



## “AU Small Finance Bank's Q4 FY'22 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY'22 Earnings Conference Call of AU Small Finance Bank. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aseem Pant, VP, Investor Relations. Thank you and over to you, sir.

**Aseem Pant:** Thank you, Margreth. Good day to everyone and welcome to AU Bank's Earnings Call for the Fourth Quarter of FY'22. we thank you all for joining the call today and we hope you and your dear ones are safe and well.

For approximately the first 20 minutes of the call, we will have brief remarks by few members of our senior management, followed by 30 to 45 minutes of Q&A. Firstly, we will have our M.D. and CEO -- Mr. Sanjay Agarwal, share his thoughts on the performance and overall outlook for the bank. He will be followed by our Executive Director – Mr. Uttam Tibrewal, who will share his thoughts on business outlook for assets and liabilities. And finally we will have Mr. Vikrant Jethi -- Head of Collections who will discuss asset quality for the bank. Besides them, we also have few other members of our senior management to answer any other questions you might have.

For the benefit of everyone, we would humbly request that the number of questions per participant be restricted to a maximum of two and to join back in the queue or mail us in case you have any further questions.

With that I will request our M.D. and CEO – Mr. Sanjay Agarwal to share his thoughts on the bank's performance and outlook.

**Sanjay Agarwal:** Thank you, Aseem. Good evening, everyone. Namaskar. Thank you for joining in. We hope that you and your dear ones are doing well and keeping safe.

Q4 FY'22 marks the completion of our 20-quarters of our banking operations. I would also like to begin by congratulating everyone on completion of five year as a bank. We have crossed this important milestone with flying colors.

In 2017, we had 403 touchpoints in ten states which grew to 919 touchpoints in 18 states and 2 UTs in 2022 from lending to 5.6 lakh customers to serving our 27.5 lakh customers now. We have grown our family of 8,500 people to a winning team of 27,800+.

“Build the Liability Franchise.” Running a deposit base of 52,500+ Cr. Scale the asset book from Rs.10,700 crores to Rs.47,800 crores with superior asset quality. Better state-of-the-art tech ecosystem. Established gold standard in governance and this happened in spite of headwinds of demonetization, GST, NBFC crisis, PMC crisis, private sector bank crisis and battling the pandemic, which have only made us more resilient and confident in our customer and product

segment. The tailwinds of digital adoption give us the strength to venture into the journey of many first, like AU 0101 Credit Cards/QR Code/Video Banking, etc.,

The team has shown incredible commitment, ownership, bias for action and entrepreneurship. The story remains very exciting for me personally from the last 27-years. AU is on the track of empowering India financially, digitally and socially. Thanks to your support. We remain one of the most exciting franchise of the country.

Very grateful to the government, regulators, board, you, the customers, the team, and the shareholders for bestowing us with so much love, affection, guidance and trust.

For me, personally, FY'22 was year of roller coaster ride; Q1 was down due to a devastating second wave where we lost so much both in terms of life and livelihood. In Q2, we faced an unnecessary misunderstanding as well as baseless rumors around certain personal movements in our bank.

On a personal note, I lost my father the Founder, Promoter of AU Bank. He was instrumental in shaping the person I am and had laid the foundation of our bank.

In the latter half of the year, we witnessed the third wave, although it turned out to be quite limited in its impact. Nevertheless, growth came back in the second half of the fiscal. Hope you have seen the recently declared Q4 results. The last quarter remained very high in terms of numbers from deposits to assets, to payments and to digital.

Some highlights: We launched 39 (Corrected) new touchpoints in this quarter. We hired 2,300 + people. Our deposit grew by 46%. And our focus remains on low cost stable funds and we reduced our cost by 88 bps this year and we maintain ample liquidity. We disbursed around 10,295 crores of loans in this last quarter, the highest ever in the history of AU. Our balance sheet size grew by 34% year-on-year, Networth grew by 20% year-on-year and our capital adequacy is at 21% (Corrected). We also generated the highest ever operating profit in this quarter. Our ROA stood at 1.9% and ROE at 16.4%. Asset quality is getting back to the pre-COVID level. Our GNPA reduced to 1.98 from 2.6 quarter-on-quarter; net NPA has been reduced from 0.5 from 1.3 quarter-to-quarter.

As a bank, the improving operating environment and our strong operating performance and higher resolution in the stressed accounts during Q4 gave us some flexibility around our Q4 numbers, but we chose to remain more measured to secure our future by putting more money into the provisions and further strengthen our provisioning policy committing us to higher coverage in the future as well. We have not taken any contingency provisions to P&L, rather we have created an additional floating provision of Rs.41 crores.

Given the secured and retail nature of our book and our historical experience, in my view, we are currently significantly over-provided with PCR of 75%+ provisions around restructuring,

contingency and floating. The main reason we have tightened our provisioning policies is further to structurally create a buffer creation mechanism as growth picks up. More from Vikrant on this.

