August 06, 2024

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

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

Scrip Code: 543386

Symbol: FINOPB

Dear Sir/Madam,

Sub: Transcript of the earnings call with the investors and analysts held on Thursday, August 01, 2024 - Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: Earnings call with Investors and Analysts on Thursday, August 01, 2024

In continuation to our letter dated July 23, 2024 and August 01, 2024, please find enclosed herewith the transcript of the earnings call with the investors and analysts held on Thursday, August 01, 2024.

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

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

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Fino Payments Bank Limited

BASAVRAJ SHIVANAND LONI
Digitally signed by BASAVRAJ SHIVANAND LONI
Date: 2024.08.06 15:19:39 +05'30'

Basavraj Loni
Company Secretary & Compliance Officer

Place: Navi Mumbai

Encl: As above

"Fino Payments Bank Limited

Q1 FY '25 Earnings Conference Call"

August 01, 2024

MANAGEMENT:	**MR. RISHI GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FINO PAYMENTS BANK LIMITED** **MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER – FINO PAYMENTS BANK LIMITED** **MR. ANUP AGARWAL – FINANCIAL CONTROLLER – FINO PAYMENTS BANK LIMITED**
MODERATOR:	**MR. RAJAT GUPTA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Fino Payments Bank Q1 FY '25 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Rajat Gupta: Thank you, Lizann. Good afternoon, everyone, and welcome to Fino Payments Bank Earnings Call to discuss the Q1 FY '25 results. We have on the call with us today, Mr. Rishi Gupta, Managing Director and Chief Executive Officer; Mr. Ketan Merchant, Chief Financial Officer; and Mr. Anup Agarwal, Head, Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risk that the company faces.

I now request the MD and CEO, Mr. Rishi Gupta, to take us through the company's business outlook and financial highlights, subsequent to which, we'll open the floor for Q&A. Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. Good evening, ladies and gentlemen. Thank you for joining us today for the Fino Payments Bank Quarter 1 FY '25 Earnings Call. I'm pleased to share that this is our highest quarterly revenue for Fino since the inception of the bank. Our endeavor to deliver consistent growth through innovation and focus is yielding its results. We continue to remain profitable while effectively scaling the business with a greater focus on our digital initiatives.

Some of our key achievements in quarter 1 FY '25 are: Highest-ever quarterly revenue; best quarter 1 ever, both on revenue as well as PBT; highest renewal revenue -- renewal CASA revenue; highest CMS throughput of nearly INR 20,000 crores; digital now contributing to nearly 15% of the overall revenue.

While Ketan will discuss the financial results in detail, let me provide an overview of our business. Our business momentum is steadily increasing as we transition from a transaction approach to ownership, aligning with our TAM strategy. TAM for many of you who would know, but for people who have joined us recently, transaction, acquisition, monetization is the TAM strategy. Our aim is to boost digital penetration in rural India, where Fino is a name to reckon with, through advanced technology and a simplified digital service.

As the Indian economy continues to move towards digitization, I think all of you are experiencing it, we have also been continuously upgrading our infrastructure and our digital capabilities over the past couple of years. In addition to our B2C plans for digital growth, we have, as announced earlier, built in a profitable B2B model using our UPI and digital stack. This has resulted in significant incremental revenue in digital payment services vertical, which now contributes to nearly 15% of the revenue, and we believe will continue to grow in the near future as well. We now contribute to nearly 1.42% of the total UPI ecosystem in volume, up from 1.27% in quarter 4 of last year.

Our digital footprint is expanding, with digital throughput growing by 141% year-on-year to nearly INR44,200 crores in this quarter. To dwell a bit more into digital payment services, this is through partnerships wherein Fino platform facilitates financial transactions online for businesses. This model helps to leverage the platform, which we have created over the past 2 years on setting up a simplified digital stack with in-house UPI switch for our business partners. Our aim is to continue the momentum on this business for the coming quarter and more. So this is the B2B digital payment ecosystem, which I just mentioned.

