and nearly 33% of them are becoming more digitally active as well, so our belief is that to get the customer activeness as well as to get more balances into the account it is better to price the product and the customer is ready to pay for it because he is able to get the convenience and the easy accessibility, which is there, in our case because we are right there at his house, he does not do travel, he saves a lot of time and the cost to travel and do a business at a bank branch, so that is where he feels it is a better option, but one also should know that while some of them maybe zero balance account, but there are still charges which bank levies for various other transactions, non-branch and non-base branch charges and other charges, which also are in the similar range, so while there are no upfront charges but bank typically add and put some charges into the account over a period of time, so that is your answer to question number one, question number two, Ketan.

Ketan Merchant: Thank you Rishi. On the question number two if I understood it right what you wanted to know is what would be the growth drivers in the mid-term coming across, so I will just resonate what I ended my transcript with, we are expecting our legacy business or transaction business or the matured products to grow anywhere in the range of 20%, the growth driver essentially would be the customer acquisition just to resonate what Rishi said and your first question was, for us customer acquisition is a profitable product, the subscription thing which we are running it off. As we speak CASA and if I go to slide #17 of my presentation a 57% margin is where I get on customer acquisition, if I give some statistics how is the momentum on a year-on-year basis our customer acquisition accounts open have increased by 80%, that is the kind of growth, which we are seeing on a Y-o-Y basis. The other engine of growth is also a CMS, CMS has a margin of around 40%, so the CASA and CMS, the growth drivers which now constitute 21% a year back in FY2021 ending it was 12% will continue to be our growth drivers on profitability for the next couple of years. It is not only this, as I said earlier the digital stack and the new products which we are bringing on whether it is international remittance and we have got couple of approvals in terms of the mutual fund distribution and so on as well from RBI with this customer acquisition we intend to put a plan on the digital as well as our physical channels wherein we have a impact coming on our bottomline as well, so to summarize CASA, CMS key growth drivers and the base for the future FY2023-FY2024 cross sell, legacy or matured products expected to grow at 20% and the new products international remittance mutual fund will start contributing from FY2023-FY2024 as well in terms of cross sell.

Anuj Narula: It is very helpful, thank you.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity. Please go ahead.

C. Sridhar: Good afternoon, just I think one of the bigger purposes of also doing the CASA over a time is that you want to have the share of owners transactions being a little higher than where we are, I get the fact that they are still very small just in terms of number of accounts with the whole system, but at some point we see some inflection point where the share of owners starts picking up relatively because right now the offers are still growing larger and I agree that the system is still much larger than where we are, so offers will still go, but if you had to say look you know maybe two years out or something is there some point at which this starts changing?

Rishi Gupta: Interesting question Chandra, good afternoon. My share on this is that if I look at the forward or if I look at the way we have been building our business taking you back a couple of years when we started the business we used to do half our volume of transactions and two years back also and now we are at Rs. 60000 Crores number on a quarterly basis, having said that our number of accounts we used to barely open 30000 to 40000 accounts, in last to last year we were averaging about one lakh, this last year we averaged at about 1.75, this year we are already at 2 lakhs plus on a monthly basis and hopefully the numbers will go up. If I look at the next couple of years if I add the run rate which is there I think we will cross a Crore number of accounts in the next one-and-a-half to two years maybe earlier also if we maintain the same run rate and it will grow from here as well, so the share of our CASA accounts and the income percentage will go up considerably if you look at, it is now hovering around 14% used to be in the single digit, low single digit couple of years back, so if I look at from overall revenue perspective our owners business or customer acquiring business will continue to grow, having said that because the fact that we are also expanding our merchant network, we are also pushing people to come to our platform, if I look at that is the hopper we have, in that hopper the more the people come a part of that percentage roughly around 2%, which Ketan mentioned gets converted into CASA. While CASA is there let me also share some numbers in one of our slides we have mentioned that when a person comes to us and offers transaction we make about Rs.55 to Rs.65 on an average per annum, it moves to Rs.370 and we open subscription subaccount for him. We have seen in the last one year because of the debit card transactions, the offers transactions onto the platform, the balances which is keeping the money which I get on NASH and other activities I make roughly about Rs.100 on an account on an average basis, so Rs. 370 becomes Rs. 470 and on that in the next one year on an average basis plus I am able to cross sell to him, so your question is for us we will continue to push on the offers, our share of CASA percentage will continue to grow, we are seeing a good momentum in that and we are now also linked to many more states and nearly 89% of our customers are primary customers, they are seeded with the government schemes and other benefits, which is also resulting in a higher honest transaction as well as higher renewal accounts, so on an overall basis while we are not tracking on us whether it will overtake offers, but percentage wise, growth wise, margin wise and the cross sell benefits which we see and to add the digital overlay over it we are seeing a very positive trend on the customer acquiring business, which we have started couple of years back and I think that will continue to be there as the way I look at, the market is quite big on that.