The risk of geopolitics and micro environment has led to strong inflationary pressures on our operation with costs going up in everything; from salaries and related expenses to employees to tech and maintenance contracts. I know that OPEX is high in the current quarter and we hope to go back to a normal number in the mid-to-long term. Similarly, in the rising interest rate environment, income from treasury operations is also expected to remain subdued in coming quarters; however, our cost of funds continues to decline and we think there is still some room for repricing.

Our digital initiatives are progressing well and are providing a visible uplift in our pace of customer acquisition, notably our 40% of new customers acquired in Q4 were through our recently launched digital channels and products, that is 0101 Credit Card, video banking, UPI QR.

Our five SBUs -- Digital Banking Credit Card, Merchant Solution Group, Wheels, Home Loan has already presented two AU Insight Sessions in the last quarter. I hope you would have got to know lot more about their business strategy, team and their outlook. In greater detail, the remaining five SBUs would also be presented to you in the coming months.

Governance has always been the backbone of our growth since the start of our journey, which has been validated time and again by markets, regulators and rating agencies.

Last quarter, we were joined by Shri H R Khan saab, ex-RBI deputy governor on board as an independent director. And this quarter, I take this opportunity to welcome Shri Kamlesh Vikamsey on our board as an independent director. I believe the bank will eventually benefit from rich audit experience spanning over four decades and I personally look forward for their mentorship. With his induction, the overall board strength has now risen to ten directors and eight being independent.

I am also thankful to the board for agreeing to reward the shareholders of the bank as we celebrate the completion of five years of our banking journey with an approval of issuance of bonus share in the ratio of 1:1. The board also has approved a dividend of Re.1 per share for FY'22. Both these measures are subject to shareholder approvals.

I am very happy to share that CARE Ratings upgraded the bank's long-term rating to AA/Stable and retained our short-term rating to A1+. This is a strong validation of our banking franchise and asset quality despite the pandemic induced challenges.

In the end, I would like to say that we are watchful of inflation, interest rate cycles, geopolitical situation and effects of residing pandemic. However, I think that what we have faced in the last

two years and survived was much more challenging and we are far more hopeful about the coming times. I'm very excited about the India story, one of the world's fastest growing economy with the largest youth population in the world, rising global competence, rising economic insurance, and strong central bank policies. Although, we are cautious in the short term, but we are very-very optimistic in long term. We understand that being the largest small finance bank in the country puts us in a position of a great responsibility. We are always mindful of our duties as credible bankers. We promise you gold standards in risk management, governance, compliance and integrity. We remain indebted to our regulators, government, stakeholders and the board to hold our hand and to keep us on the right path.

We continue to invest in our 10 strategic business units and shall always be a promising and likable franchise to be joined by people. Thank you so much. Stay safe. I will hand over to Uttam for his business outlook and strategy.

**Uttam Tibrewal:**

Thank you, sir. Namaskar and good evening, everyone. I hope you are happy and healthy. I will now provide you with an update on all our businesses including assets and liabilities. FY'22 even though posing to be a challenging year across economic situations as well as geopolitics, has proven to be a year of resurgence for Indian corporates post the difficult 2021.

Going into FY'23, Indian businesses seem cautious on the impact of increase in energy prices and uncertain environment; however, given our high domestic consumption, improving on-ground activity and India's GDP growth outlook, we are quite positive on the business outlook for the year ahead.

At AU Bank, we continue to proactively tackle the challenges. We calculate our next steps with agility and track the market ahead of its performance to deliver across the business and financial metrics.

As Sanjay mentioned, in our journey of over 27 years of building trust, AU Bank also celebrated its Fifth Anniversary as a Small Finance Bank. And we feel a sense of pride in having weathered tough times in our early years and risen out of it with tremendous strength and corrective to become India's largest small finance bank. The infinite passion and hard work of 27,800+ AU employees, growing brand, love from customers and confidence of our esteemed shareholders, has been the hallmark of these five years of banking for AU Bank.

Importantly, our asset growth was complemented with a robust asset quality with a gross NPA coming below 2% at 1.98% and net NPA reducing to 0.5%. This is a remarkable achievement given our GNPA was 4.3% same last year. Our total collection efficiency for the year stood at 106%. Normalization of our GNPA to pre-COVID levels has been in line with our narrative of deeper on-ground customer engagement and problem-solving approach.

As we mark ourselves into the next financial year, we continue to focus our efforts towards building a robust tech-led retail franchise in India by building a granular CASA portfolio, Drive

growth from existing access products, strengthen the asset quality, investing in technology for AU 0101, innovate across new age products like credit cards and QR payments and increase brand equity for AU Bank.

Our Wheels business financed 85,000+ vehicles during Q4 FY'22, amounting to a total disbursement of Rs.3,667 crores, registering a growth of 25% year-on-year and 20% quarter-on-quarter. Total AUM of Wheels business is now Rs.17,300 crores with an average ticket size of Rs.3 lakhs. At the AUM level, 60% of the financing is for new vehicles, 38% is for used and refinance and 2% is for two wheelers. The demand towards light commercial vehicles and passenger vehicles has been stronger than other segments.

In SBL business, demand is gradually coming back with Q4 FY'22. Disbursement is equivalent to same quarter last year at Rs.2,116 crores. Total AUM of SBL business has now reached to Rs.16,524 crores across 2 lakh MSMEs, registering a growth of 15% year-on-year.

