A SCHEDULED COMMERCIAL BANK

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To,

National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. **NSE Symbol: AUBANK**	**BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. **Scrip Code: 540611, 974093, 974094, 974095, 974914, 974963, 975017, 975038 & 976580**

Dear Sir/Madam,

Sub: Transcript of Conference Call for Unaudited Financial Results for the Quarter ended on June 30, 2026

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

We submit herewith the transcript of Conference Call held on Saturday, July 25, 2026 for Unaudited Financial Results of AU Small Finance Bank Limited ("the Bank") for the Quarter ended on June 30, 2026.

In compliance of Regulation 46 of the Listing Regulations, the transcript is also made available on the Bank's website at following link: https://www.au.bank.in/investors/quarterly-reports.

This is for your information and records.

Thanking You,

Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

Manmohan Parnami
Digitally signed by Manmohan Parnami
Date: 2026.07.28 18:49:28 +05'30'

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"AU Small Finance Bank Limited

Q1'FY27 Earnings Conference Call"

July 25, 2026

Management:	**Mr. Sanjay Agarwal - Managing Director and Chief Executive Officer**
	Mr. Vivek Tripathi – Executive Director and Chief Credit Officer
	Mr. Uttam Tibrewal - Deputy Chief Executive Officer
	Mr. Yogesh Jain – Deputy Chief Executive Officer
	Mr. Gaurav Jain - Chief Financial Officer
	Mr. Ankur Tripathi - Chief Digital and AI Officer
	Mr. Prince Tiwari - Head of Investor Relations & FIG

Moderator: Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q1 FY'27 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 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. Prince Tiwari, Head of Investor Relations. Thank you and over to you, Mr. Tiwari.

Prince Tiwari: Thank you, Renju, and good afternoon, everyone, and welcome to AU Small Finance Bank's earnings call for the first quarter of the financial year '26 -'27. We thank you all for joining the call this afternoon. On today's call, from the management side, we have our Founder, MD and CEO, Mr. Sanjay Agarwal; Executive Director and Chief Credit Officer - Mr. Vivek Tripathi; Deputy CEOs - Mr. Uttam Tibrewal and Mr. Yogesh Jain; CFO - Mr. Gaurav Jain; Chief Digital and AI Officer - Mr. Ankur Tripathi; and the IR team.

As we made the announcement today, Mr. Yogesh Jain has been elevated as the Deputy CEO of the bank, and I take this opportunity to congratulate Yogesh ji on his appointment. We will start today's call with a 15 to 20 minutes opening remarks from Gaurav, highlighting the bank's performance, positioning, and outlook. We will follow the opening remarks with a 40 to 45 minutes of Q&A from all the participating analysts and investors.

For the benefit of all participants, so that we can take everyone's questions, we would humbly request everyone to keep the number of questions restricted to two per participant and join back in the queue in case you have any further questions. For any data-keeping questions, you can kindly reach out to the IR team anytime post this call. With that, I now request Gaurav to share his opening remarks.

Gaurav Jain: Thank you, Prince. Good afternoon, everyone, and thank you for joining us for our Q1 earnings call. As we step into the 10th financial year of our banking journey, we do so from a position of strength. Our franchise today is more diversified, resilient, and scalable, reflecting years of disciplined execution and clear strategic focus.

Over this period, we have strengthened our balance sheet, built multiple durable growth engines, and continued to invest in technology and talent while maintaining a sharp and consistent focus on risk management and governance. These foundational strengths have enabled us to navigate evolving operating conditions with confidence and deliver strong, high-quality performance. Let me now take you through the key highlights of the quarter.

Q1 was marked by heightened geopolitical uncertainty arising from the ongoing West Asia crisis. The Indian economy and the banking sector, however, continue to demonstrate resilience with healthy credit growth across segments. Liquidity conditions remain relatively tight with heightened competition for deposits and elevated interest rates. While we remain watchful of evolving external risks, these developments have not had any material impact on our business momentum and our operating performance continues to be strong across key metrics.

Deposits growth remained robust at 24% year-on-year, significantly ahead of the estimated private sector banking deposit growth of 14%. Loan portfolio grew by 23% year-on-year versus private sector banking growth of 17%, with secured assets growing by 25% year-on-year. Growth in unsecured businesses improved with 11% year-on-year growth and 5% quarter-on-quarter growth led by microfinance and personal loan. Disbursement for the quarter was up 42% year-on-year driven by continued strength in our core retail secured and commercial banking businesses.

Asset quality remained robust with slippages declining by 22% year-on-year to INR798 crores, driven by improvement in the unsecured portfolio. Slippages in secured assets portfolio remain stable. Profit for the quarter grew by 37% year-on-year to INR796 crores, driven by core PPOP growth of 41%. Net interest margin increased by 47 basis points year-on-year to 5.9%. Core fee income grew by 33% year-on-year driven by higher business volumes.