C. Sridhar: I guess the broader question was that given there is pricing pressure and the pricing pressure seems being a function of A. competition and B. of the share of offers growing up obviously it is just more margin beneficial from you, but fair enough, second question is just what and where maybe you could start sharing some metrics, what is the number of our own merchants who are doing more than one product and how many doing maybe three products?

Ketan Merchant: Chandra, Ketan here, we shall try and put it across from the next presentation.

C. Sridhar: Sure, thank you.

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

Shreya Shivani: Thank you for the opportunity. Sir, I have three questions broadly, I think I heard you say that you will want to change the remittance mix between own and API channel to something like that 30:70 ratio now that kind of mix you guys used to have back in FY2019 way back before the COVID even started, so how would you go about it, this basically means you will be pushing more of your own channel because you cannot really stop business coming on the API channel and I just want to understand that part of the business, this is first, secondly on the CASA account opening, clearly the trend has been very strong and many congratulations on that, so I just wanted a couple of quarters back you had mentioned that you will be able to reach one Crore CASA accounts by like say FY2024 or something like that, do you think we will be able to surpass that now given the run rate that you have already achieved in this year that is my second, and the last question really is on the cross-sell products, apart from us knowing that the businesses will be operational in the second half of this year so you can give us a little more colour around which will be the product that will get launched first, what kind of successes have you seen in the pilot programs that will be useful, those are my three questions? Thank you.

Ketan Merchant: Thanks Shreya. Let me just take your first question first, this is the open banking versus own, you are right, I will throw the attention on slide #24 wherein we have given data of how it was in Q1 FY2022 and how it is in Q1 FY2023, just a minor point to put across, it was not only remittance what I have essentially said off is that between on all the products whether it is micro-ATM, AePS, and remittance the transaction products taken together our endeavour has been to put a ratio of 33 and 67 that is the number. Currently we are off because you are right the open banking essentially has grown faster, open banking has grown faster on account of two aspects, one is if I do a year-on-year comparison remittance, which is a generally dominant part of open banking there was a recovery growth, which was happening, the COVID had impacted phase one and phase two, the only product which had impacted, which was dominant in open banking was remittance so it has been a remittance recovery, on an overall basis if we see remittance has grown on a year-on-year basis by 67% and API being the strong partner that is how it is skewed. Second aspect wherein to give a more strategic outlook in terms of how do we eventually come to our desired matrix between own banking and open banking, yes, we are attempting to have a larger share in terms of the transaction business as well, so we are not controlling the open banking, that will come as it comes, but definitely the focus essentially is on the acquisition of the new distribution points and enhancing business on our own site specifically in AePS, which for ourselves where the market growth is essentially there; however, we also have to look at it in a slightly non-typical matrix basis as well because besides the margin being high for own banking it also gives us a very high potential for the conversion as well, so own banking we will grow, we are looking at a weighted average kind of a growth in these transaction products in the range of 20%, own banking we are giving more impetus in terms of the distribution network and in a long run our ratio between own and this thing continues to be 67:33 and currently we are a bit off from that so that is your first question.

Ketan Merchant: On the CASA side you are absolutely right looking at the traction, which is there currently in our platform on opening account, I will go with you in terms of that we should cross more than one Crore CASA account by end of FY2024. On the cross sell part question I think on the cross sell only international remittance is something which we have started to pilot that too at a branch level, it is in a learning phase right now for us, for IR business there are a lot of compliance requirements and the regulatory compulsions, which have to be completed first, so hopefully in Q2 two end or Q3 beginning we should see our international remittance being launched at the merchant level that is where we will see a higher traction coming onto the platform. As far as other products are concerned digital insurance is something which we started with Go Digit and that has shown a good traction shopkeepers insurance have seen a good traction, I think in the first month we opened more than 5000 insurance in the month of June, we expect that the run rate will continue to be good. Loan referral we had seen a good traction on loan referral as well. On an average now if I look at from a customer point of view if I add all the products there are a couple of more products which are expected to be launched over the next six months to one year in fact there are about six, seven of them, we expect our customer share to go up, we did some analysis and we found roughly about Rs.20 odd we are making per account on cross sell already in this quarter, so that is a good healthy growth, which we have seen, hopefully by more push and by more going digital we should be able to increase that percentage as well.

