niyogin

Date: February 21, 2023

To
BSE Limited
25th Floor, Phiroze Jeejeeboy Towers,
Dalal Street, Mumbai – 400001
BSE Scrip Code: 538772

Dear Sir/Madam,

Sub: Earnings Call Transcript – Q3FY23

With reference to our letter dated February 06, 2023 and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q3FY23 Unaudited (standalone and consolidated) financial results of the Company.

The aforesaid information is also being made available on the website of the Company i.e. www.niyogin.com

Thanking You,

Yours faithfully,
For Niyogin Fintech Limited

Neha Vishnu Agarwal
Digitally signed by Neha Vishnu Agarwal
Date: 2023.02.21 11:38:27 +05'30'

Neha Agarwal
Company Secretary & Compliance Officer

Encl: a/a

"Niyogin Fintech Limited
Q3 FY 2023 Earnings Conference Call"
February 14, 2023

MANAGEMENT:	**MR. TASHWINDER SINGH – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – NIYOGIN FINTECH LIMITED** **MR. ABHISHEK THAKKAR – CHIEF FINANCIAL OFFICER – NIYOGIN FINTECH LIMITED** **MS. TRIVENIKA AVASTHI – INVESTOR RELATIONS OFFICER – NIYOGIN FINTECH LIMITED**
MODERATOR:	**MS. SONIA KESWANI – ERNST & YOUNG IR PRACTICE**

Moderator: Ladies and gentlemen, good day and welcome to Niyogin Fintech Limited Q3 FY'23 Earnings Conference Call. 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 this conference all 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 Ms. Sonia Keswani from Ernst & Young, IR practice. Thank you and over to you, Ms. Keswani.

Sonia Keswani: Thank you, Neerav. Good evening, everyone. On behalf of Niyogin Fintech Limited, I welcome all of you to the Company's Q3 FY '23 earnings conference call. You would have already received the Q3 FY '23 results and investor presentation, which is also available in our filings with the BSE.

To discuss the Company's business performance in the quarter gone by, we have with us today Mr. Tashwinder Singh, Chief Executive Officer and Managing Director; Mr. Abhishek Thakkar, the Chief Financial Officer and Ms. Trivenika Avasthi, Investor Relations Officer of Niyogin Fintech.

Before we proceed with the call, a disclaimer, please do note that anything said on this call during the course of the interaction and in our collaterals, which reflect the outlook towards the future or which should be construed as a certain forward-looking statement must be viewed in conjunction with the risk the Company faces and may not be updated from time to time. More details are provided at the end of the investor presentation and other filings that can be found on our website, www.niyogin.com.

Should you have any queries or need any further information at the end of this call, you can reach out to us at the e-mail addresses mentioned in the company collaterals.

With that, I would now like to hand over the call to Mr. Tashwinder Singh. Thank you, and over to you, sir.

Tashwinder Singh: Thank you, Sonia. Good evening, everyone. Let me start by thanking all of you for joining us this evening. I welcome you to Niyogin Fintech's earnings call for Q3 FY '23 results. I do hope all of you are doing well.

Let me start by giving you a brief on our company. Niyogin Fintech operates on a tech-centric platform-based model, wherein we deliver banking as a service with lending capacity in both rural and urban India through a partnership-led strategy. Our partnership-led strategy allows us to tie up with local MSMEs and other enterprise partners that have a large and deeply penetrated distribution infrastructure. The 'BaaS' or the banking as a service platform is then employed by these partners in their customer-facing touch points that enable these touch points to provide banking, payment and other financial services to the local customers in their ecosystem. Moreover, our partner-led strategy helps us reach out to a large number of SMEs through every partner we onboard, and that gives us a cost-efficient market access by reducing our customer acquisition cost. We can then incrementally add products for the end customer, all the while providing income augmentation for these partners and retailers. Our revenue model is primarily transaction led, whereas we earn fee/commission on every transaction that is routed through our platform.

From our customers' perspective, we've been concentrating on three market segments; number one, the Business Correspondents, wherein we are offering tech stack to promote financial inclusion; number two, a Neobanks or Fintechs, typically companies wanting a full stack neo banking platform; and the third are banks, herein we work as a TSP or a technology service provider with banks to launch their digital programs.

Q3 FY '23 saw us making significant progress on execution, we expanded our footprint, launched new products and inked new partnerships. Our partner retail footprint grew an exponential 51.4% quarter-on-quarter from more than 378, 000 to over 573,000. The jump was a result of incremental on-boarding by our enterprise clients. The GTV or the gross transaction value grew over 20% quarter-on-quarter as we transacted more than INR 3,500 crores worth of transactions on our network this quarter. We transacted over 87 lakh transactions this quarter, up from 77 lakhs in the previous quarter.