Based on our initial momentum, we intend to continue to build on the UPI ecosystem, which will in future help partners and business to augment their business through seamless collections and payments. The way we had built a niche on our physical model in our formative years, our focus is now to build a customized digital stack for partners and customers. In addition to above, our intent is to leverage our merchant ecosystem and dovetail our digital stack through QR code, which enable us to get us set for monetization phase as part of our TAM strategy.

Our commitment to digital investments and technological innovations underscores our deep integration into the digital landscape. This dedication reflects our ability, our adaptability, customer-focused approach and strategic initiatives forming a robust foundation for future strategy for credit offering and monetization. You would remember, I mentioned in the past the DDD strategy, which we will follow in the SFB. In addition to the digital momentum, I want to state that our ownership business is also continuing its team, and our endeavor to add over to 250,000 new accounts, new CASA accounts, each month is on track.

In fact, in this quarter, we have added 8.1 lakh accounts. We have on an average 42 lakh digitally active customers as of the end of the quarter 1 '25. As we mentioned earlier, the digitally active customers offer us more renewals and more balances as well. So we are quite happy with the higher digital active numbers.

Continuing on CASA, we have reorganized our verticals internally to bring in higher emphasis on growth of accounts and liabilities. We have also beefed our products team to build more emphasis on liabilities. Our CMS business volume -- our CMS business value also saw a robust growth, up 26% on a Y-o-Y basis as we continue to diversify our clients across sectors like BFSI, e-commerce, retail and logistics.

We have nearly 250 clients now on the CMS platform, both are high-margin products. CASA and CMS contributed to our overall revenue. This is despite the surge in our digital business and a large base. Our transaction business, remittances, micro ATMs and AePS continue to remain hook product to maintain the customer acquisition momentum. We continue to build our merchant ecosystem to garner a higher market share in transaction business as we go in this year.

As mentioned in our earlier earnings update, we are revamping our entire core banking system, including peripheral applications, and it should be completed by end of this fiscal. The project is on schedule, and we expect to conclude it by end of this financial year. This ongoing investment aims to simplify the technology architecture, increase transaction speed, handle higher volumes and strengthen our cybersecurity infrastructure. The progress on the new technology platform is on schedule, and we expect benefit on customer servicing, new service lines and overall throughput and maybe some new product lines as well.

Based on the business momentum, it gives me immense pleasure to announce that we are increasing our guidance of revenue growth from 20% to 25% for this financial year, and I want to reassure our investors that we are dedicated to consistently grow each quarter from hereon. We will continue to invest in innovation and technology to provide user-friendly, safe and secure banking services for our target market. Our growth is expected to be driven by a strong focus on customer centricity and the effective execution of our TAM strategy.

Now I pass it over to Ketan Merchant, our CFO, to discuss into details of our financial results. Over to you, Ketan.

Ketan Merchant: Thank you, Rishi. Good evening, ladies and gentlemen, and thank you for joining us today once again on our earnings call. As emphasized by Rishi, our continuous robust performance this quarter exemplifies another stage of stability and profitability for Fino Payments Bank. Our strategy focusing on TAM, as Rishi explained, remains a crucial factor in our success, consistently yielding excellent results. This quarter also, there's a growth in transaction volume, which not only indicates growing customer engagement but also sets strong foundation for our future monetization strategy. This is the M part of our TAM strategy.

We are expanding our acquisition platform consistently, leveraging both digital and our extensive merchant network to onboard new customers. This strategic focus is driven by understanding that acquiring the customer opens numerous opportunities for cross-selling and upselling a diverse range of products and services, ultimately leading to enhanced profitability and sustainability.

Turning now to financial performance for Q1 FY '25. We are pleased to announce another quarter of strong results. Our total revenue for the quarter reached INR436.9 crores, marking a 25% Y-o-Y growth. Our margins have remained range bound around 31%. Our EBITDA for the quarter was INR53.2 crores, a 31.4% growth on a Y-o-Y basis, with EBITDA margin increasing to 12.2%, which was earlier 11.6% in quarter 1 FY '24.

