May 06, 2024

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

Scrip Code: 543386

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

Symbol: FINOPB

Dear Sir/Madam,

Sub: Transcript of the earnings call with the investors and analysts held on Thursday, May 02, 2024 - Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: Earnings call with Investors and Analysts on Thursday, May 02, 2024

In continuation to our letter dated April 19, 2024 and May 02, 2024, please find enclosed herewith the transcript of the earnings call with the investors and analysts held on Thursday, May 02, 2024.

Only information available in public domain was discussed with the investors/analysts.

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

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Fino Payments Bank Limited

BASAVRAJ SHIVANAND LONI

Digitally signed by BASAVRAJ SHIVANAND LONI
Date: 2024.05.06 17:13:37 +05'30'

Basavraj Loni
Company Secretary & Compliance Officer

Place: Navi Mumbai

Encl: As above

“Fino Payments Bank Limited

Q4 FY‘24 Earnings Conference Call”

May 02, 2024

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

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

MR. ANUP AGARWAL – HEAD, INVESTOR RELATIONS – FINO PAYMENTS BANK LIMITED

MODERATOR: MR. RAJAT GUPTA – GO INDIA ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to Fino Payments Bank Limited Q4 FY '24 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Rajat Gupta: Yes. Thank you, Manuja. Good afternoon, everyone, and welcome to Fino Payments Bank earnings call to discuss the Q4 and FY '24 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 and CEO, Mr. Rishi Gupta, to take us through the company's business outlook and financial highlights, subsequent to which we'll open the floor for Q&A.

Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. Good evening, ladies and gentlemen. Thank you for joining us today for the Fino Payments Bank Quarter 4 FY '24 Earnings Call. We are excited to share that we have delivered highest profitable quarter, a testament to our strategy, business model and commitment towards creating value for all the shareholders. .

We continue to maintain and deliver on our guidance of around 20% growth in revenue in the coming years with a further upside bias going forward. Let me share quickly some key milestones achieved in FY '23, '24 and last quarter CASA crossing 1 crore accounts, this is big for us in our endeavor to continue the momentum of the acquisition phase. Highest ever throughput of more than INR1 lakh crores in a quarter. Highest-ever CMS throughput of more than INR18,000 crores in 1 quarter. Highest ever revenue of more than INR400 crores, which is INR401 crores, in 1 quarter. This was also our highest-ever profit of INR 25.2 crores ever in the life of Fino Payments Bank.

Let me come to the strategic business update. With this, let me walk you through the business progress this quarter. Business momentum continues to grow gradually moving from transaction to ownership business as part of our TAM strategy, which is transaction, to acquisition and monetization. Of our customer base of 1.1 crores, 69% of them are active. Our CASA renewal income grew 56% Y-o-Y during quarter 4'24, reaffirming the customer trust buildup in our bank.

As I and Ketan have earlier emphasized, our endeavor is to grow our balance sheet, which will supplement our transaction income through low-cost deposit focus. Our average deposits have grown 49% during FY '24 to reach INR 1,714 crores as on 31st March '24, which is an important part of our strategy to become liability first bank on our path towards small finance bank.

Our CMS business continues to deliver 38% growth Y-o-Y in FY '24 with diversified client deals across various sectors such as BFSI, e-commerce, retail and supply chain logistics. CASA and CMS continue to be our higher-margin products. Together, they contributed approximately 32% in quarter 4'24 to our overall revenue.

Digital, as you know, Fino is running on a Fino 2.0 journey. Digital continues to be one of our areas where we are trying to put a lot of emphasis. It is in a build phase, so to say. So by build phase, I would mean it is an investment stage as of now, and we have started to see some early gains from there as well. Our digital footprint is expanding with every passing quarter. It now contributes to 1.27% to the overall UPI ecosystem transaction volume.

It has over 3 lakh digital accounts and digital transactions contribute to 42% of the overall throughput in quarter 4 FY '24. Our new LOB, which is digital services, which we started in FY '24, in fact, the last half of FY '23 is steadily gaining traction and now contributes to 9% of the revenue in quarter 4 FY '24. It used to contribute 1% in quarter 4 '23, now it contributes 9%. 40% of our 1.1 crores customers are digitally active, and we continue to witness higher average balance of more than INR 2,000 per account for our digitally active customers.

Our endeavor is to make more and more customers digitally active, which has incremental renewal income and balances. I'm further delighted to share that our FinoPay app is now available on Apple store for our iOS users, which also enhances our target customer segment and lays foundation for digital cross-sell opportunities. We are slowly and gradually moving towards becoming the preferred digital bank of Bharat. This in times to come will go a long way in our monetization phase, which will start in contribution quarter for FY '25 along with the SFB application technology.

Technology. Technology has again been one of our biggest, I would say, enabler for us to do business, and also the fact that coming at a time when technology is at the main course of the company, we continue to be very, very upbeat and invested always on our technology side. Now let me update you on our technology in terms of the development, which we are doing. Innovation and governance continue to remain cornerstone to achieve our digital aspiration.