Cost to assets ratio, excluding CGFMU premium was 4%, up marginally from 3.9% last year, driven by strong disbursement growth and investments made in distribution, manpower, and technology over the last 12 months. Operating leverage continues to play out on underlying basis and we expect cost to assets ratio to improve on a full-year basis.

Credit cost, including CGFMU fee, declined by 54 basis points year-on-year to 0.8% compared with 1.4% a year ago. ROA for the quarter was 1.7% versus 1.5% in Q1 last year, and ROE was 15.6% versus 13.3% in Q1 last year. PAT for the quarter included an additional one-time provision of INR23 crores from further strengthening of NPA provisioning norms in selected products.

We continue to further strengthen our leadership with elevation of Mr. Yogesh Jain as Deputy CEO and appointment of Chief Risk Officer Designate and Head of Technology. These additions add to our domain expertise and reinforce our focus on enhancing risk management, strengthening technology capabilities, and building a high-quality, future-ready institution.

I will now talk about our tech initiatives. We have aligned our technology agenda around three priorities: run, build, and transform, with focus on protecting and scaling the core franchise, accelerating digital adoption, and building a future-ready institution powered by data and AI. During the quarter, we made meaningful progress in embedding AI and automation into core business processes.

We successfully rolled out our AI-enabled gold loan origination platform in a controlled environment. A mobile-native version is now live and we will start extending this to branches in a calibrated manner. On the same Agentic AI platform, build-out of loan origination journey for mortgages will also be undertaken.

AI-led transformation initiatives are underway across vehicle finance, personal loans, credit cards on the existing platforms, whereas commercial banking journey is being built on a new platform with a focus to improve turnaround times, customer experience, and productivity. We also launched a unified lead management platform for facilitating lead aggregation, filtering, and dissemination of leads. This platform is integrated seamlessly with AU's native lead management system and is expected to facilitate greater customer acquisition, increase cross-sell and up-sell by improving lead conversion and channel efficiency.

Our digital platforms continue to scale well, with more than 90% of the bank's transactions and service requests now being processed through AU 0101. We also rolled out an enhanced UPI payment interface on this platform during the quarter.

On the customer service side, we are leveraging AI voice bots to deliver faster and more consistent experience across 11 languages while enhancing workforce productivity. We continue to deepen use of data analytics to drive growth and efficiency. Key initiatives include deployment of analytics-led scorecards across secured and unsecured portfolios, scaling of propensity-based models that has increased pre-approved PL offers by more than 3x, and leveraging AI-driven risk assessment tools that now automatically resolve 70% of AML alerts.

We are also live with our Customer 360 initiative, building a single enterprise view of customers to enable more personalized engagement and better business outcomes. Overall, our technology investments remain focused on delivering measurable business outcomes today while creating a scalable foundation for sustainable growth and long-term differentiation.

Now let me give some color on each of our businesses. First on deposits. Our deposit base now stands at INR1.58 lakh crores, growing 24% year-on-year and 3.3% sequentially. CASA deposits grew 22% year-on-year and 4.7% quarter-on-quarter. CASA ratio improved marginally on quarter-on-quarter basis to 29%.

As mentioned last quarter, we have organized our liability franchise into four verticals: branch banking, which accounts for 60% of deposits; government and interbank deposits team, which account for 21%; commercial banking and wholesale deposits, which contribute 7%; and financial institutions group, which accounts for 8% of total deposits. Branch banking focus is on garnering granular retail deposits, while the other three verticals are driving solution-led deposit growth leveraging our capabilities in CMS, transaction banking, and FX.

During the quarter, we added 16 new deposit branches and remain on track to add another 100+ branches this year. New CASA account acquisition was strong with 80% year-on-year growth in premium accounts. We further expanded our remittance offerings keeping in mind the convenience of our customers with international banking needs. Retail customers can now send and receive money internationally at transparent exchange rates with zero forex margin and zero bank charges, a first-of-its-kind offering amongst private sector banks in India.

Within bulk deposits, our focus remains on non-callable deposits to enhance stability of our deposit book. Total stable deposits, which include CASA, retail TDs, and non-callable bulk TDs, remain strong at 79% of total deposits. Overall, we remain highly focused on further strengthening our liability franchise with ongoing investments in products, distribution, and branding.

Now moving on to our assets franchise. Q1 saw continued strong growth in our asset franchise in a seasonally softer quarter. We are seeing a steady increase in business contribution from the newer geographies where we have made significant investments in building capabilities over the last one to two years. Retail secured assets, which includes wheels, mortgages, and gold loan, forms 67% of our portfolio and grew 23% year-on-year and 4% quarter-on-quarter.