As I have been saying, operating leverage is a key part of our strategy, and it is playing, leading to cost income ratio of 25.4%, which we again intend to maintain range bound around 25%. This is despite the continuous investment in people and technology, which we are intending to do.

In terms of operational performances, we recorded an impressive 70.5 crores transactions for the quarter, a substantial 74% increase compared to the same period last year. The throughput for the quarter reached INR1.46 lakh crores, showing an increase of 39% on a year-on-year basis, which digital transactions accounting for 42% of the total throughput for the quarter.

As Rishi earlier mentioned, we had around 42 lakhs average daily active customers in Q1 FY '25. This is laying a strong foundation for our annuity renewal income addition future monetization prospects. As we continue to enhance our digital offerings for customer experience, we anticipate even greater digital adoption.

Moving on to segmental business performance. As emphasized by Rishi, our digital payment service business experienced a significant growth during the quarter, and as he said, now representing 15% of our overall business revenue. Revenue from digital payments surged from INR 7.7 crores in quarter 1 FY '24 to INR 66.8 crores in quarter 1 FY '25, marking a nearly eightfold year-on-year increase.

Additionally, this was an 82% quarter-on-quarter growth as well. We are confident that this segment will continue to be a key contributor to our overall business momentum. For digital payments, we are currently having 19 partners and growing on a month-on-month basis. To provide statistics around digital growth, I'm happy to share that we contribute 1.42% of overall UPI ecosystem, as Rishi said. The corresponding figure last year was 1.01%. This shows the penetration which we are doing into digital, both on the B2B as well as the B2C side.

CASA. CASA is one of our high-margin products. During the quarter, revenues from CASA stood at INR 93.6 crores, a growth of 40% vis-à-vis INR 66.9 crores in quarter 1 FY '24. Now we come to the renewal income or the annuity income as we say. Renewal income for CASA grew by 54% year-on-year to INR 40.4 crores with CASA contributing 21% of bank's overall revenue. This figure for Q1 FY '24 was 19%. CASA accounts reached approximately 1.2 crores with a consistent opening rate in excess of 2.5 lakh new accounts per month.

I would like to draw attention of our statement, which we had made approximately 2 years back, where we had explained our strategy on CASA. This was part of TAM. Here, the emphasis was how to -- how annuity renewal income will have larger contribution to our CASA revenue. To elaborate this perspective with some statistics, in Q1 FY '23, our renewal income was INR 13.4 crores and contributed 33% of CASA income. Come Q1 FY '24, it was around INR 26.2 crores and contributed 38% of CASA income.

Now in Q1 '25, as Rishi earlier mentioned, our renewal income is INR 40.4 crores and stands at 43% of the CASA income. This growth in renewal income brings stability and predictability of the business model. The average deposits have increased by 37% to INR 1,699 crores, demonstrating robust growth in our customer balances. The increase reflects the strategic emphasis on deepening customer relationship and engage -- enhancing engagement through innovative digital services as well as the leveraging of the physical network.

Approximately 68% of our CASA accounts are active, reflecting strong customer engagement. This high level of activity indicates the effectiveness of our customer retention strategy and the value customer finds in our banking services. Additionally, the strategic focus on quality account acquisition and retention continues to drive the growth. Just to give a perspective, in which part of India the CASA is growing off, the highest number of new CASA customers were added in Uttar Pradesh followed by Madhya Pradesh, Bihar, Maharashtra and Gujarat.

Turning now to other high-margin segment, CMS. CMS now constitutes around 9% of our business. We continue to remain one of the market leaders. CMS business experienced a 10% year-on-year growth, reaching INR 39.4 crores during the quarter, while CMS throughput grew by 26% on a year-on-year basis, approximately INR 20,000 crores, as Rishi earlier said.

NBFC and MFI sectors continue to be the primary contributors throughout, making up a 62% of our total in Q1 '25. Regarding other business segments, our transaction business continues to remain a crucial platform for attracting and retaining customers, thus driving both footfall and banking activities. In the case of AEPS, after navigating through the various ecosystem challenges, which the system had encountered for last 12 months, the situation is now stabilizing. As a result, we are not expecting any degrowth from these levels in the upcoming quarters despite a digital economy growing at an accelerated pace.