Speed, scale and security are the key elements to deliver robust and compliant technology. We continue to remain invested and committed to our technological advancements, both in terms of upgradation and capacity building, and thereby remaining ahead of the curve in inculcating digital banking habits in our Bharat.

Our endeavor is, through seamless technology, digital platform and using physical merchants' touch points, enhance digital penetration in rural Bharat. As part of this initiative, migration to new core banking platform, which we mentioned last time, we are moving from FIS to Finacle and hollow of the core, which means we are lightening the core and moving a lot of applications outside the core, so that doesn't congest the core as the transaction volumes increases.

As part of this initiative of migration to a new core banking system and hollow of the core technology architecture, implementation is in progress, and likely to be completed during this fiscal year FY '25. And let me tell you that I've been monitoring the progress of this on a regular basis, and we are on schedule. In recent times, banking as an industry is witnessing enhanced vigilance expectations from all regulators. We want to ensure that Fino will continue to establish robust compliance and governance structure and always look at sustainable growth dovetailing compliance first culture.

Let me come to my section on guidance. As we head into the new fiscal year, we assure you that we remain committed towards delivering 20% plus revenue growth with CASA, CMS and digital being the growth drivers. Investment in innovation and technology for providing user-friendly, safe and secure banking services to target customer. Growth all along is expected on the back of customer centricity and enhance execution of our TAM strategy. I reiterate that we are in the pivotal stage of growth and aim to deliver superior performance as well in FY '25 and beyond.

Now let me turn to Ketan Merchant, our CFO, to delve further into financial results and strategy implementation. Over to you Ketan.

Ketan Merchant: Thank you, Rishi. Good evening, ladies and gentlemen. As Rishi highlighted, this quarter marks our 17th consecutive profitable quarter, showcasing our consistent and robust performance. Notably, our ownership business has experienced substantial growth, both in terms of revenue and balances, which not only strengthens our current operations, but also lays a strong foundation for our transitioning into SFB.

Moving towards financial performance for the quarter and fiscal of 2024. Our total revenue stood at INR401.3 crores during the quarter, up by 24% on a year-on-year basis, making it the highest profitable quarter. This is the first quarter in the history of the bank, where we crossed INR400 crores mark in revenue. FY '24 revenue witnessed 20% Y-o-Y growth, reaching INR1,478 crores, in line with our guidance.

Our margins remain range bound, in line with our guidance between 31% and 33%. Here to emphasize is that our endeavor is to work towards digital services in long run, which in addition to driving better margins as compared to our open banking will also open up cross-sell opportunities for us in long term.

EBITDA for the quarter stood at INR54.2 crores and INR191.4 crores for the full year, with margins improving to 13.5% in the quarter. Full year EBITDA margin stood at 12.9%. We serviced 11.1% in FY '23 and 8.4% in FY '22. PAT margins are steadily inching upwards and have reached 5.8% in FY '24, which was 5.3% in FY '23 and 4.2% in FY '22.

During the quarter, our transaction count stood at INR61.8 crores, surpassing the same period last year by a whopping 77%. Throughput during the quarter increased to INR1 lakh crores for the quarter, making a substantial year-on-year growth of 52%, with digital, as Rishi said, now contributing 42% of our overall throughput during the quarter. Just to give a perspective, during the year, our throughput is almost INR3.6 lakh crores, thereby almost reaching INR1,000 crores of daily throughput. And that's your bank, which is doing INR1,000 crores of throughput on a daily basis.

Now we move towards product level performance. CASA revenue witnessed a 42% growth for full year, backed by 31.8 lakh new accounts accretion and 75% growth in renewal income. Renewal income in quarter 4 stood at INR40 crores, highest ever in the quarter. We've been consistently opening over 2.5 lakh new CASA accounts every month for the past 7 to 8 quarters now. We continue to maintain the run rate in coming years as well.

During the quarter of the 8.5 lakh accounts open, UP contributed 20% of the new accretion, followed by Maharashtra, which was around 13%, and Bihar contributing 9%, Gujarat contributing 7%. On average, our deposits witnessed a 49% growth on a Y-o-Y basis for the full year with average customer balance inching upwards with every passing year. This becomes key on our journey towards SFB, i.e., the liability first bank, which Rishi alluded to. One of the key points which we each time discuss is our cost of funds. Our cost of funds stood at 2.1% and are best in the industry and the growth in the balances is a testimony of how differentiated model -- or are differentiated model is the USP now and even if we transit into SFB.

CMS, another high-margin product, has been consistently growing at a CAGR of around 68% over the last 4 years. Revenue from CMS stood at INR144 crores, up by 38% in FY '24 and by 28% during the quarter on a Y-o-Y basis. NBFC and MFI sector emerged as a primary contributor to throughput, constituting around 62% in the total in FY '24. We now contribute 1/3 of the ecosystem and market leaders for the past few years. Our transaction business continues to remain the funnel for our ownership business. This traditional business has not grown during the year, primarily driven by the challenges which we encountered during the year in the AePS.