Shreya Shivani: Got it. Can I ask another question on the Digital Gold, is it in a pilot phase right now or it is yet to be tested as well?

Rishi Gupta: Sorry, actually I did not want to, it was more Digit Insurance that in Digital Gold, Digital Gold we have started in a small bit, but nothing major as of now if you ask me on that side, it is more as an investment product, but as we gain more traction on the digital side then we should start seeing more uplift on the Digital Gold as an investment product.

Shreya Shivani: Got it, like you mentioned in the next six months to one year you plan to launch 6 to 7 new products this includes remittance and insurance is already out there, this includes your loan products right?

Rishi Gupta: Loan products, mutual fund products, insurance also, a couple of new products which we have launched, then we also got approval from Reserve Bank on fixed deposits and Demat accounts, even PAN cards, so all those will be there. The idea is to make merchant have many products and service the customer who comes for multiple requirements whether financial or related to some of the non-financial basis like PAN and Demat and other pieces, so the idea is to make all of that available at the merchants, so we see a higher traction, higher footfall and ability to have a higher income per account.

Shreya Shivani: Got it and one more question from my side, the pilot programs for these products before you launch, what is the time period usually for those pilot programs to run it for two to three months or something like that?

Rishi Gupta: Roughly three to four months is something which we looked at for products especially which are on high like IR is a very high compliance product you understand because of the AML and all the factors which have to be factored in as far as international remittance is concerned, we will probably test it for a longer period of time and then launch it, but some products which are not that complex like digit insurance which we started on shopkeepers within two months I think we were able to launch it, so it depends upon product-to-product and the complexities which are there and also the APIs which we have with the partners.

Shreya Shivani: Got it. I will get back in the queue. Thank you so much.

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

Renish Bhuva: Sir, good afternoon and congrats on a great set of numbers. Sir, just two questions, one is sort of clarification on the notes to account part we have mentioned the employee benefit under this section of code of security, so what is that and what kind of accounting impact we see on P&L because of this?

Ketan Merchant: Hi, Renish Ketan here. Last year we had issued from the motivation of the staff perspective the ESOP for all the key management staff has been given off, so that is the note which you are referring to, the impact of that on an annualized basis to the P&L is around 6 Crores that is based on the calculation including the Black-Scholes method and the RBI regulations which come through and this is being given to a set of employees, the key set of employees or the core set of employees in terms of driving the function and the organization to the next level.

Renish Bhuva: Got it. Sir, secondly on this investment side we did mention about we are going to invest behind sort of building this 2.0 version, so what kind of annual investment we are planning and does this will have any impact on let us say our earlier assessed profit for FY2023-FY2024?

Ketan Merchant: Thanks Renish for that question, we should go back to our primary proceeds, we have raised somewhere around Rs. 300 Crores and whilst it is for augmenting Tier-1 capital our thought process around was that there is a digital and technology initiative where we want to be ahead of the curve and wherein our target audience before they reach completely out there in the digital space we want to ensure that they have customer trust loyalty and the other aspect so that they continue and also we can have cross sell. In regards to your pointed question in terms of how does this essentially impact the profitability, I think we have started investing, most of this investment would essentially be in the capex nature and we building stacks, we building solutions which will be there. I want to essentially put a number that how much of this via the depreciation line or via the amortization line will come through, the answer is no, we have started making a plan in terms of how do we over next 18 to 24 months utilize somewhere in the range of around Rs. 150 Crores to Rs. 180 Crores in terms of the technology and digital initiatives that impact on this year's P&L will depend upon how fast these tax are born, for us the accretion of the real benefit of digital as I said earlier we have started taking in FY2023 and FY2024 as well so maybe over a period of time it will be; however, just to conclude in this particular point and it is very important with what Rishi started off with in long run it will be the ROE target which we have set ourselves at the time of the public launch and otherwise is what you are looking at, it will also be a balanced approach in terms of profitability and growth, but we will not shy away from making capital investment in this field so that 2023-2024, 2024-2025 onwards we can start getting benefits coming to it.