Our housing finance business leadership have recently presented their views in the AU Insight Session, saw strong demand in Q4 with a total disbursement of Rs.673 crores, registering a growth of 54% year-on-year. Total AUM of housing business is now Rs.2,654 crores, across 27,000 dwelling units, registering a growth of 19%-plus year-on-year. Bulk of these portfolios are also eligible for long-term low cost energy refinance which further helps the team to deploy more.

Our commercial banking businesses like business banking and agri banking continue to do well and gain market positioning and establishing themselves. Both of these businesses are granular. Working capital, term loan finance to MSME with an average ticket size of sub-1 crore and lent against the balance sheet of MSME. In Q4 FY'22, commercial banking business saw disbursement of Rs.2,529 crores, a year-on-year growth of 104% with most of the businesses eligible for low-cost refinance. Additional efforts have shown promising results with almost 40%-plus newer customers added to the bank in Q4 coming through AU 0101, video banking, credit cards and UPI QR codes. We are looking at our digital banking strategy to complement our physical banking strategy and the phygital model allow us to be better positioned for gaining a larger share of overall pie. Detailed individual business numbers are provided in the IR presentation.

Further, at the ongoing AU Insight Session, the leadership of various SBUs have been presenting their views and outlook. And I hope you had a chance to go through the same.

I'm quite happy with an exponential growth across our brand metrics including awareness and consideration with our ongoing campaign. It's been heartening to know that people have been able to associate with the 'Badlaav Humse Hai' Campaign and acknowledge that AU Bank is trying to bring 'Genuine Badlaav' in banking practices. We will continue to focus on building brand awareness and consideration.

In the past three quarters, our emphasis has been on growing our CASA balances and pricing our deposits optimally to gradually reduce the overall cost of borrowings.

Through targeted efforts, we delivered CA deposit growth of 57% year-on-year and 44% quarter-on-quarter. SA deposit growth of 156% year-on-year and 9% quarter-on-quarter. This enables the bank to maintain an optimal CASA ratio of 37% compared to 23% in Q4 last year. All these also helped to reduce the overall cost of our deposits to 5.8% in FY'22 from 6.7% in FY'21.

64 % of the saving accounts customers acquired in the year are active on our AU 0101 app and 77% of the current account customers acquired in the year are active on internet and mobile banking. This also reflects the increasing preference of our tech-savvy customers to become digitally native.

Rishi has spoken extensively in earlier quarters about the AAEDR framework that the liability franchise follows. AAEDR stands for Acquisition, Activation, Engagement, Deepening and Retention. As we mature, we will prioritize engagement and deepening to transition AU Bank account as a primary account of the customer. To this end, we have segregated our sales and customer service teams to pay greater attention to customer experience in branches. This has resulted in 71% of CA and 55% of SA customers regularly transacting with us. Furthermore, 1.9 lakh unique AU debit card holders transacted in Q4. Our debit card transaction volume has increased significantly crossing 4 lakh transactions in March '22 and spending have consistently been Rs.100-plus crores in the last three months.

To increase wallet-share of our customers and embed them with the bank, we work on differentiated RM model which aims to fulfill the needs of our customers and maximize lifetime value. This focus approach has resulted in our product per customers to grow to 1.7 for our SA customers and 1.9 for our CA customers. 62% of our current account and 47% of our savings account customers use two or more of our products. The delta generated in customers AMBs via this engagement hook is anywhere between two to eight times depending on the hook as compared to a customer who is not engaged.

We have expressed earlier that metros and urban markets will drive our liabilities growth. We currently have 184 branches in urban areas with 64 of them having opened in FY'22. Sixteen of these new branches with an average vintage of six months have already ramped up their deposits to Rs.50-100 crores. This reflects the encouraging response we have received in these newer urban geographies from high quality retail customers and provides us the confidence to further penetrate and focus on these markets as we look to ramp up our deposit franchise.

We continue to work with our partners to further cross-sell and engage the customers be it ICICI Prudential, Future Generali for life insurance, and Aditya Birla, Care, Tata and Chola for general and health insurance.



On the investment side, our mutual fund AUM crossed Rs.100 crores this quarter and we have close to 60,000 3 IN 1 trading accounts through our partnership with Motilal Oswal Financial Services.

In conclusion, I would like to say that these are very exciting times for the bank as we achieve our five-year milestone, knowing fully well that five year is a small dot or a blip in the journey of generations. Our efforts on urban focus branch expansion, customer engagement, people capabilities and constant digital innovations ensure that we are all prepared to scale the business. With comprehensive merchant solutions and a good foundation of current account and SBL customer base, we are working towards scaling the current account deposit book sustainably this financial year.

With this now, I hand over to my colleague, Vikrant Jethi for an update on collections and asset quality. I will meet you again during the Q&A session. Thank you so very much. Please take good care. Thank you

**Vikrant Jethi:**

Thank you, Uttam ji. Good evening, everyone. I'll be sharing a brief perspective on asset quality. Business activities across sectors have resumed normalcy, which resulted in better customer cash flows. We saw collection efficiencies north of 100% during the entire quarter. Average collection efficiency in Q4 was 108% compared with 106% in Q3.