The growth of digital active customer is outpacing our expectations. And this is also laying a strong foundation for our annuity renewal income and future monetization. Out of our total customer base, approximately 40% are digitally active. Digital contributed 42% of the total throughput in Q4 '24, signaling how fast India is moving towards digital economy. Just to give a perspective of growth here, in FY '22, our digital throughput was INR18,393 crores, and contribution to the total throughput was 10%. Come FY '23, it increased to INR48,965 crores, contributing to 19% of the throughput.

Now in FY '24, our digital throughput stands at INR1,32,576 crores, contributing around 39% of the total throughput. These robust performance, are indicators -- are testament of our steady progress since inception. We have fortified our position in banking system and laying foundation for transitioning into SFB. As highlighted by Rishi, innovation and technology have been at the core of Fino's strategy. We continually strive to enhance our product portfolio, leveraging digital platforms to cater diverse population. This approach enables us to meet evolving needs of customers effectively while ensuring accessibility and convenience across the different demographics.

Again, to give a perspective out here about our investment and our perspective of investment into technology. During the year FY '24, we had capex spend of around INR103 crores. And this will keep us in the market to grow further, specifically on the technology and the digital platform, which we are creating. Our guidance, Rishi mentioned a guidance of 20% plus of the revenue which we are looking at. And our PBT guidance, typically, the growth in PBT percentage is 1.5x the growth of percentage in revenue is intact and is after factoring the investment in our digital and technology platform.

As we stand now, our confidence in growth is high and next 4 quarters could be a redefining benchmark for us in terms of acquisition phase and digital outplay leading to growth in profitability.

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

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have two questions. First is very much on the capex spend that we've spoken about. So the way FY '24 has really played out is that your other expenditure to income ratio has inched up versus FY '23 levels. I mean, it's a slide bump, but it's not reduced as usually what one would build in, right? So can you help us understand what's the plan on investments and would we see any operating leverage playing out in other expense portion in the coming 2 years? Especially until the point we transition into SFB, I believe you guys would be making a lot of investment. So will the leverage on that opex side keep coming? Or should we expect some bit of moderation over there?

And my second question is on MATM. MATM, mostly, I think AePS at least saw some slight bit of improvement in the fourth quarter when it comes to your throughput versus the third quarter. But MATM has seen 2 years of more than 20% decline. How should we build it another 20% decline for another year? I mean, any idea on how we should build that line item, what kind outlook you have on that, that will be useful.

And just one data keeping question. Can you help us with the subscription revenue in the CASA for the fourth quarter. So of the INR91 crores of CASA revenue, your INR40 crores is on renewal. And what will be the new subscription in -- like you used to earlier separate the SMS and other charges separately. So just the new subscription part, if you can help us with, yes.

Ketan Merchant: Thank you, Shreya. Absolutely Shreya-like questions. Let me just start off with first question first. In terms of INR103 crores of technology spend, which we've done. I intentionally, in my wordings included as well that our guidance is 20% plus of revenue growth, and we maintain that. Typically, a 20% of our revenue growth will continue to lead a 30% plus of PBT growth. Now that itself answers one of your questions as well.

Yes, depreciation line will definitely increase as and when we are capitalizing towards. We will continue to invest in technology and digital. Just to give some of your numbers perspective as well, if you see Y-o-Y, 20.2% growth has resulted. By that logic, our operating cost currently has grown by 14%, and which is why, despite the depreciation and the borrowing cost increase, we've grown by 32%.

So in a nutshell to answer your point, does this investment in technology and digital, the capex spend which we are doing, derail us from our guidance in terms of the growth which we are looking at, the answer is no. As regards to your operating leverage, which is coming at 26.5% (cost to income) grown by around 41% in terms of our throughput, and as we expected our digital services is also growing, it will continue to grow.

There is an element of leverage of scale, which is also coming out there as well. Third is which I attempted to cover in my early words as well that we are also attempting to cover or replace the digital services margin business, which is at a higher margin as compared to our open banking platform. There is a significant difference. So all these three taken together, after factoring the digital and technology capex spend, which has happened last time, which will continue to happen in the next one or two years, we still are maintaining our same guidance of our top line and bottom line, as I said.

Second aspect, if I go into Micro ATM businesses, I think we've discussed it in the past. For us, Micro ATM is a platform or is a hook product wherein people continue to come and bank with us or come and do a footfall with us as well. So that is how it is. In terms of specific numbers, what is the growth or the rebound, which is expected, I think you hit the nail in terms of AePS.

After the ecosystem challenges, AePS has started regrowing back. Ecosystem or all the banks had also put additional control. AePS, the growth will be higher for us. Micro ATM from here on, from the lower base, we are expecting a higher single-digit growth and not beyond that. However, our growth drivers, just to give a perspective, will continue to be CASA, CMS and digital service. Third point on your number of subscription revenue for quarter 4 and excluding the SMS and other charges currently stands at INR20.3 crores for quarter 4.