I would also like to draw attention to Slide number 9 of our investor presentation. This slide essentially depicts the strength of our Q1 financial performance over Q4 for past 4 years. Q1 FY '25 has witnessed a revenue growth of 9% eventually. This is the highest in the past 4 years, and PBT also showing the best sequential movement till date since the inception of the bank.

During FY '24, our breakup of revenue for H1 and H2 was in the ratio of 48:52. And PBT was around 44:56. Q4 '24, our revenue grew by 15% over Q1 '24. The reason we're providing the statistics is as the guidance has been provided into the investor deck as well, we expect a similar trend to continue.

As we move forward, our focus will remain on leveraging our digital platform, expanding our product offering and ensuring regulatory compliance. We continuously strive to enhance our product portfolio by leveraging digital platforms to serve a diverse population. This approach allows us to effectively meet evolving needs of customers while ensuring accessibility and convenience. We believe that these efforts will continue to drive our growth and solidify our position as a leading player in the industry.

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

Moderator: Thank you. The first question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Sir, two questions. The first one is that there are two large conglomerates with payment banks, which are now increasing the banking correspondent network. Will that lead to some sort of business attrition for us? How do we look at the stickiness of our BC network? Second is, we had applied for an SFB license. Any update on that?

Moderator: Hello, sir. We are not able to hear you.

Rishi Gupta: I think he has dropped out.

Shubhranshu Mishra: No, no. I'm here, sir. I'm here.

Rishi Gupta: Can you be a little bit louder, please?

Shubhranshu Mishra: Right, sir. I'll just repeat my questions. So there are 2 large conglomerate promoted payment banks, which are increasing the BC network. Do we think that, that could be a threat to our own network? That's the first question. Second is just an update on our SFB license. Where are we in that process?

Rishi Gupta: Now, it is clear. So on the first question, in terms of -- on the BC network, do we feel there is any challenge from some of the other payment banks and specifically the two large conglomerate we're saying. I think out of the two, one has been in the market for more or less the same year. In fact, they started business 6 months before we started our bank. So we work together in the same geographies. We have areas also where we have common interest as well in terms of some products. So we don't see that there is going to be a big challenge on that side.

On the other conglomerate, I think we still have to see what their intentions are. My own intention -- my own understanding is that they want to focus more on the their own vendor and their own NBFC kind of network right now. So we'll have to see the other conglomerate whether -- how deep they want to go into BC. But my understanding is that, as of now, they just want to focus on their own existing ecosystem.

Second, on the SFB, from our last conversation till now we -- as internally, we continue to be quite upbeat, and we are working towards building the technology, liability as well as partnership lending portfolio. So that part, we are getting ready as such. From a regulatory point of view, from the last meeting until now, we have not heard of any new update as of now.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: Congratulations for a great set of results. Sir, one is that you talked about the revenue growth, where you're basically increasing revenue about 5% or so. Sir, can you help understand whether this revenue growth is primarily going to come from the new business segments? Or is it that the existing business segments also will contribute towards this increased guidance. If you can explain that, it will be helpful. I have a second question.

Ketan Merchant: Anand, if I understood your question right, your perspective was where is the future -- which part of the business is a future growth driver, correct?

Anand Dama: Yes. So basically, you talked about increasing the revenue growth guidance of 5%. Is this mainly contributed by the new business segments or there's going to be a contribution from the existing business segments as well?

Ketan Merchant: I think if you go to the Slide 17 of our investor deck as well, we've attempted to provide a perspective of how we are upping our guidance, as Rishi said, from 20% to 25%. In a nutshell, if we just see, in FY '24, the digital payment services was contributing 6% and we are expecting that to be closing at around 16%, 17%. In addition, CASA, and I explained the statistics of our renewal income that how it is adding and becoming an increasing part of our CASA and overall revenue. So digital, CASA and CMS are the three drivers, which we are anticipating to grow.