Within retail, our wheels book grew by 28% year-on-year and 5% quarter-on-quarter to reach INR48,600 crores, driven by strong demand in the new vehicle segment and increasing traction across newer geographies. Gold loan business grew by 130% year-on-year and 15% quarter-on-quarter to reach INR4,500 crores.

We initiated gold loan product across 400-plus existing branches during the quarter, taking total gold loan distributions to over 1,300 branches. Our mortgage business, comprising micro business loans and affordable housing, grew by 12% year-on-year and 2% quarter-on-quarter. Disbursement in mortgages picked up with 28% growth year-on-year in this quarter.

Moving on to commercial banking. Commercial banking business grew 34% year-on-year and 6% quarter-on-quarter to reach INR32,800 crores with broad-based growth across sub-verticals. Our focus continues to be on making commercial banking business progressively more self-funded through current accounts and increased penetration of transaction banking, CMS, trade, and other relationship-led offerings. Transaction banking and forex business has started to gain momentum with income growing 46% Y-o-Y and 8% quarter-on-quarter.

Now moving on to unsecured businesses. Our inclusive banking franchise, which primarily includes MFI, grew by 15% year-on-year and 5% quarter-on-quarter. Collection efficiency continued to hold up well at 99.5%, and 96% of the book is now covered under the CGFMU guarantee scheme, which provides an additional layer of comfort.

Our digital unsecured portfolio grew by 3% year-on-year and 7% quarter-on-quarter. This was led by personal loan business, which grew 24% year-on-year and 19% quarter-on-quarter from a low base, driven by increased focus on cross-sell. The credit card business also saw marginal growth with new card issuances crossing 1 lakh mark in Q1.

Now moving on to P&L. As mentioned earlier, our profit after tax for Q1 grew by 37% year-on-year to INR796 crores. Net interest income increased by 32% year-on-year on the back of strong growth in loan portfolio and 47 bps Y-o-Y improvement in margins. Sequentially, margins declined by 7 basis points to 5.9% due to reversal of certain seasonal benefits which aided margins in last quarter.

Cost of funds remained broadly stable at 6.48%. Increased cost on savings accounts and wholesale funding was offset by residual repricing of retail term deposits. Core other income grew 33% year-on-year driven by strong business volumes and higher credit card issuance. Forex and trade-related income continued to scale up from a low base. Operating expenses for Q1 increased by 26% year-on-year driven by strong disbursement growth and investments made in distribution, manpower, and technology over last 12 months.

On a quarter-on-quarter basis, operating expenses declined by 1%. Our focus continues to be on driving tech-led operating efficiencies and overall overhead control. Provisions decreased by 30% year-on-year on account of normalization in unsecured businesses.

On a quarter-on-quarter basis, provisions increased by 38% due to seasonal trends. Provisions for the quarter include an additional one-time impact of INR23 crores from further tightening of provisioning norms in selected products.

To conclude, despite a volatile external environment, momentum across our deposit and loan businesses remains strong, underpinned by the strength of our diversified franchise, distribution, and underwriting discipline.

As we progress on our growth journey, our priorities remain clear: accelerating deposit franchise expansion, strengthening core lending businesses, improving operating efficiency by leveraging technology and AI, and maintaining disciplined risk management.

While we remain watchful of the macro environment, the investments we have made over the last few years in our people, processes, products, technology, and distribution provide a strong foundation to sustainably compound at 2x to 2.5x of India's nominal GDP growth rate, delivering consistent, predictable, and long-term value to our shareholders. I thank our teams for their dedication and all our stakeholders for their continued trust.

With that, I'll now hand over to Prince for Q&A.

Prince Tiwari: Thank you, Gaurav. Operator, we can open for Q&A.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Jayant Kharote with Axis Capital. Please go ahead.

Jayant Kharote: Thank you for the opportunity and congrats on a great set of numbers. So the first question is on the slippages. If you could give some color on this quarter's slippages, and I see a slight inch up in commercial banking NPAs quarter-on-quarter. So if you can call out what is the nature of the product over here? That is the first question. I'll follow up with the second one?

Vivek Tripathi: Hi Jayant, this is Vivek. See, Q4 is always a very, very seasonally strong quarter for us. So I think the right comparison would not be quarter-on-quarter, the right comparison would be year-on-year, the Q1 last year versus Q1 this year. In all asset classes, be it secured retail asset, be it our credit card, PL, be it microfinance, obviously we had a great recovery in both the unsecured products, but even on the, if you compare year-on-year basis, commercial banking slippages are lesser. So at a bank level, there is a almost improvement of 150 bps.

Jayant Kharote: Understood, sir. But if you could tell what was the product that seasonally quarter-on-quarter moved in commercial banking?