You would remember that in September 2022, it was the first month when we crossed INR 1,000 crores GTV mark. I'm pleased to share with you that this year, we went on and crossed the INR 1,500 crores GTV mark as well in January '23, demonstrating the J-Curve for our business. We anticipate that in the coming quarters as our partnerships mature, the volume of transactions and GTV and revenue therefore will grew at par with our expanding retail footprint. The increase in retail footprint and the growing number of enterprise clients will drive growth in transaction volumes and revenues. By leveraging the strength of these relationships, we aim to position ourselves as a key player in the industry and continue to drive success.

Some of the key wins and developments for this quarter:

- We had a large payments bank that has gone live with our IMPS, AEPS, micro ATM and prepaid card solution;
- A large PSU bank has gone live on iServeU's Aadhaar Payment stack to run its Aadhar pay program. This is important because this was our first break into the PSU banking ecosystem.
- We have started the development of our Agency Banking Solution, which happens to be India's first scale at demand cloud-native technology with a major private bank to run its BC program.
- One of our favourite and large customers, common service centers (CSC) they went live with an incremental product for us, which is the Aadhaar-based solution.

We reported an increase of 53% in GTV on a Y-o-Y basis and revenues (ex-device sales) also grew by 50% on a Y-o-Y basis. This is in line with the fact that fast-growing businesses like ours often experience evolution of product mixes. The consolidated revenue stood at INR 27 crores, 2% increase on sequential basis. While our revenue looks flattish, there is a significant change in the quality of revenues. Our J-curve trajectory is reflective of this pivot as we move away from leaner margin streams like hardware sales to richer margin products like API solutions. Our agility in responding to device shortages that I've spoken of in my previous calls allowed us to move away from our closed-loop approach wherein our APIs could integrate solely with hardware sourced inhouse. However, with time, as our APIs evolved, they can now integrate with third-party hardware, thus affording us the opportunity to focus on richer products. We believe that as we scale up and gain recognition, the contribution from products like the API infrastructure solutions and lending will steadily increase.

On the lending side, we are delighted to inform you that our outstanding loan book crossed INR 100 crores this quarter, which was a significant stepping stone in our lending journey. The lending business is pivotal to our growth story and we are creating the right lending models to make sure we are able to appropriately monetize the networks that we have build.

I'd also like to give you some guidance on how we intend to build the business from here on. As mentioned in our previous calls, FY '23 is a year of build for us. And with this financial year coming to an end, most of our conceptualized products and services and solutions are now pretty much in their last stage of development. Going forward, we will be focusing on scaling up our existing partnerships and going live with multiple products that we've developed for them. We will further focus our efforts into improving activation rates for the new partnerships, expanding our footprint and scaling up our lending book as we do that. On the back of these levers, we expect to see accelerated growth in the remaining two years of our three-year plan which will ultimately help us achieve our targets.

To reiterate our strategy, we are targeting to be a INR 500 crores revenue company, increasing our GTV to over INR 1,00,000 crores, grow our BC partner agents or touch points to between 1.5 million to 2 million, and we expect to deliver 10% to 12% EBITDA margins by FY '25.

As an API infrastructure provider with lending capacity, we continue to remain excited by the potential of the market and the ecosystem we are operating in.

With that, I will now turn over to Abhishek to take us through the financials and other details of Q3 FY '23. Post that, we will open this up for questions and we can address all your queries. Thank you, and over to Abhishek.

Abhishek Thakkar: Well, thank you, Tash, and good evening, everyone. I will first run you through operational metrics, and then will run you through the financial metrics.

So, our operational metrics have continued to perform well in the quarter gone by.

In Rural tech, our BC partners grew 30% year-on-year and stood at 719 in Q3 FY '23. Our partner BC agents or touch points increased to 5,76,000, plus reporting a significant growth of 150.6% year-on-year and 51.4% quarter-on-quarter, as we added close to 1,95,000 new retailers in Q3 FY '23. Gross transactions value, that is, GTV, including the payouts stood at approximately INR 3,534 crores, an increase of 52.8% year-on-year.

On the Urban tech front, our partner count increased by 4.5% year-on-year and stood at 5,083 in Q3 FY '23. Our Wealth tech platform continues to perform well and recorded 15.5% year-on-year growth in the AUM which stood at INR 2,625 crores.

Moving on to the financials for Q3 FY '23. Our consolidated revenue for the quarter was INR 27 crores, down 2.7% year-on-year and an increase of about 2% quarter-on-quarter. This was primarily due to change in product mix, as explained by Tash in his commentary.

Adjusted EBITDA, excluding the ESOP charge, which is non-cash in nature, for the current quarter was negative INR 6.2 crores as against a negative of INR 0.2 crores in quarter three of last year. As explained in our past calls, we are currently in a period of build, which is leading to higher operating expenses, hence the said change.

ESOP charge for the current quarter was INR 97 lakhs versus INR 102 lakhs in the corresponding quarter last year. The non-GAAP PBT stood at negative INR 7.7 crores in quarter three of this year as against negative non-GAAP PBT of INR 1.5 crores in the corresponding quarter last year.

Loan book, net of provisions, stood INR 89.4 crores, up 88.6% year-on-year, driven by the significant scale-up of our MSME partner focussed lending book. We continue to remain a zero-debt and net cash company. Our cash-in hand stood at INR 90 crores as of Q3 FY '23.