One more point to give a perspective is that last year, we have seen a challenge coming in AEPS ecosystem as well. And if we see the kind of numbers this time as well, this quarter has started reversing that trend. So we also expect a bit of a growth coming in AEPS. Having said that, our transaction business is expected to garner the footfall for us, so that we can increase our ownership business. I trust that answers your question.

Anand Dama: Okay. And secondly, if you look at our existing business, why I was asking this question again is that if you look at the remittance business and the micro ATM growth, there is some sort of slowdown that we see in these two businesses. Is it more structural in nature? Or how do you basically explain that?

Ketan Merchant: So I'll split this question into two parts. I'll take remittance a bit separately and micro ATM a bit separately. As and when the digital is -- economy is increasing, it does have a knock-on impact in terms of remittance. It's about the pace at which it stabilizes and how does it go.

As regards to micro ATM kind of a scenario, micro ATM over last couple of maybe 7, 8 quarters or 4, 6 quarters, it's lost its sheen as much. So we're not expecting anything significant in terms of micro ATM. However, it is still important for us to have a footfall kind of a scenario.

Anand Dama: And so basically connected to the first question was that you increased your revenue growth guidance. So whether that will flow into a better ROE as well? Or like because the new businesses are going to be relatively better EBITDA businesses?

Ketan Merchant: That's a fair question. How whether -- how will the margins play out in terms of this? ROE is a function of two things. One is the product mix essentially changing. In certain cases, in the past, we've also said that we are increasing our own business more as compared to API. So that is one aspect. The other one is whilst digital is essentially growing as well, it will -- it is coming at a margin of around 22%, 23%, which we've said that of.

On an overall basis, with margins largely remaining range bound, as I said in my opening statements as well, there is expected to be an absolute growth coming around in terms of the bottom line as well. However, let's not forget one point, which I had earlier mentioned in my flow as well that we continue to invest into the technology and digital as well as our people stack as well. So all of this taken together, yes, we are looking at a sort of an enhanced kind of profitability on an absolute basis.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Two data keeping questions. First, what is the new subscription revenue in the CASA segment? It was INR 20 crores last quarter, first is that. Second, you used to give this share of revenue split into own and API channel. So what -- for example, last quarter, the own channel was roughly 64% or so -- sorry, 69%. So what would that be INR 436 crores, INR437 crores of revenue into own channel, if you could give that breakup.

And my main question over here is on the digital channel. So if I see the digital throughput or the UPI throughput that you give, that is up 2 percentage points quarter-on-quarter, right? But the digital revenue sequentially have shot up quite more. So just wanted to understand what all goes into the digital revenues. Am I reading it wrong that if I only look at digital throughput, I will not be able to derive the digital revenues? And also aren't -- just a clarification, won't all your digital products be sold via your own channel or some of it is also via the API or the open banking channel? That's my question.

Ketan Merchant: Thank you. Thank you, Shreya. I'll attempt to go sequentially. I've been making notes of your questions. First one, what is the subscription revenue of CASA? Last year that last quarter -- sorry, for this quarter, that number is INR 24.3 crores. Your second question essentially was the own and API mix. I think quarter 4 '24, that number was 65-35 quarter 1 -- I mean, 65-35 skewed towards own to API, quarter 1 '25, that number is 72 and 28.

Coming to the digital payment services revenue, the way I understood your question was that what all constitutes the digital revenue? Let me -- before I go into the statistics and some numbers, I'm giving a breakup of INR 66.8 crores of digital revenue, I'll just say digital has two components. One is the B2B, the digital payment services, which I think Rishi explained in his flow through. And the other one is the digital D2C, the customers essentially, which we are opening up.

Just to give a perspective of how the revenue essentially comes up. Of the INR 66.8 crores revenue, around, I think, INR 64 crores is from the B2B kind of breakup wherein I mentioned we have 19 partners, and we provide them online UPI platform or facilitating their business, both on the collections as well as the payment.

In addition to that, there are some MEITY incentives also, which essentially come out and then there is interchange fees as well. So all of this taken together, it is just about fair to say that in the formative stages of our digital growth, the B2B and the payment product, which I just explained, is the driver of the digital payment services. And the point to reckon out here, which I earlier also said was that these B2B partnerships, we are also increasing on a month-on-month basis further.