Vivek Tripathi: It's typically SME book, right, which is a business banking book, which will have a bit of uptick in the Q1 and then it slows down, right?

Jayant Kharote: Understood. Thank you, sir. Sir, the second question is on the ECL framework. I believe our timeline on the application of universal license is around February-March, which means we will enter the next year on the new ECL framework or we'll have to transition there. We are seeing an increase of around 12 to 20 basis points on steady-state credit cost for other banks. Given we've had some books or some products having some cycles in recent years, can we see a higher impact on our steady-state credit cost under the new framework?

Vivek Tripathi: Jayant, for us, it will be difficult to quantify at this moment. We are refining our LGD and PD models. We are working with external agencies and given that the kind of provision we carry in stage 3 assets, right, it gives us enough comfort. However, the final outcome will depend on the what kind of, policies we adopt for accelerated provisioning or for write-off policies because the moment we implement ECL, all those parameters change. So it will be a Board-approved policy. But given as we speak, at this moment, there is a greater comfort from Stage 3 which should cover up Stage 1, Stage 2 incremental provisioning, right?

Jayant Kharote: But that will be 1 time, no?

Prince Tiwari: Even on an ongoing basis, Jayant, Prince here, our provisioning policy right now is pretty, much tighter than what the regulatory requirement is, and to that extent, we feel comfortable given the current policy, right? In case there is a change in the policy, then obviously we'll come back and update you.

Vivek Tripathi: Jayant, our retail secured asset and even on the commercial side, it's largely secured. Our LGDs are pretty low compared to what, the industry would look like. So we are very, very comfortable that way.

Jayant Kharote: Definitely, sir. Secured book will definitely be helpful over here. Sir, in this INR23 crores, is it regarding any product tightening or general buffering up of provisioning?

Vivek Tripathi: It was just a more of a alignment of all unsecured products, be it credit card, MFI, and PL on the same lines. There was a differentiation, so we just aligned them all. That's it in terms of the provisioning policy.

Jayant Kharote: Great. Thank you and congrats on a great quarter, especially on the margins. Thank you.

Prince Tiwari: Thank you, Jayant.

Moderator: Thank you. Next question comes from the line of Renish with ICICI. Please go ahead.

Renish: Yes, hi sir. Congrats on a good set of numbers. Sir, just two things. So one, on this, I'm referring to Slide number 30. So, in digital unsecured book, it appears that our risk-adjusted yields are actually lower than retail secured assets. So just wanted to understand, how is the pricing policy works, for specifically this product?

And if you also can share profitability in this product would be great. I mean, of course, I know you don't share product-wise profitability, but maybe directionally if you can just give us some trends in this specific book would be helpful, sir?

Prince Tiwari: Hey, hi Renish, Prince here. So, both these businesses, as you know, credit cards as well as PL, is relatively newer businesses for us and still just coming up the curve, right? So I don't think it's the right metrics right now to look at what's the risk-adjusted yield there because credit card went through a cycle, we know that, and we have kind of, we've just started to regrow the PL business as well as the credit card business.

So I believe that right now it's probably not a true reflection, if I would say that. So, let these businesses get built out because they are currently loss-making, right? So credit card is, PL is obviously breakeven. But give us some time for these businesses to evolve before we can actually talk about either the product-level ROA or the profitability in terms of risk-adjusted yields.

Renish: Okay, okay. Got it. Sir and just -- Yes.

Prince Tiwari: These are strong cross-sell businesses, right, for our entire liability franchise...

Renish: Correct.

Gaurav Jain: Yes. So just to add, right, as Prince said, PL is obviously profitable with good yields. And specifically on the credit card, because of the tightening of underwriting norms that we've taken sort of say 18 months back, the percentage of revolve book has come down, right? So that's why the yield on credit card book is a bit subdued and that's why you see the weighted average yields at those levels, right?...

Renish: Yes, because I was just looking at the broader yields, right? So in retail secured assets, we are having 14%. In digital unsecured also we are having 14%, but the gross NPA in this book, obviously unsecured in nature, having higher gross NPA and hence I'm assuming there will be higher LGDs as well. So I was just thinking on risk-adjusted basis, the yields are definitely lower than the secured book. So I was just wondering on that part. But maybe I will...

Gaurav Jain: Yes, Renish, these businesses, you know, credit card as you know is a work in progress for us. We have taken a lot of actions over the last 12-18 months, right? So give us some time and you will see the underlying profit pools emerging in our unsecured businesses over time.

Renish: Got it, got it. And my next question is on the margin trajectory. So obviously this quarter it has been moderated a bit in line with what we have guided in Q4 as well. But how should one think about next two to three quarters' trajectory on the NIM side?