Our gross NPA reduced by 62 bps from 2.6% in Q3 to 1.98% in Q4. In absolute value, there was a net reduction of Rs.133 crores from Rs.1,058 crores in Q3 to Rs.924 crores in Q4. Net NPA reduced from 1.3% in Q3 to 0.5% in Q4. We saw a gross reduction of Rs.329 crores in Q4 from Q3 closing NPA of Rs.1,058 crores, resulting in 31% resolution during the quarter wherein 65% resolution happened through normal question efforts and about 28% resolution happened on account of security enforcement, wherein there was POS loss of approx. 38%. Another 7% resolution was on an account of technical write-off. Similar trends have been observed during FY'22 and as we had highlighted same in our last call as well. This clearly illustrates the secured and small ticket nature of our book as well as resilience of our borrower base.

If we further introspect the current GNPA pool of Rs.924 crores, we have enforced security on 8% pool and asset is in bank's possession. As of date, we have initiated legal recourse either SARFAESI or Sec.17 on remaining 88% pool. On the balance 4% pool, we will be initiating legal recourse soon. In nutshell, all the underlying loans are granular and secure and we expect recoveries or security enforcement in due course of time.

As we had communicated in our Q3 commentary, basis on-ground feedback, we have identified non-workable pool wherein all collection efforts have been exhausted and the bank has done technical write-off of Rs.23 crores in Q4. Here, collection efforts are being abandoned and future recovery may happen through ongoing legal proceedings.

We would like to mention that we have so far done recovery of Rs.1.18 crores from technical write-off of Rs.62 crores done during the financial year '22. We shall continue to evaluate such non-workable pool in future as well and take appropriate measures.

Out of total gross advances of Rs.46,789 crores as of 31st March, 69% of book has originated after March 2020 and 93% of this book is current with only 0.37% of GNPA. The resilience of this book has validated our approach of underwriting in customer segment we cater.

On restructuring, as of 31st March '22, standard COVID restructured book stood at Rs.1,180 crores which is 2.5% of gross advances. Billing has started on 98% of the restructured book and 10% of billed book is NPA as of 31st March. Asset quality performance in the billed pool has been well within expectations. ECLGS gross advances as of 31st March '22 stood at Rs.866 crores and NPA numbers are in line with overall book.

Bank is getting provision of Rs.653 crores against GNPA of Rs.924 crores and has created an additional floating provision of Rs.41 crores in the current quarter, taking PCR to 75% against 51% coverage as of 31st December. Additionally, there is provision of Rs.192 crores against standard restructured book. Furthermore, bank continues to carry contingency provision of Rs.157 crores. Against GNPA and restructured book of Rs.2,100 crores, we now have 50% coverage including floating and contingency provision versus 45% as of 31st December. This further strengthens balance sheet and makes us better prepared for any unforeseen events.

Pertinent to note that bank has further tightened its provisioning policy starting this quarter, whereby in our secured book we will make 25% provision on 91 days, 50% on 181 days, 75% on 366 days and 100% provisioning on 456 days. The policy on unsecured book is even more stringent. This makes our provisioning policy one of the most conservative in industry and will help us maintain higher buffers on an ongoing basis as there is absolutely no change in our expected credit loss assumptions. As we head into FY'23, while we keep our eyes on the risk on the horizon, we continue to remain cautiously optimistic having covered for all the stresses and some more. Thank You so much for your time.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Aditya Jain from Citigroup. Please go ahead.

**Aditya Jain:** If you could talk about the thought process behind the trade-offs between allocating some provisions as floating and contingent, how do you decide the quantum of them and what are the disadvantages of one versus the other?

**Sanjay Agarwal:** As per law also we can't keep contingent provisions as an open item. We need to use it somehow. So what we have decided to strengthen our NPA provisioning policy and we will keep the buffer out of that contingent provisions to the normal provision. So that is one thing which we have decided from this quarter. We just do not want to use any of these in the P&L. The balancing amount, if you see the overall provision for last quarter to this quarter, is similar amount which

is 1,043, so the balancing amount we have built in the floating provisions and floating provision is again to cover any kind of future uncertainties and floating provisions can't be used on the basis of management, it has to be pre-approved by RBI. So that is why we really want to be more sure about our whole consistency there.. So we have actually reduced our overall risk weighted asset considerably, but the provision amount remains same.

**Aditya Jain:** So there might be certain rules based on which contingent you might choose to reverse, but floating you will retain on a longer basis and if you choose to reverse it'll have to be with RBI approval?

**Sanjay Agarwal:** Correct. Absolutely.

**Aditya Jain:** On the liability side, so we continue to see a steady reduction in cost of funds. From a spread perspective going into next year, could you talk about the share of floating rate loans, I think a large part might be fixed rate, but just the share of floating rate loans today on the book? And just your overall outlook on margins for next year?