Renish Bhuva: Got it, Sir. Again just a followup on this, so maybe this Rs.150 Crores to Rs. 180 Crores whatever way we spend either it will flow through depreciation in that case the impact will be a little prolong and if you do it via opex it will be a front ended?

Ketan Merchant: Yes, it depends upon the nature of this thing which we are doing, but again things we are attempting to build a robust digital platform the capex agreement to this is expected to be in the higher proportion if that is the question which you are looking at.

Renish Bhuva: Got it, Sir and just a last thing on the gross margin side, so we are at 30% now okay, now considering all the cross sell, upsell or maybe the benefits which we going to derive from this digital initiative where should one look at it as a steady state margin for our kind of a business?

Ketan Merchant: Yes, that is a very good one and if you recollect the last call and in the way I started off by this time transcript as well we had mentioned that when it was around 32% we are looking at 30% kind of a thing, I should be very honest out here that in this particular quarter I was not expecting that it will go to 30%, I was looking at a largely or slightly moderate kind of margin compression which is happening. Having said that based on the kind of the product mix which has changed the remittance, the AePS increase in open banking it is indeed taken us to 30%. We are looking at a margin from here on to be in range bound this also resonates with earlier question perhaps Shreya asked how are we going to balance open banking and our own banking our own channel, so we are putting an additional impetus in terms of our own channel, the CASA and CMS, which are growth drivers maybe I am repeating this again at a 57% and a 40% margin will also play its part in the weighted average margin so to broadly look it, how will margin shape up from here, our endeavour is to keep it range bound in the current where we are.

Renish Bhuva: Got it, Sir, sorry just the last thing on the micro-ATM side, since this has been our one of the high margin product and sort of look at it on Y-o-Y basis our margins or let it be the revenue is declined by almost 40% to 50% and I think that is a primary reason why our PAT stands at 10 Crores let us say it should have been higher if we would have maintained the micro-ATM share in the overall business, so particularly I can understand this is a hook up product for us wherein at a later stage will cross sell and upsell, but considering this is one of the high margin product without cross sell and upsell we are making 40% to 50% margin, so why cannot we sort of focus on scaling up this product and sort of maintain in the range bound of around let us say 15% to 20% of the total revenue versus where it is currently 10% and then our focus on cross sell and upsell, just your broad thoughts will be helpful?

Ketan Merchant: Renish thanks I think you are right, micro-ATM over last three quarters is not shaping out the way it is, AePS in fact is shaping out, now we are also ourselves in terms of last call also we had mentioned that we are essentially grappling because you are right, micro-ATM on a standalone basis gives a margin of around 45% to 46% is what you are seeing it off. Currently in the emerging Bharat in the state which I essentially mentioned and honestly we do not know it is a post-COVID phenomena or how is it working of, the device is which are essentially happening is tripled in the last two years I have mentioned it in my transcript but the industry wise growth or our growth does not seem to be coming out here, how are we attempting to tackle it off, have we only considered it as a hook product the answer essentially is no, we are still endeavoring on a combined basis we have a kind of a 20% odd growth coming from there, but as we essentially standout here we are exploring opportunities, can we go into the other target segment as well when the micro-ATM was at its peak we should try and put it more in terms of our urban audience as well where currently it is more of a rural phenomena. Our sales team and our products team are working in terms of the revival of this product, I would not say revival, revival is a very strong product, revival of the growth anticipated in this more so because Aadhaar enabled Payment System is growing, so the demand for overall cash withdrawal is there. As we speak currently do we have a very concrete step that how we will change it off we are working on this and maybe it will require a quarter or two more in terms of to reassess that do we need to completely change. One point I want to mention out here is that we are maintaining the margin out here unlike competition, there is intense competition people are attempting to give devices without any fees, etc., etc., we have not gone completely into that, so we are maintaining the margin, we are attempting new ways in terms of bundling and we see over the next two quarters how is this going to plan out for us including the new target segment which I just mentioned.

Renish Bhuva: Got it Sir. This is very, very helpful. Thank you so much, Sir.

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

Harsh Shah: My questions have been answered. Thank you.