Gaurav Jain: So Renish, as we've mentioned in the previous quarters as well, it's always difficult to predict margins because of multiple moving parts. So I don't want to give you any sort of directional guidance on that. But what we know is cost of funds has effectively bottomed out as we mentioned last quarter as well, and we've taken some increase in both savings account and deposits rates, right?

So you will see, you know, that line, you know, being stable to maybe increasing a little bit depending on how the rate environment evolves from here. And on the asset side, our yield will continue to reflect the mix of assets as we go forward.

Renish: Got it, got it. Okay, okay, okay. That's it from my side. Thank you, team.

Prince Tiwari: Thanks, Renish. Thank you.

Moderator: Thank you. Next question comes from the line of Nitin Aggarwal with Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Aggarwal: Thanks for the opportunity and congrats on good set of numbers. I have two questions. One is on the asset quality, like touching upon the unsecured business growth wherein we have started to see some recovery now, MFI growth of almost 5% Q-on-Q. How are we looking at this to sustain over the year? It's a strong start, it looks like. And also if you can comment around the vehicle business also, mainly around the CVs as to how is the credit environment shaping up on that side?

Vivek Tripathi: Yes, hi Nitin, this is Vivek here. So, I think microfinance business had a lot of subdued quarter-on-quarter industry-wide deceleration, I would say, and the overall degrowth in the book. But I think post MFIN guardrails, industry has actually reached a stage where a lot of discipline has come in the field and that's the reason you would see more and more players falling in line and the overall industry, there is a positive traction. In fact, the MFIN is also projecting about 17%-18% kind of a growth.

So we are just following that and that's visible also on the field. And as far as on the asset quality is concerned, numbers are holding up. In fact, the Q1 collection efficiency, typically which has a seasonal dip, could sustain to the tune of 99.5%. So that, the difference is about 20 basis points from Q4, but if you look at last year Q1, it was very, very different, right?

And on top of it, 96% book is secured, so it gives us a lot of comfort that even if there is some event and there is some slippages happens, you have CGFMU coverage in this book. On the vehicle side, we have now strong distribution in South, we have strong distribution in UP and the newer states in East. So that is now giving us the additional volume and we are very, very confident that the kind of customer segment we operate, we understand, there is a good trajectory.

And for us, more on the asset quality side, more or less it remained what it is typically in Q1. There is no abnormality. There is no indication to suggest that in any of the part of the book, there is a heightened stress or any slippages which is abnormal to our normal sequential, I would say, quarter which typically happens over the period, right? So nothing unusual in the book. It gives us a lot of confidence to accelerate the growth on wheels side.

Nitin Aggarwal: Got it. And so on the CGFMU part, when you said 96% is under that. So do we plan to lodge any claim or is something under process for all the losses that we have taken last year?

Vivek Tripathi: So it's an annual process. Nitin, it's a pool-based coverage. So 2025 book was covered in 2026 and will also be covered in this year. The 2026 coverage whatever we have taken for last year, we can claim. So it's a 6-month seasoning post, NPA post that you can lodge a claim. So there's a cycle, right? So typically by end of Q2, whatever crystallized NPAs you have for FY26 pool, you will lodge the claims. That would typically be realized by mid of December, by end of December, right?

Nitin Aggarwal: Right. Any color on how much this number can be?

Prince Tiwari: It will be part of the overall NPA only, Nitin.

Gaurav Jain: So just, Nitin, just to share some broad contours. So, as Vivek said, 96-odd percentage is covered, right? And then, similar percentage of SMA is covered, but some of our NPAs are coming from more vintage pool, pre-sort of CGFMU coverage, right? So coverage of CGFMU on the GNPA portfolio would be slightly lower.

Nitin Aggarwal: Okay. Okay, got it. And one small question around the CD ratio. Now I see that we have been giving two CD ratios for a long time ever since this metric came in focus. So which CD ratio, I mean, will you look at to optimize the balance sheet? Because if I just for refinance as reported, then there is a lot of liquidity that is still there. But the reported number may look high. So which internally you look at to see to it that the balance sheet is fairly optimized?

Sanjay Agarwal: Yes, hi Nitin. But I think we are very comfortable with our number, right? Because CD ratio ex-refinance is ~80%. So we don't look this number to optimize anything, right. It is just the number for our sustenance, right? How much we should raise deposits and how much we can do the loan. So we are very comfortable in this kind of number from last maybe now 3 to 4 years actually. So not much to read around it in my opinion.

Nitin Aggarwal: Okay, sure sir. Thanks Sanjay ji and wish you all the best.

Sanjay Agarwal: Yes, thanks.

Prince Tiwari: Thanks Nitin.

Moderator: Next question comes from the line of Akshay Jain with Autonomous. Please go ahead.