Shreya Shivani: Got it. Very useful. And just one clarification. This year, FY'25, you will pay full 25% tax, right?

Ketan Merchant: Well, I don't want to split it quarter-by-quarter, but we will have tax coming in at some stage for tax purpose. We still have some opening balances, which is left across. I do not want to specify which quarter it will come through. But yes, there will be a tax which will come through for the year.

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

Ashish Kumar: Congrats for a good set of numbers. Just a couple of things which I wanted to understand. One was on the DMT business. So I'm seeing that the Q4 revenues have grown faster than the full year. So what is driving, because with the UPI and everything else, we thought that this was lower. So what have we done differently so that the growth is coming back again in that business?

Ketan Merchant: Okay, Ashish, is that the one? Or is there anything else?

Ashish Kumar: So there's one more, but maybe we can do this and then I can...

Ketan Merchant: Yes. So Ashish, it's a good question. I think just to give a complete perspective, whilst Micro ATM, as I was answering Shreya, has been consistently coming down, DMT has 2 factors. First, let me attempt to say that has UPI reversed out or is the so-called movement from DMT to UPI not happening? No, it is happening, okay? So that is the perspective, okay? How fast it will happen or how fast is there -- is it a 0-1 game? I think we've said it in the earlier call as well, it will never be a 0-1 game. Both will coexist in a bit.

As regards to our rebound, which is essentially happening in DMT and if you see both on quarter-on-quarter and I know year-on-year basis, amongst the transaction income, while Micro AMT is going down, this has essentially gone up. It is attributable to our bundling, which we have done on the field.

How we are attempting to look at DMT vis-à-vis our merchant. We've done some re-strategy in terms of merchants as well. We are focusing a bit more on urban and how it all goes. Now here, again, if your question is, is it a representative that is there -- are we reasonably certain that the momentum will continue? On the DMT side, both our own business as well as our open banking business, we see a moment getting sustainable what we achieved during the quarter.

Ashish Kumar: The second question which I had was on the CASA account business. A couple of things. One is that the rate at which -- the second order impact of the rate at which we are growing, the number of accounts opened per day, that has been pretty much flat. It's a small growth, but that has kind of seems to have pretty much flat.

And second question which is there, which maybe is that if I were to look at the 78 lakh accounts that we had at the beginning of the year, our renewal fee income this year is INR127 crores. So is there a significant percentage where the renewal -- and I think at some point of time, we used to mention about what percentage of accounts are renewed -- what is the percentage of accounts which are not renewed? And what are we doing to kind of people who are not renewing, how do we deal with those customers where they are not paying the renewal subscription fee?

Ketan Merchant: So Ashish, let me take the first question first in terms of -- our thought process in terms of CASA, the new subscription. I think over the last 1 year or plus, we've been just maintaining a stance that whilst -- are we looking at a supernatural growth? If you recollect, or if people on the call collect, we had made a full building block in terms of next 5 years. This was 3 quarters back at how our balances will increase and how it will all happen.

We are attempting to say that we will anyway grow or have new accounts coming in the range of 30 lakhs. We're not compromising in the nature of accounts, more so in the evolution of our products also, which can happen. So we are just maintaining -- rather than the numbers, we are attempting to maintain the quality. Our average deposit balance has also gone up by around 9%, and which is a testimony of us attempting to have the same or a better kind of a customer profile.

This was your first question on how will we grow it up. So in simple terms, we are not going to see any 30 lakh number becoming a double number or a 45 lakh number. However, we will continue to focus on the balances, and we'll continue to grow on the renewal part. Currently, broadly, our approximately 67% to 69% of accounts are active, and that is a good number in terms of the industry which we are looking at.

On your specific point of renewal, and that's a very fair question because our annuity income is based on the entire genesis of renewal, which has seen a 75% year-on-year growth. I need not explain that it is cumulative each year. Each year, the new year -- the previous year renewal gets added. How are we maintaining. Now the point which you yourself started off with INR78 lakhs is done. On top of that if we are -- now we are at almost INR1.1 crores and so on and so forth.

For us, to our teams, we are attempting, we are doing some nudges in terms of how to enhance our engagement, to bring customers, etcetera, etcetera. But our model seems to in what is a standard renewal rate, which we currently have in the range of around 55-odd percent -- 55% to 60%. And if we continue that way, the annuity income year-on-year will keep on growing up, specifically in the light of a plan where you said that we anyway grow 30-odd lakhs plus account on a year-on-year basis.

Rishi Gupta: Let me also add to what Ketan has said, Ashish, specifically on the fact that CASA continues to be our biggest driver for the last couple of years. In fact, the 36% growth we are seeing on the revenue on Y-o-Y basis. See, CASA brings to us many things, not only the fact that brings us the new customers, but also brings us the renewal subscription income on the old customers, and that is where you see a big jump happening on the renewal. This year, 75% growth on the renewal has happened. And we have touched INR128 crores.