**Sanjay Agarwal:** Two things I already quoted in my statement that inflation and of course the interest rate cycle looks tough in this year and we do not know how it will pan out in whole current year, but as far our floating versus fixed is to be seen, around 25% is our floating 75% is fixed but tenure is very low. And generally retail assets like wheels, SBL, are generally done on the basis of fixed, because we also charge on a higher rate; these rates are 15+% and of course as we move forward we really want to build more and more flexible floating rate book but like the housing one and the commercial banking space, so once that share will go up, you will see our floating rate will also go up. So that's the way we want to manage it.

**Aditya Jain:** On the average cost of SA today, would you be open to think about increasing that SA rate going forward? The CASA accretion has been really phenomenal so far. Going into next year maybe other banks start to increase the SA rate, we've seen some cuts through COVID.

**Sanjay Agarwal:** This is difficult question as of now, but CASA we are already pricing around 7% on a higher bucket. As a CEO, I don't want to get into that level of higher rate, but if market forces us, we will see at that time.

**Yogesh Jain:** So Aditya, our current cost of SA is 5.5%.

**Moderator:** The next question is from the line of Ratik Gupta from Guardian Capital. Please go ahead.

**Ratik Gupta:** I just wanted to highlight the treasury expenses and the profit. We can see that the revenue is growing at a 10% while the expenses have grown at a huge level in this quarter. So can you highlight on the same because we are trying to understand what could be the treasury operation that is yielding to high expenses in this quarter. So we are seeing that profit has grown only by 2% and revenue has grown by 10%. What could be the reason we are seeing a less growth and what could be the major impact towards the treasury in the rising interest rate scenario?

- Prince Tiwari:** If you see the interest rate, in the last quarter, kind of moved very sharply especially towards the latter half of the quarter, and we are just coming out of a very low interest rate regime. That's what we have articulated in our presentation as well and in Sanjay ji speech, we will have to watch how the interest rate cycle plays out from here on. While we don't really have a large MTM impact this quarter unlike some of the other banks, but we'll have to see how it behaves going forward. So honestly, at this stage, difficult to comment.
- Ratik Gupta:** My second question is how will the interest rate impact on the NIM over the upcoming quarters?
- Sanjay Agarwal:** We are starting our cost of money around 5.6% and last year we had a cost of fund on overall basis at 5.9%. So still we have some room available with us to manage even if cost cycle goes up by maybe 50 or maybe 75 basis points, that's point number one. And second, we have the ability to transfer this price to the end customer because my end customer is not rate sensitive, and we have also reduced rates over the years. So the kind of customer we deal in is a core market. And if the interest cycle goes up, the entire NBFC and that segment will also go up. So I strongly believe that we can protect our NIMs as we move forward in the range bound interest rate cycle upwards.
- Moderator:** The next question is from the line of Akshay Jain from JM Financial. Please go ahead.
- Akshay Jain:** I have two questions. One is on the CA growth. So CA has seen a sharp increase on a QoQ basis. So any color on that? Is this a sticky CA? and what are the levels we are seeing in April, has CA run down or how is it?
- Rishi Dhariwal:** The CA book in March quarter is always a high for the CA book. If I were to give you a flavor, about 27,000 of our customers contributed to the growth of balances in the CA book in the month of March and almost 19,000 of these customers are small businesses and proprietorships. The balances in CA go up every year end, like for example last year also the CA AMB was Rs.1,164 crores and the period end balance was Rs.1,632 crores and the same thing holds true for this year also where we have grown subsequently to Rs.1,600 crores of AMB. So there is no hot money sort of if that was the question. That we sort of chase in the business and a good amount of money actually came from the contractor segment, so around Rs.140 crores came from contractors who are typically NHAI contractors and the government releases money to them in the year end, so money comes from them. And that is how this continues. I do expect that our Q1 overall CA balances, we should be able to close at Q4 numbers by the time we end Q1 of this year because we've substantially ramped up our overall CA acquisition like what Uttam has highlighted. We acquire something like 6,500 to 7,000 customers every month and along with our SBL business we are very strongly positioned to address the merchant segment in the industry and build up all that. So that is the way we are looking at our CA book and we believe that we will be able to grow significantly in the years to come.
- Akshay Jain:** So what percentage of the CA customers will have asset relationships with you?