With that, we can now open the floor for questions. Thank you so much.

Moderator: The first question is from the line of Suraj Kumar, an individual investor.

Suraj Kumar: Thank you for providing the opportunity. I would like to ask, what is the collection efficiency in loan book?

Tashwinder Singh: So collection efficiency on the loan book, it's almost about 93% or 94%. I think the collection efficiency of the current loan book is obviously very, very high. Like I explained earlier, right, our loan book is driven by focusing on transaction revenues and transaction data. So as against the old-school method of lending, I think we are trying to make sure that we are able to use loan as a second product in our proposition. So the efficiency ratios are quite high in terms of collections.

Suraj Kumar: What do you think the reason, market is not appreciating Niyogin Fintech?

Tashwinder Singh: So difficult for me to say why market is not appreciating, but I can tell you that we are in our build phase right now and I think whenever a company is in the build phase, I think the investors want to see how that build will happen and how the execution of that build will happen.

We are now getting into that space. I can safely say from this quarter onwards, right, that some of the results of the build that we've done are going to showing some fruit, which you will see in the results in the ensuing quarters from here on and obviously, we are optimistic that the market will take note of the build that we've done.

If you look at the customers that we've been able to achieve because of our tech build, right, and I've spoken about these customers in the past whether its CSC or India Post or a BhaFin or what have you, some of the very, very large banks in the country, private banks have also become our clients using our technology.

There is always this big issue that there is a part of acquiring a customer and then there is executing, right? These are technology solutions where execution -- first, we acquire the customer, then you need to execute against their expectation and then the revenue starts kicking in.

So, in the last one year, I think we've achieved and acquired a significant number of customers, right? And we are in the stage of executing. And as we're executing against each customers, you can see the growth in the revenue side.

If you look at the last four quarters, we've had secular growth in terms of our on GTV that we do with these clients. And you will see that in the ensuing quarters as well. So at some point in time, as those executions become live and the numbers become more material, we are hoping that the market will take note.

Suraj Kumar: So when do you think Niyogin will post profit for first time not on adjusted level, but on actual level?

Tashwinder Singh: So, I think if you break up the business, Niyogin Fintech, on a standalone basis will probably post profit in this quarter itself. On a consolidated basis, because we invested INR 50 crores in the beginning of this year on 28th of March 2022, and we've been growing that build, right, I think we will take a few more quarters before that business starts turning around and starts breaking even.

So I think for the next few quarters, iServeU will still show growth and will show some level of losses because of the build that we've done. But the growth is all in the right direction, the business is going in the right direction. Losses are coming down. And that's how this business would be.

So our target for FY '25, as I've explained, is we want to be a 10% to 12% EBITDA margin company. I think we are on target for that. We are focusing our energies on that, and that's really where you will start seeing the next sort of big milestone for us.

Moderator: Suraj, I'll request you to come back in the question queue for a follow-up question. Next question is from the line of Pawan from Compound 26 Capital. Please go ahead.

Pawan: A couple of questions. One is, could you give me the monthly GTV for November and December? We used to disclose that monthly, but we haven't done that for this quarter. So what are the GTV for November and December?

Tashwinder Singh: Yes. So I think for November, our GTV was I think in the 1,150 range. In December, we were back up by 1,200 range, and in January we will have 1,560, right? So these are the way it has happened.

In November, the only issue we had was with one of our enterprise customers where there was a breakdown of the system at their end because of which we lost about seven, eight days of throughput with them, which is why GTV came down for that. That was a significant client of ours, which actually came back and with that sort of now stabilized and everything, we've seen the jump in GTV for January as I've given the numbers, right.

So, October, November, December were pretty flattish across the three months. Obviously, October was significantly more than what we did the previous month that was in September. And that's really that's how we've build out, right. And December again we came in at 1,200 plus.

Pawan: Any commentary on the market, generally, the AePS segment has experienced a slowdown, if you look at your competitors' numbers or the industry numbers as well, but you've managed to grow probably because of client addition. But any commentary on like what's going on? Is it the high base effect that this happens in the market?

Tashwinder Singh: Absolutely. Pawan, I think that was a very interesting question you asked, and I do want to spend a minute explaining that, because therein lies the real model differentiation that we have vis-a-vis the market. If you look at the so-called market competitors who give data, I don't want to take names, but you know the names we are talking about, right?

They are directly working as, trying to bring their own brand into the market, right? So, they are a single -- to give you an example, I had 720-odd partners. Each of the competitors that you speak of is equivalent to one of my partners because I'm not going around getting the retail directly on my own, right? I'm working with enterprise partners who own the retail.

An enterprise partner is what you are referring to as a competitor. So he or she is limited by his ability to expand his or her network directly, which means they have to put more salespeople on the ground, they have to go approach retail stores directly and so on and so forth.