If you remember, our guidance around renewal was around INR115 crores to INR120 crores. But with that effort which has been put by the team, a lot of initiatives which have been taken by the company, we have been able to, at least, I would say, 5% to 6%, we have better ourselves as far as renewal is concerned. And also the fact that we have seen a big jump on the liability side. So we are able to have 40% of our customers -- 40 lakh of our customers actually using UPI. And with UPI, the balances are also higher. So which leads us to a higher liability acceleration, 49% average growth in our deposit in last financial year.

And on top of it, we have, yes, also growth in the transaction. Transaction platforms have been used more openly. And so there's a revenue income MEITY incentives and everything else which also comes on the CASA customers. So CASA contributes now 23% of our overall revenue, all 3, 4 things put together. And we expect that this will continue to grow while the NTB numbers will be more or less the same.

But like this year, this quarter, the ETB number was twice as that of NTB and this trend will continue. Maybe ETB will not only be twice, it will be better than twice also in the coming year and in the years to come. Just to lay down the emphasis of CASA. And now CASA is a very thought-through strategy of the company, not for now, but last 4 years.

Ashish Kumar: I think you guys have done a phenomenal job in terms of building it up. A couple of things. One is that people who are not paying renewals and not having CASA balances, are we kind of exiting those guys from the system, because most likely, they're not using this, but they are a drag on the -- so what is the number of live relationships if that's a data point that we can look at?

Rishi Gupta: We've mentioned 69% of our customers are active. And so in any banking ecosystem, you will have a large chunk of users who are active into the system. So typically, the customer has to only close an account. The bank cannot force the customer to close an account. So he becomes inactive and he is lying dormant in our account, while there is some cost which goes into technology for account maintenance, but that is budgeted in our overall cost as well.

Ashish Kumar: Sure. And secondly in terms of the CASA balances, how do you see it, let's say, going forward over the next 2 years, especially as the SFB license comes when you operationalize over the next couple of years. So how do you see the CASA balances grow over the next 2 years? Do we expect a similar 40% kind of CAGR or do we expect lower?

Rishi Gupta: So if I look at, I think, average customer balance is a better parameter because the balances will continue to go up as we add more customers and also as more customers become active and specifically if they become more active on the digital side. So there's a lot of initiatives with the companies taking both at the customer end as well as the merchant. We're building up a customer experience center, and we are investing a lot on services and new products which are being put into. So there's a very thought-through plan, which we are working on in terms of how do we increase our liability balances.

In this year, our average balance has gone up by 9% to INR1,287 so to say. We continue to put more emphasis on this. To give you a number how much it will become next year, I think will be a bit loud estimate, which could be there. But the past has shown that we have been growing our average balances. In fact, it has grown by more than 50% in the last 3 years. And with more inputs on digital as well, we expect that the balances will keep on going up and the effort that the company is making out as well.

Moderator: The next question is from the line of Bhavana Jain from Avagrah Capital Advisors LLP.

Bhavana Jain: Congratulations, Ketan and Rishi, for such great numbers. So I have a 2 questions. First is on the digital accounts, like as I can see in the presentation, that around 80,000 digital accounts were opened during the quarter, which is 1% increase Q-on-Q. So just wanted to understand, given our product offerings and investments that we have put into the digital and UPI transactions, why are we not able to push this better going ahead? That's the first question.

And the second question is on the merchant and distribution network. Like what sort of run rate are we planning for the next 2 years? Because ultimately, we want to transition to SFB, right? So these would be actually our primary target customers, so in the future strategy for the same?

Rishi Gupta: Good question, Bhavana. In terms of digital accounts, our strategy is to only look at more productive digital account and not open accounts where we see the balances are not coming or the customer is not ready to pay. So the parameters of digital accounts which we are focusing on is to look at how we can get more productive customers.

If I open the tap, I can increase the 80,000 number to few lakhs very easily. But end of the day, you end up making more money. And as a responsible banker, for me what is important is to make sure that every account data transactions and every account gives something to the bank. So, digital as a strategy is for us, there are multiple things. One is to push on the UPI stack. So the UPI stack, we have almost all products, barring 1 or 2 products, which also will go live this year. Then push more on the B2B payments stack, which again you have seen there's a big jump in our digital income so to say.

The entire FinoPay application has also come up on iOS. The web and the Internet also will go live in this quarter. We have recently launched women digital account also. So our focus is how do we make our customers digitally more active, whether new customer or already we have 1 crores customers who are already on our platform.

And more digitally active customer is a more aware customer and is more active as well as has the higher balances. So the idea of the company is not to source digital accounts without looking at the parameters which we are focusing on internally. So that's the answer on that digital account. Merchant run rate, Ketan probably will be able to take, yes.