- Rishi Dhariwal:** Currently, it is about 50% of the customers have asset relationship, but that is something that we are ramping up significantly like I think Uttam also mentioned, we have a large rural base, so 62% of QR are active, 90% of those QR customers actually have account with us, that comes into our bank account. So that actually helps us in a big way with our CA balances. So the strategy going forward is that, very clearly we are looking at the manufacturing and services customers separately from the merchant segment customer and as merchant segment customers are the one where AU has a very strong franchise and capability which is where we are building our digital lending capabilities as well the QR and cost related payment solutions, which is where I think our volumes will go up significantly, even today more than 80% of our CA book is actually sole proprietors and small businesses.
- Akshay Jain:** Lastly, on the AUM side. There's an item, others, with an AUM of around Rs.3,000-odd crores. So what will be the components of this, others?
- Prince Tiwari:** That is mentioned in the footnote on slide number 36. This is predominantly FDs against ODs and treasury lending. So those things are included to manage the day-to-day liquidity.
- Moderator:** The next question is from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** Firstly, how should we think about growth next two years? In last two quarters despite our cautious commentary we have grown quite well at 14% QoQ.
- Sanjay Agarwal:** Next two years, it's difficult to comment as of now, but I think this year the challenge remains about interest rate cycles and of course inflation, but as we already commented that what we faced in last two years is more than what we could face now. So I strongly believe that our deposit should grow in the range of maybe 30-35% and asset in the range of 25-30% and it's covering up a lot of these challenges, if the challenges never exist in coming time, then the growth can be more. But the kind of demand we are seeing in our wheels, SBL, housing and across spectrum, credit card or the commercial banking. So we are quite hopeful that this year the growth can be as pre-COVID levels.
- Nidhesh Jain:** How is the experience that we have outside of Rajasthan in terms of asset quality and growth? Just an extension of that assuming that we have products that we are operating over next four to five years and same geographies we are operating, how large loan book we can scale up over next five years?
- Sanjay Agarwal:** This is now an old question that whether AU has the ability to grow beyond Rajasthan. We already demonstrated that in liability Rajasthan is not leading the pack, rather Maharashtra and then led by Delhi and of course Rajasthan,. And the new book also like the credit cards, the merchant banking solution is very well diversified across states. And even in our wheels, SBL which remains the oldest business, we are seeing lot much growth coming from the other states. And that is the advantage of a bank, because banks does not get challenged because of geographies and all those things because generally people come and join. Customers have a lot

of respect to the bank as a franchise. We are not now very much worried about that as we are Rajasthan-born kind of an institution. In coming time, you will see us in pan India operating for liability, digital and lot many things. The whole data metrics show that we are on right course.

**Moderator:** The next question is from the line of Sonal Gandhi from Nirmal Bang Institutional Research. Please go ahead.

**Sonal Gandhi:** If I heard 69% of our AUM book is coming post-March '20 and the GNPA in that book is just 0.3%. So I wanted to understand what kind of credit cost should we expect in the FY'23, FY'24 since GNP and the incremental book is very, very low?

**Sanjay Agarwal:** So difficult to comment, honestly, but I would only assume that the pre-COVID level our whole GNPA was around 1.3- 1.5% kind of thing and net NPA was around 0.5%. But I think now the whole provisioning policy has been changed. So difficult to comment as of now because it's very early days.

**Moderator:** The next question is from the line of Renish Bhuvra from ICICI Securities. Please go ahead.

**Renish Bhuvra:** A couple of questions on the restructured book and the **ECLGS** pool. So we did highlighted that the performance is in line with the overall book. But if you can provide some more color let's say is there any geographical concentration which is not behaving as per the mark or the collection efficiency in some of the pockets is still lower than the pan India average would be helpful sir?

**Vikrant Jethi:** There are no state-specific trends which are emerging, I guess 25-30 bps here and there, plus/minus. I guess most of the states are in similar range. On the restructuring book also, I guess we are seeing trends which are similar across the other states.

**Renish Bhuvra:** Sanjay sir, with 2.5 million plus customer base, what sort of data analytics we run since we have a thirty plus products now and what is the current product per customer and what is let's say our plan to take it to maybe two and a half to three, what we are doing on the customer leverage side?

**Ankur Tripathi:** On data analytics platform, we have now let's say minimum quantity of data to analyze on when we build some models for that matter, all our new businesses like credit card is largely working on scorecard model in terms of origination. Similarly on our QR book, the way we are getting transactions, we have started lending to the customers basis their transaction data. So all those things are getting built from a scorecard model. Second aspect which you asked about product per customer. This number at this point in time is somewhere in the range of 1.3- 1.4 and with digital channels coming in and some of the digital only products getting adopted within our customer segment quite well in last eight months of operations, we see significant uptick coming in the upcoming financial year. Having said that, we are investing in our data

analytics practice in terms of building data lake and corresponding analytical models further and we'll continue to update in due course of our communications.

**Renish Bhuv:** So sir any target we have in mind let's say to take this 1.0-1.4 to 2 - 2.5 within two years, two years or whatever?

**Management:** That would be too early to comment considering all those investments are currently being made, but we should be able to give some guidance in probably three to six months' time.

**Moderator:** The next question is from the line of Pranav Mehta from Value Quest. Please go ahead.

**Pranav Mehta:** First question is on cost-to-income trajectory. So this year we have seen almost 500 bps increase. May I know the reason for it as we are investing in digital and other initiatives, just wanted to get a sense from that how will this ratio now trend going forward over the next one or two-three year period? Secondly, if you can give some sense on the timelines for this application of universal banking license and how are you thinking about going forward?