Akshay Jain: Hi sir, thank you for the opportunity. Sir, my first question is on the 1.8% ROA target. So, if I understand your comments from the call, you are practically guiding for stable-ish NIMs. So is it fair to think that, you know, incremental ROA improvement will come only from say opex and your credit costs also seem to have bottomed out? So is it right to say that?

Gaurav Jain: So on this, right, so we haven't, you know, on the NIMs, so we haven't guided for stable, there's no guidance on NIM, right? So what we are saying is we see scope for improvement both on the opex and credit cost lines vis-à-vis full FY26, right? And those two line items will take us to our guided range.

Sanjay Agarwal: And I think this quarter, I think the other income also has not been up to the mark, right? So I believe other income will should also come in next 6 to 9 months period, right? So largely, we are 1.7 honestly. We are not at a lower number, right? And we are just looking a 10 bps from here. So maybe everything can contribute, maybe a 2 bps from credit cost, 2 bps from other income or whatever, right? So it's not that big difference from our stated target and the performance, right?

Akshay Jain: Okay. Thank you.

Sanjay Agarwal: That's why we don't want to comment much around our ROA tree, because it's not far away from our desired number, right?

Akshay Jain: Understood. Number 2, coming to the the ECL question, like we have -- most of the banks providing some estimate of, you know, the one-time transition impact as well as the steady state impact on -- the credit cost impact. So it will be nice if you can give something around so that we can build something in our numbers?

Vivek Tripathi: So Akshay, Vivek here. I won't be able to comment, I'm sure that banks will be providing, but for us, working it is at a little preliminary stage, one. Second, as we speak, what I can tell you confidently that historical trend of our LGDs and PDs, especially LGDs on our asset classes are very, very low. So that gives us enough comfort to say that the impact would be neutral, right?

We don't expect much to in terms of any additional hit on the balance sheet. However, I think, closer to maybe end of Q3 or something, we would be in a better position to tell you, because by the time we will have a more working models, because we've hired a dedicated team, there is a dedicated external agency, which is helping us to build the ECL models. So I think it's too premature to comment on it. But we'll definitely give you some colors by end of Q3.

Akshay Jain: Understood, sir. Thank you. And one more thing, I was reading one of your comments that you mentioned that disbursements have partially benefited from newer geographies? If you can share some lights on how newer geographies are contributing to incremental business? How should we expect growth from newer geographies?

Sanjay Agarwal: So I think on a design, I think it's difficult to give you the exact data. But on a design principles, we are more of a north and west franchise till maybe a year back or two years back. But because of Fincare acquisition, and then expanding to more East also, and going deeper into states like UP, Bihar, so we are largely now a pan India franchise.

So we are focusing that our next 10 year growth should come from all part of the country, right? And we are building up the South zone, West zone, North zone, East zone, Central zone. So the idea is to build more distribution across country and for every product, you know, the retail asset we have wheels, we have mortgages, we have gold loan, MFI.

In commercial banking space also we are running four-five kind of book. Then we have personal loan, consumer finance, credit card. So, I think there is, I would say, a huge opportunity for us, in next 10 years that once we become a full-fledged India franchise, you know, then I think that the growth which we are predicting that AU should grow at least 2 times or 2.5 times our nominal GDP for next 10 years is quite achievable.

And every state, you know, here and there is now contributing because if I want to have some data, right, vehicle will show up in Southern market now because we are there for the last three years, or maybe from UP also. And microfinance you know that's a widely held book across country. So, some of the part are coming back. So, I think it's a mix product, mix states, but we are seeing lot of traction from our newer geographies.

Akshay Jain: Thank you, sir. And just maybe if I may, a last question on NSFR. While I don't see the latest quarter NSFR, but if I look at the history of NSFR, say pre-2024, it used to be in the range of 115 to 120 plus. However, for the past few quarters, I can see that, you know, it has dropped to 108, 109 levels. So, what's driving this?

Sanjay Agarwal: That's the range we operate.

Prince Tiwari: That's the range we operate, Akshay. LCR range is around 115 to 120 and our NSFR typically is about 105 to 115. That's where we range.

Akshay Jain: Okay, then. Understood. Okay, sir. Thank you for all the answers. Thank you.

Prince Tiwari: Thank you. Thanks.

Moderator: Thank you. Next question comes from the line of Ashlesh Sonje with Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi team, good evening. First question is on the renewable energy book that has grown quite well at some 120% plus year-on-year. Just want to know who are you lending to? Is it the project developers or the component manufacturers in this supply chain?

Vivek Tripathi: Yes, hi Ashlesh, Vivek here. So, the renewable energy book is largely concentrated around developers and it is specifically KUSUM C component, KUSUM A component, these are the two areas and typical project size is between 2 megawatt to 5 megawatt and that's the kind of project these guys putting up, right? So, we started three years back, started focusing on Rajasthan and then, you know, at a later stage it grew from Rajasthan to Gujarat and Maharashtra, bit of MP and couple of other states.