Ketan Merchant: I think the answer to both essentially lies and this also resonates with Ashish's question, what we are looking at volume versus what Rishi just explained about the nature of accretion of digital also works for merchant. We are almost at 18 lakhs. You rightfully said, we are looking at SFB. We have in the past put our SFB differentiated model as well. So we are looking at 20-plus like merchants where we can work through when we are entering into the SFB phase as well.

This, again, would be a very phased out approach. It is not only opening merchants for one particular activity. It's also how do we leverage the merchant to transact more. So that's what we are looking at. In terms of SFB, yes, we are looking at a 20 lakh plus merchants as we've advised earlier.

Bhavana Jain: Okay. So the capex and the technology spend that we just spoke about is meant for the quality purpose part. That's what you're mentioning?

Ketan Merchant: Yes. This is a tricky one, but any kind of capex spend is meant for both. It is meant for volumes as well. So when I say quality, I said not compromising the volumes. Last year, if I see a 41% kind of a throughput growth, which you've seen on a year-on-year basis speaks about the volume. And definitely, the speed factor and the scale factor which Rishi alluded in his comments as well. So capex spend would be for -- the technology capex spend will be for both speed, quality as well as volumes.

Moderator: The next question is from the line of Amresh Kumar from Geosphere Capital.

Amresh Kumar: A couple of questions from my side. On your expansion plans geographically. So what is your view on going wide versus going deep in a geography? Secondly, what are the cross-selling opportunity and why we are not able to scale that up? And the third is we have seen the blowout of one of the largest players in this industry and how is it affecting our business positively or negatively? Your opinion on this.

Rishi Gupta: So good question. In fact, that wide versus deep is always a big conversation in any company. And in fact, it was a conversation which we started 7 years back when we rolled out the bank. But I think that question is now, to a large extent, answered in our case. If you look at , we are already quite wide in our geographical spread. The only area where we think we still need to go wider is south of India which we started only a couple of years back.

So we are already present in every nook and corner of the country. Now we are going deeper and also looking at how we can become more active in every location, so to say. And be among the top players in every locations. So that's a wide and deep strategy. Cross-selling is actually a thing which comes up from our inception. So let me just spend a few minutes here when we started a transaction business. So the customers used to come to us for remittance and then we did cross-sell and we told them why don't you also withdraw money through micro ATM and AePS. So that was the first cross-sell we did. The same customers, we also brought in new clients, and we started the CMS business on account of that. And then some of our customers were transacting. We have opened a CMS account -- sorry a CASA account for them and now they have become our CASA customers, and they are building up the liability balance with us as well.

Coming to cross sell on asset, we right now don't have an asset product of our own. So we are doing some partnerships, but partnerships has its own challenges as well as gain and investment insurance -- we do some on insurance, but not that much. But the broad cross-sell strategy of Fino will only start once the SFB license will come and that will be more on the asset as well as on the investment side, so to say.

Coming to your third question on the industry, yes, one of the big players in the industry had suffered in the last quarter. But our business and their business were very different. So they were largely into wallet and FASTag and your digital business, so to say. We are more on the banking side, not on the wallet and the other parts. But having said that, with the large player, there were some benefits on the domestic money transfer. Somebody has asked us this question in terms of how did the volume also jumped in the quarter 4. That was also partly because of the fact that there was a disruption in the industry and one player had exited. So part of that volume also came to Fino and that led to a growth on our remittance side, so to say. But having said that, we are also in the final stages of integration on the QR and online piece of merchants with that player. And hopefully, we should be able to start in this quarter with doing some joint business with them.

Moderator: The next question is from the line of Alisha from Envision Capital.

Alisha: A couple of questions. First, the CMS revenue has not kept pace with the growth in the CMS throughput. Is there any form of telescopic pricing there? Or how should I understand this? Next one is more of a clarification. We're talking about client addition of 30 lakhs. This would be net client addition? Or should we assume that 30 lakhs and there will be a 60% renewal rate on our existing base and that is how one should count the growth in CASA accounts.

Also, you did mentioned slightly earlier in the call that micro ATM, the throughput has declined, then going forward, the expectation is a high single-digit growth. Any comments on growth of throughput on AePS side? And the next question is that we have done, okay excellent work, INR100-odd crores this year, largely towards technology like you mentioned earlier in the call, but still a significant amount of capex will continue to be done as we transition to an SFB. So at least in the near term, is INR100 crores kind of capex annually a decent number to pencil in?

Ketan Merchant: Very good questions, Alisha. Let me just take the first question first. CMS, your observation is good. Before we go on to that, I just go back to my earlier statement, which I said, CMS is one of those businesses where we almost control 1/3 of the market, and we've grown by around 68%, if I'm not mistaken, CAGR over the last 4 years.

Last year, the growth has been 38% is what we are seeing of. To answer your specific points, how does the take rate behave vis-à-vis the throughput, a lot of it is a function of the industry-specific as well. In my earlier conversation I just mentioned that over last 1 or 2 quarters, the advent of MFI and NBFC business has essentially come through.