In my case what happens is, when I acquire a new enterprise customer, I get a significantly large number of enterprise retail points which come directly, which is why we've been able to show a significant jump in our retail points, because as our enterprise customers goes live, we get a chunk of retail points in one shot as against going after retail point one step at a time. So you do get limited in terms of the amount of money you can spend, the number of people on the street you need to build, if you're going and building the retail footprint yourself. Using our partner-led approach, we get the benefit.

So the way I think about it is, most of the people you think of as our competitors, I think of them as potential clients, because we are powering their competition. We are the API infrastructure player and at the risk of sounding immodest, I would say that we maybe the only player in this space who is an exclusive API infrastructure play. We are providing the tech stack for people to go live on these products.

You don't hear about our brand. They are not in building a brand at the retail level, you don't see a retail level having a brand of iServeU, but you will have the retail level, having the brand of a CSC, BhaFin, etc. Those are being powered by our technology.

So if I add another CSC, another BhaFin, I suddenly get by 50,000, 100,000, 200,000 retail points in one shot. That's why we think that as we build out the new products as we build out the new technologies, the new service infrastructure, we are now able to load on incremental retail points and therefore you will always see us expand materially from where we are, right? This quarter was a classic example where we got almost 200,000 retail points in one quarter, which we've never done in the past.

Pawan: So just taking up from that, in terms of quarter-on-quarter comparison, I see you had a 20% increase in GTV, but the fee and commission income increase only by 7%. So, what was the disconnect?

Tashwinder Singh: So I think, the fee and commission income, you will see the impact of that increasing materially because at the time of getting into some of the new enterprise customers, right, there is a strategy that wherein you have to price it a little lower to break into these customer. But there's typically an entry pricing and then you are able to then expand your price points as well, as the footprints increase. Some of the pricing and methods we use are also linked to volumes, right? So I think you will see the benefit of that quite materially in the coming quarter. In the coming quarter, you will see the increase in both GTV and the commission income increasing pretty much at the same level.

Abhishek Thakkar: Tash, I would also like to add something over here. So, under IndAS, in terms of NBFC, the fee income part goes to the interest income part. But the expense part goes to commission expense part only. So that is the reason the expense is looking higher, whereas the fee and commission income is looking lower. So, income in fee is in two parts. The fee income that we are receiving in the NBFC that is going to the interest income line. However, the expense is going to expenses line only, because we do have a model wherein we are sharing certain commission to our partners. So that is also one of the reasons.

Tashwinder Singh: Yes. I think what happens Pawan is, if you're looking at the consol numbers, right, so in the consol numbers, we've also got the interest income. We need to add the interest income into the commission line and look at it from that standpoint.

Pawan: I mean the interest income hasn't increased. I have a question on the interest income also. The interest income hasn't increased much, although we have said that we have also crossed in our loan books by about INR 100 crores. So what is that disconnect? And secondly, if I add both of them up -- sorry.

Tashwinder Singh: Yes. Go ahead.

Pawan: Yes. I was saying that if I add both of them up and if I try to calculate the kind of what is the margins that I take on a product-wise basis, like we discussed in the last quarter, it seems the margins have also kind of come down. So I was trying to correlate both these numbers with an increase set of volumes, because I believe with increased set of volumes your margins also should go up, but this kind of came down.

Tashwinder Singh: So on lending side, I do want to make a mention that the lending book increase, what happened in this quarter was that RBI came out with their digital lending guidelines, right? So in the month of, I think, October those guidelines came back. And what we were doing prior to that apart from lending into our own retail network, we also had constructs which was FLDG based constructs where we were lending for other fintech players as part of the whole stack solutions we were giving to fintech players. Apart from technology, we were also lending to their networks with some level of risk cover coming from them, which RBI basically came up with regulations saying you can't do that, and non-regulated entities cannot issue what you call credit comforts, credit guarantees, etc.

So, we stopped that. We were among, I think, one of the few NBFCs that just took the regulation on-board immediately and we stopped that business completely. And then we went back on to the drawing board, because for us, the digital lending guidelines created significant opportunity, but we wanted to approach the market in a thoughtful manner.

So we had about a month or so where we did not do any origination right, and that's what happened. Now two outcomes came out of that. One outcome was that we evaluated the various lending models that we can follow and one of the opportunities that we focus on supply chain financing, which is relatively lower in terms of overall yield but is also on the risk. And we figured that was one opportunity that was interesting for us. And number two, we continued with our own origination per se. The impact of that was that for 1.5 months, right, we did not have any significant loan book growth. So the loan book growth typically happened largely in the last sort of two weeks of November and the last month of December. So you didn't get the full impact for the quarter for the increase on loan books, so number looks good from an overall loan book point of view, but the revenue impact is not for the full quarter.

In fact, the revenue impact was, even if you take 45 days, the book was built over 45 days, so the revenue impact only would have been for about 20 days. But that impact you will see in the coming quarter, because the book is what it is and the entire book would be earning income for us in this quarter.

So, last quarter was a little bit of a confused quarter for everybody who was in the lending business because new regulations came in. We were able to adapt to those new regulations and start building again. And I think we are continuing with that build right now. And those benefits will all start accruing to us in this quarter.