Moderator: Thank you Sir. We will move on to the next question that is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thanks for taking my question, Rishi and Ketan. Great show on the revenue growth. My question was around the gross margins basically I am just following up from the last speaker do we see that the margins given the fact that the product mix is changing in a manner where the margins are kind of going down do you see a risk that the gross margin may slip to mid 20s or go below 30%?

Ketan Merchant: Ashish thanks. I will try and reframe what I was mentioning to Renish earlier that the product mix, yes, they have changed, there were a couple of logical reason which I explained as well that remittance being a dominant for open banking that has grown, earlier we did not have material AePS are happening in open banking that is growing, but if your question is very pointed that are we looking at 20s kind of a margin is that something which is what we are looking at, the answer is essentially no. We are looking at margin being range bound from here on and not to forget the growth drivers which we have mean emphasizing it off is that both CASA and CMS those are high margin products in the range of 57% and even more in the time of renewal and 40% in CASA, so we are expecting a range bound margin, which is happening and eventually as we said our product mix between open banking and own, we are looking at 67:33, which I had earlier given guidance as well.

Ashish Kumar: Sure, the second question was in relation to your investments that you are making because if I look at below the gross margin line right there is a very little movement quarter-on-quarter in terms of the pillars of gross margin line and are most of our investments in the form of capex or are we looking at opex kind of a thing and I will tell you where I am coming from, given the fact that given the competitive dynamics we are closer to let us say 30% gross margin it might mean that if we are looking at increasing investments over the next couple of quarters it might mean that we might be looking at low teens kind of ROE over the next two, three quarters, is that a fair way to look at it?

Ketan Merchant: Ashish, again a good point and you are right, our base capital maybe around six months back we are making our plans and we had also mentioned that this capital will take us through next couple of years and more in terms of our plans, so our investments in technology and digital are in the conceptualizing or the implementation phase and which will start happening over next couple of quarters and more. As regards to your point on opex and capex I mentioned it earlier most of these tax which we are making or the platform which we are making are to generate revenue for future, which will be coming earlier from 2023-2024 onwards, so most of this would end up being capex. Having said that we are no different from the rest of the technology industry or fintech bank wherein we are also seeing some spurge in terms of the technology inflation, which is coming to us specifically on the technology opex cost side as well, so primarily on the capex side technology inflation is hitting us, but we are expecting it to control it off and we also expect on a gradual basis, on a balanced approach between profitability and growth. On your question of ROE I think ROE is something, which we had mentioned it at the time of the public issue, we are looking at anything in the range of 20% plus over a long-term period or over a mid-to-long-term period and we are working towards that into a balanced approach on profitability and volume growth.

Ashish Kumar: Sure and just to kind of if I can push my luck with the third question, on the borrowings and the investments that we have done you mentioned that we are making a positive contribution on that so on that Rs. 500 Crores book what would be the kind of profitability that we will be looking at that piece?

Ketan Merchant: Yes, on the treasury side currently our income for the quarter was anywhere in the range of around Rs. 17 Crores, we are making a good spread and this is what I said despite the repricing of the rates, which has happened, the way our book is also positioned it off is that we are having a repricing in this quarter as well, so every time there is a rate hike anticipation, our book is in residually six months and nine months tenure and part of it is repriced so overall we intend to continue our borrowing, so I do not want to put essentially a forward looking number on the treasury piece given how the interest rate goes, but as I said we have a cushion or the sensitivity analysis of anywhere in the range of 225 basis points wherein our spread will continue to be super positive and this is even without the repricing with the kind of repricing book which we are looking at even the sensitivity analysis of the interest rates up will further increase as well.

Ashish Kumar: No, I think that is really good, I just try to understand that if we were to remove the net treasury income from the book then probably our core business probably made a marginal profit?

Ketan Merchant: Yes, we have to look at it in two aspects, I would say that because the major part of our treasury income is also coming from the deposit growth, if you have seen that on a quarter-on-quarter basis, sequential basis our deposits or the CASA deposits have increased by 17%, so this is how we are deploying it essentially, so whilst we are not a balance sheet focus based for the reasons and the statistics which we explained in terms of how our debit card spends are increasing, how our customer balances are increasing it off, we are having a benefit and a substantial or a reasonable benefit coming on account of our business growth as well. Also the point to note out here, which does not come on the phase of the balance sheet as well because of the payment bank designation which we have, in addition to this Rs. 580 Crores of deposit which is shown, we also have around Rs. 250 Crores odd of EMD balances which are there and which are by the virtue of regulation need to be classified under a separate heading that also is available for us in terms of deployment and both of these is connected to business, one is connected to the customer acquisition 80% growth which you have seen, the other one is connected to the 58% acquisition on the merchants to distribution network which we have seen.