Now which is why the take rate is subject to each industry as well. And while we control one-third of the market, there are other two-third players as well. So if you ask me on the CMS thing, what would be the typical take rate going forward. I think currently what we are seeing now in the range of INR0.21 or [0.4%] that is something which we will be a range bound kind of a scenario.

To your second question, client CASA addition 31 lakhs. It is always gross. I think earlier Ashish or someone alluded to this question, what happens when the accounts are not active. I think I'll also clarify there. A lot of times, accounts may not be active for a while before they become dormant. Some of these renewals can also come not essentially in M0, can come in M1 and M2 as well as and when they become active. To answer your question, 31 lakhs is the gross amount, which we look at with our 69% of the active ratio and approximately 55%, 60% of the renewal ratio, your assumption, what you said is essentially right in terms of how the CASA behaviour pattern will go.

The third point was with the rebound happening in the ecosystem on AePS what is the level of growth, which we are expecting it off. I mentioned about micro ATM, which is more of a hook product. AePS also continues to be a hook product, but the ecosystem challenges which we've seen last year are getting settled. A lot of control checks, which has been put across. So we are expecting a double-digit growth on the AePS, which will come through. Your last question after I mentioned about the number on technology and digital spend.

Yes, we've last year put around INR103 crores of technology, digital spend, capex spend. I just go back to our primary issue as well where we had raised INR300 crores capital primarily for the technology and digital kind of a scenario. So over next 12 to 18 months, we expect a similar kind of a capex investment happening in anticipation of 2 things. One is the preparation, the speed, scale, which we set and volume as well as quality.

Alisha Mahawla: That's really helpful. I just have 2 more questions. One, is there any update on we have submitted our SFB registration, any update from the other end I know it’s too soon but this would be helpful just in any case you got any feedback? And the second question was somebody was alluding to competition earlier. So while one player has had some regulatory run, there's another player that suddenly has become very aggressive and active. So are we facing any churns on the merchant side or any challenges in merchant additions, which we're seeing probably the early signs of?

Rishi Gupta: On the SFB side, as you know, we have submitted our application in December. We are waiting to be affirmed the regulator on that. So there is no update on that. Last we saw was that they had declined some of the applications, which was there. So as for the FIFO method, I think the old cases have been now -- whatever decision they have to take, they have taken. So our applications should come up for scrutiny is what we believe.

Specifically on the competition, I don't know which -- another competition you are referring to, because we've not seen any other competition. Which business line you're talking in terms of competition. The one competition we already mentioned, which was -- that was more on the disruption side. But other competition, I'm not able to really -- which businesses you are talking about in this case?

Alisha Mahawla: So there was another company that got the payment bank license and they've become slightly more aggressive. So is my understanding. And I...

Rishi Gupta: Nothing in the payment side. They are, I think, becoming more aggressive on the NBFC side.

Alisha Mahawla: Okay. So we are not seeing any initial signs of maybe churn at the merchant level or anything like that?

Rishi Gupta: No, not really.

Moderator: The next question is from the line of Dhruv from Ambika Fincap Consultants Private Limited.

Dhruv: Ketan, I have one question. Have you guys projected once we become an SFB, what kind of cost to income ratio can we expect?

Ketan Merchant: Yes. I think just going back to what Rishi has said. We made some kind of projections in terms of SFB. One thing which I do not want to currently quote something which is likely to happen. But I'll give a philosophy of the way we are building our SFB. We've taken this -- or rather we mentioned this in the past as well that we are not going to be a very fixed asset-heavy businesses. We are intending to continue to leverage 2 platform, which is merchant and the digital platform, which we are creating.

So in case if anyone has a doubt on the call, let me just reaffirm that it is not a traditional SFB branch model, which we lead. We'll definitely have some more touch point, which will be coming off even branches, but it will not be material in comparison to the traditional SFBs. And that's the asset-light or the differentiated model, which we are looking at.

Second aspect, which we should be cognizant about SFB is -- and attempting to answer what will be the difference? Will it be the traditional SFB model which we are running or not? We've gone and said it again as well, even after becoming SFB for the first couple of years, our payments revenues will grow as we've seen the current kind of growth which is coming across. So we are looking at a 75-25 split, where assets will become only one of the products in addition to everything else which we have still 75% of our income, we are expecting to come from the growth of payment business, which we essentially have.

I think this should answer in a manner that we are non-traditional SFB is what we will attempt to become. As regards to technology and digital, I earlier answered to Alisha as well that yes, irrespective of SFB, we'll continue to invest into technology and digital. And Rishi earlier alluded we are also shifting to a different core banking platform.

We definitely have to make some additions in the technology platform once SFB or lending platform comes through. But technology and people would be the key investment in terms of the cost which we'll have to do on the SFB side and nothing material coming out of the fixed cost in terms of branches. I hope it answers your question without the number quoting.