So, it's a government-supported initiative where there is a incentive to developer as well as to the discoms. And we found out that the PPAs in this segment are much attractive as well as there is a capital subsidy to the developers which makes the viability of projects more. So, it's focused on that.

Ashlesh Sonje: Understood, sir. Thank you for the color. Just a follow-up on the earlier discussion on PL also. The growth in that business has also recovered quite well. If you can shed some light on what is the customer profile here in terms of NTC or salaried? What is the ticket size? And on the sourcing side, how much would be from let's say cross-sell to existing liability customers, asset customers, or open market?

Vivek Tripathi: Ashlesh, Vivek here again. This is, this book is 100% as of now is towards our existing bank customer. And majority of them would be liability customer, some of them would be asset customers. But it is basis the existing relationship and we run scorecard, we run the transaction scorecard and basis that, you know, we derive the pre-eligible pool and we run the PL offer basis our analytics on it. So incrementally yes, we do want to source new-to-bank customers, but that share is very, very small and will grow gradually. But so far if you look at existing book, 99% would be my ETB customers.

Ashlesh Sonje: Understood, sir. And third one is on the appointment of Yogesh sir as Deputy CEO. Now that this is done, how do you expect to share responsibilities at the very senior leadership level going forward?

Sanjay Agarwal: So, the whole idea is also to build a very sustainable bank, right? And it's very much required to create a leadership at top. And I'm leading this bank from last now 10 years, you know, and I know that I'll not have a infinite years. So, I think that process is already started and the idea at a board level is not to rush at the last moment, you know, let's create a leadership at different zone, you know, like Vivek is on the call and of course Yogesh is also on the call, Uttam is on the call.

So, and all three gentlemen are having ED and of course Deputy CEO's positions and we'll keep building up, you know, a leadership position because bank is very wide, you know, bank functions are very wide, are very complex, and there has to be a leaders who can handle those challenges and can drive bank through the whole cycles, right? So, I'm very happy that AU's blessed that they have so many committed and ownership attitude people and they are long in the bank, long in the institution, right?

And Yogesh is 16, 17 year old guy (vintage), you know, Vivek is with us from last 12, 13 years, Uttam is last 20 years, and many more, many more, you know, and you will see lot many names coming up in next five years so that, and that's the way, you know, I personally look towards AU in that sense that, you know, AU should be run by professional leadership in times to come and remain forever kind of banking mindset. So, I think as of now, Yogesh will be taking care of tech and lot many other functions which Board will assign him in times to come.

Ashlesh Sonje: Understood, sir. And if I can squeeze in one small one, if you can share the average cost of SA deposits and average cost of term deposits from the book. Thank you, those are all the questions.

AU Management: Okay. So, it is about 5.05 on the savings account side and TD is largely around 7 quarters -- 7.25 something like that. Yes.

Ashlesh Sonje: Okay, sir. Thank you.

Moderator: Thank you. Next question comes from the line of Anuj Singla with JP Morgan. Please go ahead.

Anuj Singla: Yes, good evening team. Thank you very much for the opportunity and congratulations for a strong set of numbers. So, three questions. The first is on the unsecured growth. So, after a, you know, a long time we are starting this revival there and I think on a sequential basis there has been a strong pickup. So, can you talk about if there are any targets we have set for ourselves given the momentum, where can this portfolio ramp up maybe over the next one to two years?

Gaurav Jain: So, look on the MFI side, you know, it's difficult to give you any guidance because as you know, right, industry has just started to revive after almost six to eight quarters of degrowth. So, we'll see how this sustains over a period of time. But we expect to continue growing this book because it's important from a PSL perspective.

Sanjay Agarwal: But overall, we have kept a cap, right, of our book?

Sanjay Agarwal: MFI. Yes. Overall, as a component, we have publicly announced that it could go up to as high as 10%. Because you know our requirement of SMAs is also now 10% and we don't have any other Agri book as such. And so, we want to do our small marginal farmer obligation through this book. But now the book shape is completely changed because of this guarantee coming in well-diversified.

Team is very capable honestly because I think the Fincare gave us this ability ready hand that this team was available, very experienced team. So, we are very comfortable as of now. But we are not seeing this book as our which will increase our ROA and whatever. This is more about doing your obligation done and having that inclusion piece in place, and also have your own decent ROA on this book.

Anuj Singla: Okay, got it. The second one is on FCNR side. So, we understand that US leverage is becoming a constraint for many of the players. Can you talk about, what target you're looking for in the FCNR side, and what kind of costing does it compare with what you're borrowing in the Indian market on the wholesale side? How does it impact the cost of funding, if at all?