Ashish Kumar: Right. I think that kind of helps and wish you all the best as you build out 2.0.

Moderator: Thank you. The next question is from the line of Hitesh Randhawa from Reaves Asset Management. Please go ahead.

Hitesh Randhawa: Good afternoon gentlemen. My first question was around the cyclicality element that I have observed actually on the slide 12 of the presentation so maybe could you please elaborate on the cyclicality element, another question that I had was around the employee expenses there is a 20% increase sequentially, so maybe could you please elaborate on that as well as to what contributed to that and are there any nonrecurring components within this, which would not be contributing in the upcoming quarters and last question that I have was I think your press release talks about some kind of a moderation in the onboarding fee so could you please let me know what is the average CASA onboarding fee right now and maybe how much has it come by and maybe what do you expect the trend to be? Thank you.

Rishi Gupta: So, on the first part on the cyclicality you are right, first quarter normally has been always low for us because a lot of people actually specially all kind of migrant people they go back to their homes for crop and other purposes, so that is where we see the cash withdrawal as well as the remittance business normally drops, this year while they still could have been higher compared to a normal quarter, but Q1 still has cyclicality, which we are able to overcome by our expansion which we did in the last year or so, so starting July, August when people come back actually they come back from a month of June onwards, so April, May we have seen relatively low numbers and then it starts to build up during the year, if we look at our past two, three years of trends also you will see starting from middle of quarter to till Q3, Q4 that has been a major growth months for us. As far as employee expenses may be Ketan can answer.

Ketan Merchant: Thanks Rishi. On the employee expenses I think two points to make out here, may be a reiteration of what I said earlier to one of the questions, yes, we have started the ESOP scheme expect from 2021 policy, which we had done, so there is an impact which is coming essentially out of that. The two other aspects which we are seeing is also the kind of growth which we are seeing, we overall have 150 odd people team inhouse technology team which is there and I should actually confess it off that the technology cost or the technology people cost and here I am saying technology is also the high flying digital guys as well are really going off the roof, so we are essentially having some challenges not be the industry as a whole is also having challenges in terms of technology, our understanding is that this kind of a thing may remain or maybe the overall funding in the space is reducing it also some sort of a moderation or some sort of a base bench which will come through, so this is a normal thing which we are essentially looking at on a year-on-year basis the 20% kind of the growth and the answer to that is, no. We are working on overall inflation based matrix as well, so we are balancing between rewarding our good employees and the profitability as well, so depending upon how the market goes specifically in technology and digital we will be having a moderation coming out there.

Rishi Gupta: Moderation on onboarding in the press release? I could not figure what you are referring to.

Hitesh Randhawa: So, in the press release basically it is stated that subscription and on-boarding revenue have kind of continued to raise a strong momentum 68% despite moderation in onboarding, so my question was when we are talking about moderation in onboarding phase how much has it moderated by, what is the current average onboarding fee and how much has it come down by?

Ketan Merchant: Let me attempt to put this across what we were trying to and which is also in the face of our presentation as well that the kind of impetus which our renewals we have shown and I had given some statistics and data of 4.7 times growing on a Y-o-Y basis, what we were trying to say out here is whilst the account opening momentum is excellent we have opened 6.2 lakhs account this quarter which vis-à-vis is a 6.7 lakhs account last quarter, so that is where our new subscription account the onboarding fees which we are saying is moderated off and against our growth plans in terms of new subscription is also equally very aggressive, I have said we have grown 80% on a year-on-year basis so what we were trying to say out here is despite a lower or relatively marginal drop in terms of the new accounts which is open on subscriptions for onboarded fees our renewal income the way we are going or the annuity income has completely compensated that, but I think from a directional and a guidance perspective new accounts opening momentum we are putting a lot of effort and innovative manners in which we can continue our aggressive or a super aggressive customer acquisition spree.

Hitesh Randhawa: Sure, thank you. Sir, I just have a couple of followup questions actually on the basis of your answers, so has the ESOP cost been entirely say kind of may be considered in this quarter employee expenses or is it going to be amortized over all the four quarters?

Ketan Merchant: On an overall basis the ESOP cost as I said earlier it will be on overall four quarters basis this is what we are looking at.