Pawan: One last question. Generally, on the business, as you kind of build it out and scale in the next kind of 12 months to 18 months, how much kind of cash burn do you think that this business sees incrementally given that we have about INR 80 to INR 90 odd-crores on the books? I was wondering if there is enough to kind of do some kind of buyback, just given where the stock price is at.

Tashwinder Singh: So I don't think at the Board level we've had any discussions about a buyback to be honest, number one. Number two, I think we don't have a significant burn. INR 15 crores, INR 20 crores is potentially the burn that we could potentially do, that also we are working on trying to see how we sort of arrest that as soon as possible.

It's all driven by ability to sell more and get more customers on-boarded and integrated so that the volumes go up and therefore, the burn goes down, it's very straightforward from our point of view. The investments in terms of the expenses have all been done. We don't anticipate for us to increase our expense base, to some extent we will see efficiencies in our expense base from here on that will come through. So that will come down. Buyback is not something that we've thought through just yet. I take your point, but that's not something which is on the table as we speak.

Pawan: And the INR 50 crores that you lent to the iServeU subsidiary, that is in form of loan or as an equity investment?

Tashwinder Singh: So that was in the form of a pref. We've invested that money in the form of pref, right. So that money is being partly used. I do want to make a mention out here. We had actually approved the investment of INR 100 crores for iServeU if you go back to a couple of quarters and we have decided that we would invest that money in tranches, because we wanted to be efficient in the way we build. We put in only INR 50 crores and we don't think we need to put any more money. We are not going to put any more money, the business does not require. We think with the current capital and the current trajectory the business has, that much money was enough.

So, number one, we've been able to drive some efficiency there in terms of capital utilization, which I think is important to note. And number two, the money was put in back afresh for various reasons and right now, we are singularly focused on making sure that money gets appropriate return, but we have not used up the entire money, by the way, you should know that we still have about INR 25 crores of that money still available with us, and that's part of the cash balance that Abhishek referred to in his opening remarks. So we've not spend that money, which is why I said, from a cash burn standpoint, we are very, very appropriately funded. There is no need for us to you worry about capital raise, cash flow, none of that because we have the capital right now. And we don't even think we need that much money to burn, will probably turnaround much before we sort of pull through that capital.

Pawan: Understood. Okay, thank you.

Moderator: Thank you. Next question is from the line of Yash Modi from Ashika Group. Please go ahead.

Yash Modi: Hey. Good evening, Tash.

Tashwinder Singh: Hey. Hi, Yash.

Yash Modi: Hi. Congratulations to the team for hitting the INR 1,500 crores GTV mark in January. I had a few questions with regards to the number of, first, the rural platform, tech platform. So if I look at the number of BC partners that you have in this quarter, it stands at 718, 719. So that is obviously, year-on year it's like 30% growth, but if I look at it on a Q-o-Q basis, just 18, 19 partners that we've added during this quarter. Any particular reason for the slowdown? I know you've mentioned in the slide that the number of partner BC agents went up 151%, but that has probably got more to do with the fact that some of these clients that you already have would have activated some extra clients, extra BC partner agents of theirs.

Tashwinder Singh: Yes. I think you have such a great question. What has happened is that our marketing team has obviously been ahead of the execution team, right? So we have so many more execution projects right now that we want to execute against that this quarter we took a conscious stance that's saying let's get the execution first done and let's start delivering what we promised our customers to deliver. And therefore, this quarter has been more about integrating and getting customers. So there is a tremendous number of tenders that we've been participating in and we will continue to do that, and you will see some of those coming in. What happens is with enterprise customers is that it takes a little longer, the cycle time is a little longer. A lot of enterprise customers want to go through the motions of tendering, etc., tech evaluation, formal tendering, pricing discussions, etc., as against some of the smaller partners. And as you know we've been focusing our energies on enterprise partners as I had explained in maybe one or two quarters ago and how we are trying to build the business.

So the enterprise partners come in with a significant larger footprint with a significant larger ability to give us more for the same sort of cost and that is where we are focusing our energies on. But the number of partners will be slower than what has been in the past, but the retail footprint will expand much faster than what they have been in the past. So, it's a trade-off that I think it is an interesting trade-off for us given that we have so many mandates on which we have to deliver against right now. And I think that's really what we are focusing on.

Yash Modi: Makes sense. And the second was with regards to this activation rate of 10% that we talk about in rural tech, so, is it right to assume that 10% activation rate means that out of the 5,73,000 partner BC agents that we have, we have right now, we have started getting GTVs from 57,300, is that the right way of looking at activation rate?

Tashwinder Singh: Yes. That's the right way to think about it. The only reason why the 10% number is a little bit of misnomer is because as purists we have a simple formula for calculating this. In reality, most retail partners who onboard take couple of months to start showing up GTV, couple of months or two, three months to start showing the GTV. So, the retail partners we have added in the last quarter, frankly, haven't shown any GTV yet. So, while the calculation is being done on the gross number of customer, right, reality is you have to assume a 90 days sort of time before the regional partners start throwing up GTV, right?