Dhruv Shah: Ketan, my question was pertaining to your last year's Q4 presentation where you had guided for a PAT margin of 10%. If I were to calculate your guidance this time, and even if I have to assume no PAT for next 2 years, it comes to 6.8%. So how are you guiding for 10% margin? And do you expect this 10% margin anytime in the future? That's how my question was...

Ketan Merchant: Yes, fair enough. I'll attempt to answer that as well. Yes, directionally, we definitely want to go towards a gradual journey of 10%. One point which we're essentially missing out here is that, yes, the kind of growth which we are essentially seeing out here, we never essentially said that 10% comes in 1 or 2 years as well.

Once an SFB comes, even if it contributes 25%, the kind of margin which we are seeing, currently, whatever deposit, the cost of fund arbitrage, which we essentially have, we put it into government securities. The margin out there -- the net margin out there is around 4.5%. That, as we are seeing it off, once the SFB starts, we can become anywhere in the range of around 8% to 9% as well.

So to answer your point, are we on track in terms of the 10%? The answer is yes. Will it be an overnight thing that the first year of SFB where we become 10%? The answer is no. It will be a journey. And as we've currently seen our journey, which goes perhaps around 1% on a year-on-year basis.

Dhruv Shah: Right. Ketan, this is just out of blue question, and you can not answer this question if you want to. But my question was once you become an SFB, people tend to value it on price to book. And on price to book, you're valued at 4.5x. But on a price-to-earnings ratio, you are quite cheap according to me on our payment. So does it make sense in valuation terms to shift to SFB?

Ketan Merchant: No, I will answer this question. The reason is we need to step back and think about what SFB is. Let's go back to what Rishi and me have said in the past, what I just alluded towards. And this is a very good question and provides me a platform to provide my perspective. Let me just start off with a scenario where we have INR1,300-plus crores of fee-based revenue. Now without going into the name of any other bank, which other bank has -- this SFB has an INR1,300 crores kind of a fee-based revenue. So I think that is one of the big point which we have to look at.

Second aspect, which we are looking at and which I said before this question is the 75-25 kind of a split, 75% of our business will continue to come from the payment bank as well. So that is a very, very important aspect. Now do we have a benchmark peer? Essentially, is no. When we made our payment bank, we did not have a benchmark peer as well. And all the payments banks go differently.

Are we going to go into the traditional form of business by opening branches? I just answered this before the question is that we're not going to become traditional. So all of this taken together, I think the sum of part also essentially worked out. Both you and me are into this industry for a while that how fee-based income is being given weightage to and how balance sheet-based income is given weightage to. So with all of these 3 and with the differentiated model and the sum of part, I do not think we can be looked at as a price to book is my understanding.

Moderator: The last question for the day is from the line of Majid Ahamed from Smart Sync Investment Advisor Services. Please go ahead.

Majid Ahamed: So in your assessment, how much of your coverage have we done in terms of geographical spend? And how many more merchants can you get on here? That is first part. Second is given that Southern and Eastern markets also offer the opportunity has a potential to grow, when are we planning to expand and deepen those?

Ketan Merchant: Yes. I heard your question. I think one of the answers which I made earlier to someone's question is before we go into SFB or the time when we go into SFB, what sort of a merchant network, which we are looking at, I'm not repeating the point of qualitative leveraging of our merchant. But currently, we are at 18 lakhs. We are looking at 20 lakhs kind of merchant. This is the overall aspect.

If you go into our geographical split, Rishi earlier mentioned whilst -- the question of wide and deep, so I'm not repeating what he essentially said, but definitely, our growth prospects in most of our businesses definitely lies in South, you yourself said that. We are attempting to have -- rather we have successfully done it as well in terms of the relatively disproportionate growth coming from some of the virgin markets as well.

So we will continue to push to go deeper into the segment or into the state where we already are. Earlier, I also said that when I was giving my CASA kind of a commentary that where does it come from? That leaves us good amount of stake which can be covered as well. So we will go wide in some of the territories, specifically south and in certain cases, some parts of east as well. And 20 lakh is the total customers which we are essentially looking at -- 20 lakh is the total merchants which we are looking at, at the time when we go into SFB.

Majid Ahamed: Okay. Great. And the last question I have is, what advantage can you take from the PayTm fallout and are we targeting new categories?

Rishi Gupta: That I think we have already answered.

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

Rishi Gupta: Thank you. As we head into our new fiscal year, let me assure all our investors that we remain committed towards delivering 20% plus revenue growth. Earlier, we had CASA and CMS, which were the two driving engines. Now we have digital also, which is helping us drive growth.

We will continue to invest in innovation and technology for providing user-friendly, safe and secure banking services for our target segment. Growth all along is expected on the back of customer centricity and enhance emphasis on execution of our TAM strategy. I restate that we are at a pivotal stage of growth and aim to deliver superior performance as well in '25 and beyond.

Thank you for your time and patience. Have a nice day. Bye.

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