**Sanjay Agarwal:** First, we are also facing challenge on our OPEX because everything has gone to a next level because of this inflation, whether the salaries related expenses, traveling, conveyance, phone etc. Generally we are seeing lot much costs around our OPEX now, but we believe that it is more on a supply issue and it will get adjusted as we got the scale. And you will also agree that we really worked only for 10 months this year, but we had expense of 12 months, so that has also impacted our OPEX. So for us comfortable level is around 50-52% on an ongoing basis and plus 5-6% on our investments, which we have shown in our presentation also. So this time it is overshooted by 4-5% and it's got 60%. So it is above our comfortable level, but we will do lot many things this year to really be back on the comfortable level which is around 55-57% both put together. But this remains a challenging work for us because being a retail franchise, we need to do lot much things on the ground. So sometimes it's in your hands and sometimes it's not. But I'm not too worried honestly on a relatively high level because we have a better yield on our assets and our cost of fund is in manageable level. But we have to live with this and I hope that we manage OPEX in our stated number for this year. Your other question which is regarding the universal license. We are happy what we are doing as of now. We became the largest SFB. And our job as executive is to really play whatever is given to us and presently we are playing on SFB platform and it is up to the regulator to decide that whether they really want to make us universal or not, but of course we have become eligible because the five year has gone on 19<sup>th</sup> April. So we hope that we perform like that that regulators allow us to become universal, but we are very happy the way we are doing as of now and in near future it happens it will be a bonanza for us.

**Moderator:** The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

**Bhavik Dave:** A couple of questions; one, again similar to the previous participant on the cost. I understand 40%, 50 % of our cost is variable and the remaining is fixed. If growth slows down a little like

you mentioned, because around 10% of our cost is towards newer investments which I think we will want to continue, but how do we control cost on the BAU when growth is a bit challenging on the ground if at all?

**Sanjay Agarwal:**

Bhavik, it's a little hypothetical question because we already faced that in last year, our execution on business happened only for 10 months and we have booked expenses for 12 months. And the way the whole scenario is being built especially in our market, which is around product which is around wheels, SBL, housing, commercial, credit card, everything is firing so well. So there might be a slowdown but I think our size is also not that much that it should affect us in near term. And of course there is a variable cost along with the fixed cost that can be manageable. We have shown in last, maybe in 2021 too in the first year of pandemic and last year too that we can manage our costs. This time it is because of inflation which has really created something extraordinary on the balance sheet which I personally feel that as maybe next one to two years it will settle down or it will get some kind of transformation in overall yield. So we have to wait for that. Otherwise, I strongly believe that AU is in good position in terms of managing any upward of interest rate cycle and of course elevated cost of operation for the next one to two years.

**Bhavik Dave:**

Like the 57% for the year cost-to-income and this quarter was a little elevated, the guidance that we have of like sub-55%, is that possible in FY'23 or will it be like 57% will come to 56% and then come down?

**Sanjay Agarwal:**

I believe so.

**Bhavik Dave:**

Second question is a little long term-ish, in the sense which are the products that you're most excited about like going right next two years that we have like incrementally our cost of funds are coming down and should be somewhere around this range or marginally higher if interest rate cycle is turning, but which are the products that you think can scale up and you're excited about and any specific geographies where you're thinking that we're like generating or creating a right to win like we have done for like two, three geographies where we were historically present including Rajasthan, which you are excited about for the next couple of years and the product that you are excited about?

**Sanjay Agarwal:**

Bhaskar ji is there, but I can speak on his behalf that wheels makes me most exciting potential because the overall pent up demand and of course the overall change in fuel, how the Indian story is being built around the manufacturing, all those things. Our size is amazingly small; we are just around Rs.17,000 crores of asset. So I strongly believe that that book can grow in north of 25% for next five years, that's my own take. Other than that I'm also bullish about housing. Very small base. We have started that two years back in spite of pandemic, in spite of so much of lockdown, that book is also growing well. I think the most important book that can surprise us is commercial banking which is around SMEs and MSMEs. I think that scale can help those businesses much more and of course the credit card business. Bhavik, honestly, I believe that we have a lot much on platter. So it's hard to pick one or two but whatever I said is our top four-



five. But generally I believe that all our asset, the size, the market the way we operate and the whole seasonality around it, is helping us to grow much better than the other competitors. In terms of geographies, I would say, we are well settled in around now 18 states, but if you ask me one state for next 5-10 years, I would pick UP.

**Bhavik Dave:**

Like in banks there's an asset quality review that happens yearly which RBI generally undertakes. Just wanted to understand, is that done for the bank because you've not mentioned anything, that means that there is nothing to report, like there is no divergence or anything major that RBI has come out with when it comes to asset quality, is that a fair assumption?

**Sanjay Agarwal:**

Inspection has been done up to March '20. Nothing got reported till that time. And now we are on the automated process. So our 99.9% of assets get classified on a real-time basis through an automated application and that has been certified by the auditors, the external auditors and that has also been verified by regulators.

**Moderator:**

The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

**Jay Mundra:**

I have two questions. One is if you can tell us the gross slippages without inter quarter netting off for fourth quarter and maybe for FY'22?

**Aseem Pant:**

For the quarter, that number is Rs.292 crores. For the financial year, that would be around Rs.1,442 crores. That will be also in our pillar III disclosures.

**Moderator:**

The next question is from the line of Heet Khimawat from Emkay Global. Please go ahead.

**Heet Khimawat:**

Just one question relating to the tax expenses in the quarter. So the tax rate if I calculate for the quarter it is around 11% which has been around 22%, 23%, 25% in the previous quarters. So what could be the reason for the low tax expenses in the quarter?