Hitesh Randhawa: Sure, thank you and I think when you spoke about the cyclicality element I think would it be fair to say that okay the cyclicality element would also be present in the account openings as well and maybe as we proceed throughout the year the account opening goes up due to the cyclicality element?

Ketan Merchant: Yes, absolutely you are right, we should expect in fact if I say between April, May, June, we saw that April numbers were lower, but it kind of started to recover from May and June, so we should see higher in this quarter and onwards.

Hitesh Randhawa: Thank you and just maybe squeeze in a couple of more questions, I think you also spoke about the digital expenses actually and your press release again wherein there are some digital spend investment that have been done, otherwise the PAT would have been higher by 30%, so again should I expect this to be something which would continue for reminder of the quarters this incremental digital spends or again is this kind of a nonrecurring thing for now?

Ketan Merchant: No, I think as I said earlier we are going to invest and digital spends will essentially continue as well, so it is nonrecurring kind of a thing, it is a recurring spend, which we are essentially looking at, it also depends upon as I earlier mentioned it off the kind of platforms and how are we splitting it between the opex and capex, currently the large part of it is essentially coming on account of the team on the technology and digital side which we are putting.

Hitesh Randhawa: Thanks and second is on the merchant side actually, so what percentage of merchants are active right now and what initiatives do we take maybe activate nonactive merchants, how much time does it take for the newly onboarded merchants to maybe start contributing meaningfully and I think the last one is on the Paysprint acquisition how is that going actually in terms of have you already started benefiting from them, have you started integrating their APIs into our Fino 2.0 application and maybe going ahead what are the plans?

Rishi Gupta: So, on the first question on the merchant side we roughly see about 50% to 60% merchants who are active on a monthly basis and the numbers keep on varying, the same merchant may be active this month, may not be active next month, the average roughly about 50% to 60% of the merchants are active, multiple things we do, one is that we have a field force, which is there are on the ground, which engages with the merchants and the distributors, we have our own platforms on a chat board where we can engage with them, we also have IVR calling system, we have a big call center both inbound and onboard which is there where we engage with the merchants on a regular basis, and we have a big analytics team which keeps on giving us data in terms of who should we expect will iterate in this month, whose volumes will come down, come up, so there is a lot of engagements both digitally and physically with the merchant on a regular basis that is why you will see that the volumes are growing and the merchants expansion is also growing because of the physical as well as the digital nature of our engagement with them.

Ketan Merchant: On the strategic investment of Paysprint that is not a short-term phenomena, we have our long-term vision in terms of increasing our network and increasing our footfall and thereby having the higher customer acquisition so this is the first quarter out there, so we are looking at a more strategic kind of partnership and the benefits of that will start accreting to us maybe from Q3 ending or Q4.

Hitesh Randhawa: Sure thanks very much. Thank you and all the best.

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

Shreya Shivani: Thanks for taking my question again, just a last technical bit this new products even the international remittance, the income is flowing to the other line item right from second half of FY2023 or in FY2024 because till now that line only includes interest income and maybe some other charges, is that correct?

Ketan Merchant: Yes, there will be a separate line item wherein it will start coming through, once it becomes a material kind of thing.

Shreya Shivani: So, effectively from second half of FY2023 we should expect some revenue in that line right if you are launching the product in the next two quarters which are in international remittance?

Ketan Merchant: Yes, that is how it will be once it picks up the momentum as Rishi said with the lead period we have already done it on the branch this quarter we will do it in terms of merchant and maybe Q3 ending or Q4 this can be having a reasonable impact on the bottomline coming through in terms of the new product which comes.

Shreya Shivani: Got it. Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Rishi Gupta: Thank you everyone for participating. It has been a very rewarding quarter for us if you see from the topline point of view, sequentially we have grown on an annual basis also we grew by 40%, we expect profits to continue to grow from here Q1 normally is a lower profit quarter for us every year, we should expect profit growth as well as topline growth from the Q2 onwards onset. The market is big, our CASA, CMS and some of the products have started to show a lot of traction, ownership story and the implementation of that has been very, very good. We expect as more and more customers get onboarded into the Fino platform we will be over a period of time not only increase as stickiness and activeness with the merchant and the customer, but will also result in higher cross sell and higher digital influence with the customer over a period of time and thank you everyone with this.

Ketan Merchant: Thank you everyone.

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