So, 10% looks low. In reality, the number is more like a 15%, 16% because you should knock off the 200,000 new partners that we got this quarter to calculate the activation rate. But because we've been calculating it in a certain way, we've sort of maintained that integrity of continuing to manage it the same way. But that's how the numbers look.

Yash Modi: So just wanted to understand then how does this number come to, like 5,73,000, for just example say India Post Payment Bank is probably opening up 20% of its network right now to us. So that will be included in that 5,73,000. If say two quarters down the line, they are happy with our performance and they open up 40% of the network, then that jump takes place, right?

And so activation rate might go down as you said because the GTVs will take time to come. But is this how you calculate this 5,73,000? How does that work like, if they have not started giving any GTV? I'm just trying to ascertain how does Niyogin actually this thing, that they are on-boarded now, like how do you calculate that?

Tashwinder Singh: So, there is an onboarding process where there is a downloading of the app or there is a KYC of the BC that needs to be completed and the BC downloads the app and ID also got created. So, 573 thousand retail points have activated our app, have downloaded our app, and have got KYC etc. completed. So they're ready to do business with us.

Yash Modi: Got it.

Tashwinder Singh: And -- sorry for that. Go ahead.

Yash Modi: I'm just trying to understand it from more from a capacity like for a manufacturing company analysts look at it from a capacity utilization perspective. I'm trying to just use the same concept when I'm trying to say that we have this 719 BC partners.

So, at peak capacity, I'm assuming we add no partners, we just try and increase the number of BC agents through these partners itself, what can this 5,73,000 number look like? If they opened 70% of their network to us is what I'm trying to ascertain. And then what scope we have for growth?

Tashwinder Singh: Right now, I mean, let's look at an example like a CSC right. CSC has 1.2 million retail outlets, right? We are the sole provider of some of the technologies we are providing. We are the sole product provider for them, right? But they have implemented these products only in less than 10% of their network and they want to expand it to the full network, right? So, we are there, as they expand, we will expand. But our expansion speed is going to be basis their expansion speed, right? You look at India Post and then the other point I do want to mention is with the same retail point you can add multiple products. So GTV will go up, right? Whereas your activation rate will still be the same. It's the same retail point that was initially doing only a micro-ATM, but also wants to now offer AEPS, also wants to offer DMT. That will lead to incremental GTV coming from the same retail point without necessarily increasing their activation rate. So we are focused on that as well, which means we are trying to make sure that, because every partner we calculate, all the 719 partners that we have, I have GTV numbers being calculated month on month on month basis, right.

I mean we have to have that level of granularity. And then we have data where we break it up into which state and which BCs are the ones which are contributing incrementally, right? So, what is Rajasthan doing, how is Haryana doing, how is Orissa doing, etc., right?

So the data is computed and calculated very, very tightly and then we have conversations with our partners to try and see how they can expand, which networks, which states are doing well, which retail partners are doing well and why and how we should bring in new products. So, there is a method in the madness, right.

But I think the activation rate is important but more important is the cross-sell rate which also we will start publishing at some point in time on how many products we are selling to each partner, right?

Are we a single trick pony for our partner or are we doing five products per partner, because that's now becoming important. We started off the business with having just two or three products which was micro-ATM, AEPS and DMT, today we have more than seven, eight products that we're offering in the market from prepaid card solutions to loan aggregation to cost solutions to what have you so to account opening, etc.

So when you've got so many products, I think one of the other things we need to crack is the cross-sell ratios on how many products we've been able to bring to every partner. And every partner will not do all the products or every partner with every retail point will not do all the products, but we need to try and sort of start tracking that. And I mean, we do track it, but we need to start reporting that as well at some point in time.

Yash Modi: Secondly on this loan book that we have, INR 100 crores, I saw that net of provisions it is shown as INR 89 crores. So, is INR 10 crores, INR 11 crores, fair to assume that the provisions that we hold is for the legacy book that we had?

Abhishek Thakkar: No, no. Tash…

Tashwinder Singh: Yes. Abhishek, why don't you answer?

Abhishek Thakkar: Yes. So, no, it's not like that. So, this book is including the FLDG that we have received, net of FLDG. So whatever INR 89 crores, basically, we have INR 7.25 crores of provision and the remaining amount is the amount that we have received through FLDG. So that is how the IndAS prescribes the treatment, and that's why it is INR 89 crores. So the provision as of now, ECL provision as of now, in the book is about INR 7.25 crores.

Yash Modi: And is it fair to assume that this loan book has like primarily been built from the urban tech CA network that we have or is it also rural tech that we are doing this loan book in?

Abhishek Thakkar: Some amount.

Tashwinder Singh: It's a mix bag. It's not only one thing, I think loan books have to be always built with distribution in mind, right? We don't want to be overexposed to any one segment. We want to make sure that our loan book is distributed across multiple products, multiple tenors, multiple strategies.