**Vimal Jain:**

We got around Rs.45 crores refund which was adjusted in this quarter. This was mainly against ESOP cost which we considered while filing the return only. So, it's related to previous full year. For the full year, tax rate is around 22% and for this quarter, there is a difference because of this refund only.

**Moderator:**

The next question is from the line of Dipen Sheth from Buoyant Capital. Please go ahead.

**Dipen Sheth:**

I just wanted to reconcile a couple of numbers. If you come to slide 35 and if I try to reconcile that with slide six, it's on the liability side obviously, if you look at the lower left part of slide six itself, 66% of our total deposits are retail deposits and if we check at slide 35 it says that 49% is the retail in the TD mix, not in the total deposits. Am I reading this correctly?

**Prince Tiwari:**

That's right, then you look at the TD mix, 49% is retail.

- Dipen Sheth:** So the TDs are 31,470 at the year end and this 49:51 is out of that 31,470? The reason I'm asking is that again on the slide 35 on the upper left side, the total deposit is 52,585. So the remaining bit there is certificates of deposits, correct?
- Prince Tiwari:** No-no, it's like slide 34, actually you're referring as 35, the first table is the total deposits, the second table is the branch banking deposit, so it excludes the CD which is Rs.1,500-odd crores. We have given it earlier. And the last chart on that is the average monthly balance. So, the first is end of period balance, the middle chart, and the last chart is average period balance for the month.
- Dipen Sheth:** Within the entire deposit mix if I may ask I don't know what the term to use, is it non-callable?
- Management:** Yes, so non-callable is on term deposits and while I don't have the exact number for March, but on an average it is about 60%.
- Rishi Dhariwal:** I don't have data right now.
- Dipen Sheth:** That's okay. I'll follow this offline with you.
- Moderator:** The next question is from the line of Manish Shukla from Axis Capital. Please go ahead.
- Manish Shukla:** Firstly, on floating provision, just wanted to get your thoughts on under what circumstances will you continue making it and when and how do you intend to dip into these provisions if at all?
- Sanjay Agarwal:** It's very clearly written in the RBI regulation that in the event of something which is very uncertain and which is there to really manage the balance sheet at that point of time, because it's not in our hand now, it is in the hand of regulator who decide us that when can we use that. But, of course, the situation like pandemic or a situation like which is one of its own kind, we want to use that, but it's actually subject to regulator.
- Manish Shukla:** Incrementally, under what situations would you want to create more of floating provisions if at all?
- Sanjay Agarwal:** So I think every quarter we will take the call about how the whole scenario has been built around the businesses and we really want to make our balance sheet more and more stronger and we have the contingency provisions of 157 crores as of now, we have a coverage of 75% in terms of PCR. So I think we need to see the whole calculation and of course we hold this key asset around us. So based on that every quarter we will take the call with the help of board. But, yes, of course, our endeavor is to really build more and more on the overall provision on the balance sheet.
- Manish Shukla:** The next question is on spread. The incremental spreads have come down quite meaningfully for the quarter and there's a large gap of almost 90 basis points between outstanding spread and incremental spread. Do you think the incremental basis of spreads have narrowed or bottomed

out and it can improve from here on or we see our spread staying where they are right now, I'm talking about incremental spreads now?

**Prince Tiwari:** Obviously, as the situation has improved on the ground, the demand is also picking up. So initial demand definitely has come in from the commercial banking sector where we directly compete with the larger private sector banks and hence it's a price-sensitive segment. But, as we move forward, definitely for wheels and SBL also, as and when more and more demand comes up, and the interest rate cycle start going up, we have the ability to pass back that to our customers, so we'll start doing that going forward. What you have to also understand is the entire commercial banking book or at least most part of it is also eligible for some low cost refinance which kind of helps us to maintain our margins.

**Manish Shukla:** What part of your book is floating rate in nature on the asset side?

**Uttam Tibrewal:** I think Sanjay answered that in the first question. The book is about 25% on the floating side and predominantly consists of the commercial banking and housing loan book.

**Moderator:** We'll take one last question which is from the line of Jay Mundra from B&K Securities. Please go ahead.

**Jay Mundra:** Sir, if you can bifurcate the top five products in the 17,000 crores wheels portfolio, not from manufacturing but from functional view, maybe taxi, UV or...?

**Baskar Karkera:** We have close to 45% of our applications in personal segment. So that is essentially cars and then we have about 10% of tractors, we have 4% on backhoe loader and then between small commercial vehicle, light commercial vehicle we have that spread out between themselves upwards of about 27%. So it goes in that order. HCV is less than 2- 3%. Commercial passenger also consist of cars, that's about close to 14-15%.

**Uttam Tibrewal:** This data is already there in the public domain in our AU Insight Session. It's available on our website.

**Moderator:** As there are no further questions from the participants, I now hand the conference over to Mr. Aseem Pant, VP, Investor Relations for closing comments.

**Aseem Pant:** Thanks, Margaret and thanks everyone for joining us and your support. Please reach out to the IR team for any further questions.

**Moderator:** On behalf of AU Small Finance Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.