Sanjay Agarwal: So overall, I think, your spot on that we are not able to get the leverage from our customers, and so we have actually have increased our FCNR rates to now 7.5 if I'm not wrong, 7.4, and we believe that because of our brand, because of our acceptance we will raise some sort of money. But we are not targeting now a specific one because if you don't have a leverage, it's difficult to convince the customer.

So, I think overall it's very good for the banking if Indian banks get $70-$80 billion in this bucket, then overall I believe the liquidity should improve and if liquidity improve, then the cost of money will go come down. So overall I believe we may not be directly benefited out of it, but we might have the overall benefit because of industry initiative. And second, I think we will be raising some money because of OFCB and all those other routes.

Anuj Singla: Okay, got it. And sir, one last data-keeping question. What will be technology expenditure as part of our total opex?

Sanjay Agarwal: It's close to INR1,000 crores. Around 12%-13%.

Anuj Singla: Okay, great. Thank you. Thanks again. Have a good one.

Prince Tiwari: Thanks.

Moderator: Thank you. The next question comes from the line of Pritesh Bumb with DAM Capital Advisors. Please go ahead.

Pritesh Bumb: Hi sir, good evening. Congrats on a great set of numbers. Just few questions. The employee base has declined after a long, long time. Is that an outcome of any efficiencies like AI, capacity building or is it like after Fincare reorientation, we've paused hiring? So, any thoughts on that?

Sanjay Agarwal: Yes. You're absolutely right. You're saying about the employee count?

Pritesh Bumb: Yes.

Sanjay Agarwal: So, I think the May month was the first month when we actually decreased our manpower from the April month. But that is one-off honestly because I would say the backend people, we are not growing at all because we believe operations, accounts, finance these things have been taken care of by AI more. But as we are expanding in newer markets, new geographies, new products, we might want to hire people for front-ending. But I think there is a clear-cut benefit because of AI in terms of count of people and of course to manage the risk also.

So, to build the scale and to manage the scale, you really see risk through that and AI is helping us lot there. So, it's a very - I would say an amazing development in banking - and I think the second benefit is that, you can allow people to work from now home or anywhere which was not so easily done in banking. So, I think that's a second advantage we are seeing it. So overall I'm very happy the way we are adopting AI, understanding AI, adopting AI, and using it.

Pritesh Bumb: Sure, sir. Second question was on the MFI side. I think few years back we had a thought process that the MFI business will now structurally be a 3% credit cost business. Any change to that thought as we are going into a now a virtuous cycle or are we still building the credit cost of 3% despite the guarantee support?

Sanjay Agarwal: I think 3% when we said you it was three years back when we acquired Fincare. But I think after this guarantee came in, the entire business model has gone through a change. So now we are building up cost around guarantee every month, every year.

So, I don't think now 3% is the right optics. The credit cost around the guarantee and of course whatever is left out. So it may be 2.5. But I think overall it's in the same range, but the contour has changed, the shape has changed, the form has changed.

Gaurav Jain: So instead of building up the buffers, we are securing protection on that book. That's the bit,

Sanjay Agarwal: But that's a similar thing. You pay credit cost now. Guarantee cost now.

Gaurav Jain: Yes

Pritesh Bumb: Yes. Sure. And last question was on the gold loan business. If you can just give out some main data points like LTV, IRR. We have seen that the market is not adding that much of tonnage or customers, but how has that business been for us in terms of any new incremental customers coming in and all.

Vivek Tripathi: So apart from microfinance business, when we acquired Fincare, the gold loan business also came as their expertise. So, Fincare had a lot of rural distribution because of microfinance branches, and it had capability to do gold loan business in the Southern geographies. And what we did was that we scaled up that across North-West region where AU had a strong distribution.

So, for us it's a scaling up from a low base, and that's the reason number looks very attractive in terms of when you look at percentage of growth. But the distribution already is in place, there is a whole ecosystem - there's a valuer, there is an operations team, there is an origination team. All that that is playing out. And it's a very, I would say very simple business that way, that you have to manage the fraud risk.

The rest of the risk the product itself manages. So, ours is not a high-ticket business volume. Majority of book is less than INR5 lakhs. And the average ticket size is somewhere around INR2.5 lakh of the whole book. More than 80% today is a rural book, the book portfolio IRR is about 15.5%. So, you can just assume it's more of a rural book with a lower ticket size. So, it's a very, very granular book.

Pritesh Bumb: Understood, sir. Thank you so much and all the best, sir.

Prince Tiwari: Thanks, Pritesh.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, we have reached the end of question-and-answer session. I now hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari: Thank you, Renju, and thank you, everyone, for joining the call and for asking your questions and for all your support. In case anyone has any further questions, you can kindly reach out to the IR team. This is Prince Tiwari on behalf of AU management signing off. Thank you so much.

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