And that's exactly how we're building. So you're right, there is a certain rural tech piece out here, there is a certain urban tech piece out there. There is certain supply chain piece of out there, there is a certain FLDG piece out there. So it's a book that I think we are building it very thoughtfully to make sure that we are able to manage the risk appropriately.

Yash Modi: Secondly on this device sale, is it fair to now assume that we will be concentrating on basically, our focus on device sales will incrementally go down? Because last quarter we had written that we had actually partnered with some larger manufacturers to see how we can solve this problem, but now that we've become open architecture, is it fair to assume that going forward device sale will naturally go down?

Tashwinder Singh: No. So, I'll tell you the strategy on the device sales side. Earlier on, we've obviously tied up with all the manufacturers, all the tie-ups, etc., had been done. But what we are now focusing our energies on is that if you want to get into devices, let's go after the enterprise customers where there are material contracts on device sales. Selling a INR 2,000 device on a standalone basis, it makes no sense for us, it takes too much of a bandwidth and is not making any money.

But if somebody has a contract and there are two customers who floated tenders and they're doing INR 20 crores, INR 25 crores worth of devices that they want to buy in their network, right? Therein tying in our technology with the device starts making sense.

So you will see, if we win those bids, you will see those device sales coming back. But device sales as a standalone product is not something that we are focusing on. There will always be marginal, INR 50 lakhs, INR 1 crores, INR 2 crores, device sales happening, but not material.

Just to give you some context, right, last year this quarter, we had about INR 9.7 crores of device sales, and this quarter we've had less than INR 1 crores on device sales, right? But the revenue numbers look equal. So you look at the quality of revenues, we have made up for all the device sales that we did not do this quarter by actually getting transaction revenues in.

Yash Modi: Makes sense. Makes sense.

Tashwinder Singh: So, the growth is going to happen on transaction revenues, but intermittently you might see some big contracts on device sales that we might get, which are largely because they are part of a bigger contract that we are doing with one of the large enterprise customers who want the technology and the devices to be bundled in as we bid for those solutions. So, there you will see those device sales coming in.

Yash Modi: Got it. Again, coming to the wealth tech part of the business and somehow the urban platform wealth tech piece seems to be disappointing. Because again if I look at the wealth tech AUM Q-o-Q, it's actually seen a decline, even though in your presentation showing 16% year-on year growth, but 2,900 has become 2,600. So any comments on the wealth tech AUM? Why the decline?

Tashwinder Singh: So I think you've obviously not spend too much time on the wealth tech business, but I do want to maybe give you a little colour on what that business today is, right? What we've done with that business is that business today has two legs that it stands on.

The first leg is the customer advisory business, which is actually potentially the only B2C part of our business line, right, everything else that we do is B2B. This is the advisory business which is focused on AUM, etc. And that's one part. And that's the number that you are referring to. But what has turned out in the wealth tech business which is what I call the wealth tech, the first part I call them advisory, the second part I call wealth tech.

In the wealth tech business, what we've done, we've now become again an infrastructure player for a lot of wealth players. Some of the large wealth banks in the country today are using our technology for their analytics platform.

So, client analytics, etc., we have provided them with the engine for them to be able to do that, for which they pay us a fee and they pay us in AMC and all of that, right. So we have morphed that business away from just being an advisor. I mean, there are 400 different platforms that are doing wealth advisory today. So if one needs to be truly differentiated in that space, we went back on the drawing board and we thought about how we need to build the business in the wealth space and given our expertise in building infrastructure and technology, I think we figured that we should bring that into mainstay into other wealth business as well.

So the wealth advisory continues. We still have about 18,000-20,000 odd clients who are buying mutual funds. We are not a broking platform, so we don't do trading, but customers can buy on our app, they can buy mutual funds, they can buy deposits, they can buy bonds, etc. And it's a DIY, do-it-yourself platform.

More importantly, on the revenue side, the wealth tech business is looking more interesting where we are able to tie up with pretty much some of the large five or six players in the country in the wealth space. They are using our platform and we have built that platform for them specifically.

So I wouldn't attach too much importance to the AUM moving up and down, because that business is also morphing into a business where the wealth advisory will continue, but I wouldn't even give you, I wouldn't hazard a guess on what that number could be it. It will be in the same ballpark, it could move up a little bit or down a little, depending on what that is. That's one.

Number two, what we were doing in the wealth advisory businesses, we also a have part of our AUM which is driven by corporate treasury. Corporate treasury moves up and moves down in large chunks, right? So, some of the exits of corporate treasury, temporary exists because they find use for the money. And as they get the money back, this money will come back. So you'll see some swings on that number. But the revenues of that business are not so significant for us to worry about what INR 300 crores up or down does to that business as against what we are able to make on wealth tech or on the other side of our business.

Yash Modi: Last question from my side. Since you said that INR 50 crores of initial plan was to invest INR 100 crores in iServeU, but now that INR 50 crores is enough. And you also mentioned in the beginning of your call that you're looking at interesting opportunities in building the loan book, looking at invoice financing, looking at supply chain financing. So, is it fair to assume that Niyogin would be on the lookout for new acquisitions in this space to actually further consolidate the loan book part of the business, one?

And second question in relation to iServeU. Now that we're not putting in this INR 50 crores, what would our stake be in that? Because earlier my assumption was that since we've put in another INR 50 crores, ultimately we will be owning a major chunk of the company. Now that we are owning 51% and we've put in INR 50 crores as pref, and that INR 50 crores so how does the shareholding of iServeU work? Thank you. These are the questions.

Tashwinder Singh: So, right now, the shareholding is 51% as you rightly said. And I think at the right point in time, there will be strategic conversations with the founders of iServeU on how we can sort of expand that shareholding further.

Like I said, as long as our original plan was to make sure that the capital needs of the business have taken care of, so the business can be funded and we can be off to the races as far as our business is concerned. I think that part has already been done. As far as the ownership is concerned, there is a separate conversation that needs to happen.

I don't have an answer for you as to when that's going to happen, but it's certainly something that's on the cards, on our things to do. And I can probably circle back in the next couple of quarters with more clarity on that front.

Number two. In terms of acquisition, I think on the lending side we are actually more keen to build it organically rather than do inorganic, truly on the lending side. I think inorganically what we want to build or buy are businesses that give us technology or gives us access to client segments that we otherwise would take too much time to build on our own. That's my thought on acquisitions, right, either we get new product segments or new technologies that we can leverage off in our network.

We have a pretty significant distribution network. I do want to take a minute on expanding our distribution network. On the rural tech side, you all would have read about the 573 number. To meet a 573 number is a spec because if I just look at the opportunity set which we can deliver out of the 719 partners we have, that number could easily go to 1.5 million, 2 million, right, pretty quickly. That's one.

On the urban tech side, we have more than 5,000 chartered accountants that operate with us on our urban tech platform. And each of those CAs are actually dealing with between 150 to 250 MSMEs, right? And that is a very interesting part of our footprint as well which we haven't monetized yet and that's something that we need to think about on how we monetize that footprint as well.

And when I look at both these coverages that we've built or the distribution channels that we've built in both urban and rural tech, I think it looks like a pretty interesting outcome for us. Obviously, we need to find the right mechanisms for monetizing both these networks, which is what we are focusing on.

And I think in the next couple of quarters, you will hear a lot about both the segments from us as to what we're doing to monetize them.

Yash Modi: Thank you. Thank you so much. All the best to the team.

Tashwinder Singh: Thank you, Yash.

Moderator: The next question is from the line of Prateek Sahu, an individual investor.

Prateek Sahu: Hi, Tash. Just one question to start off with. You had mentioned about our own proprietary switch. Right now how much percentage of the GTV is flowing through our switch? And second, what is the difference in the bottom line and the top line impact when it moves to our own switch?

Tashwinder Singh: I think we have now built multiple switches, Firstly, there's no single switch. We have a micro ATM switch, we built an AEPS switch, we have a DMT switch, we have an IMPS switch, and there are multiple entities that are using our own switch. Some of our large enterprise customers are still not using our switch because they already have tie-ups with some of the switch, etc., and then we are working with some of them to create a switch for them which we are building. Effectively, it will be out switch, which we will manage for them. It will be owned by them, but it will be completely managed and created by us. So once that happens, then you will see a far significant number of volume going through out switch.

I don't know the exact number of what is the volume going through our switch, but I don't think it is more than 20%, 25% or 30% of our volume that's going through our switches get, right? But as we get one or two of these enterprise customers to completely convert to our switch, suddenly you'll see a jump. And I'm hoping that jump will happen in Q1 of next year.

It won't happen in Q4 of this year, but Q1 of next year as per our roadmap for building the switches, we are building switches for one large enterprise customers need to be delivered by the first week of March. Once that goes live, we will see a significant volume that will start moving into our own switch from those enterprise customers.

In terms of economics, there are obviously better economics because you don't need to pay the bank, which we currently need to pay when they use the bank switch, right? And the amount maybe 5 to 7 basis points, it may not be significant from per transaction basis, but on a cumulative volume basis it becomes a significant number, number one.

But more importantly, it creates much more control for us on our transactions, because in our own switch, we are able to manage the customer experience significantly better which is one of the reasons we've been able to convince the enterprise customers who use our switch even though they have been using other bank switches and they're happy and they mandated us to create the switches the way we have built our switches to move the volumes through that.

So that's really the impact that's going to happen. I think still some time to go. First quarter next year, I think I will get this data also in these calls to make sure that you have a sense of what is the percentage of the volume that is going through switches which are developed and managed by us.

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

Tashwinder Singh: Thank you. I just want to thank everyone for joining us. I do want to mention that we think we are turning a corner with the third quarter. Fourth quarter onwards, you should see significant improvements on all metrics. I do want you to keep looking out on us and I look forward to talking to you again with Q4 numbers. Thank you so much for joining us today evening.

Moderator: Thank you very much. On behalf of Niyogin Fintech Limited, that concludes this conference thank you for joining us. You may now disconnect your lines.