Shreya Shivani: Got it. So my understanding, when I look at the UPI through -- hello?

Ketan Merchant: Yes, yes, I am listening.

Shreya Shivani: Yes. When I look at the UPI throughput, that only -- that includes the B2B and the D2C retail bit, I mean it will include all of those, right?

Ketan Merchant: Yes, it will.

Shreya Shivani: It will, right? So that has increased 2% quarter-on-quarter, but because you also provide all these platform and you had mentioned about customized digital stack for your customers, so the revenue may not directly be proportionate with how the throughputs are increasing. Is that understanding correct?

Ketan Merchant: In certain cases, yes. However, I am attempting to see my breakup of total throughput of our UPI, which for the previous quarter was 32,529, that has gone to 36,358. So that's definitely more than 2% sequentially.

Shreya Shivani: This number 440 -- sorry.

Ketan Merchant: There are some business changes, which we've essentially done as well. I think your thesis, the way you came across, if I have to answer in one line, will a throughput be a function of our digital momentum? The answer is no. We also need to be cognizant that it's a B2B kind of a business from a partner to partner. We have different take rates also which are coming. So that will also facilitate the growth coming in our digital.

Shreya Shivani: Got it. Okay. So the digital throughput that I was looking at was the 44,197 numbers. Okay. Sorry. But yes, largely, I understand because of the B2B nature, it may not be directly proportionate just with the throughput increases. That should be the summary of the digital business, right?

Ketan Merchant: That's a fair understanding.

Moderator: The next question is from the line of Sachit Motwani from Motilal Oswal AMC.

Sachit Motwani: Congrats on good set of numbers. This is as a follow-up question to what Shreya was asking. So in your digital payments service revenues, if I look at your -- and also take rates have been going up. And if I look at for this quarter, it says roughly 15 basis points. And if I assume, you've disclosed 22% margin on this. So that gives me about 3 basis points. One of the listed payment company gives out that they are making 3 basis points on UPI. So I just want to understand why -- is the partner passing on everything to you?

Ketan Merchant: Sachit, I may not want to answer about how much of partner would be passing it across. But I think this is a fairly standard way the way industry is also functioning. It is also that, as I earlier said, there are 19 partners around and for each of the partners, currently, there's an element of a differentiated take rate and the margin depending upon the kind of services, which is happening.

So the way you are reading it is right and also for us, it is the third, which has essentially come in the last four months' time as well and the business will still further evolve, hopefully for the good. So we will have to give some stability in terms of finalizing what will be the take rate and the interchange between us and the various partners.

Sachit Motwani: Understood. And just last thing, this 2 to 3 basis point is a fair assumption to project?

Ketan Merchant: Yes, please.

Moderator: The next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Congrats on a good set of numbers. Just 2, 3 things from my side. One on this tax thing, so have you fully utilized the DTA part? Or there is still some portion to that?

Ketan Merchant: Renish, Ketan here. Renish, we do have some tax losses. I had earlier mentioned in my calls last year as well, coming this time, and perhaps from the second quarter as well, there will be the tax rate, which will get initiated depending upon the profitability which goes up.

Renish Bhuva: Okay. And the new tax rate will be what? I mean, the 25% mark or there will be some benefits still to flow into that?

Ketan Merchant: No, I think it will be around that, as you said.

Renish Bhuva: Okay. And sir, secondly, on the margin front, if we look at the revenue growth on sequential basis or even on Y-o-Y basis has been strong. But when we look at the PAT growth on sequential basis is sort of down. So what is the reason for this margin contraction quarter-on-quarter? This is -- the same thing had happened in Q4 as well? I'm just wondering from a high of almost 33% in Q2, Q3, the margin -- I mean, the gross profit margin has fell to some 30% now.

Ketan Merchant: So Renish, I think margin is also the function of the product mix, how the product mix is essentially evolving off. If your question essentially -- and statistically, what you're essentially saying is right that if I just see -- I mean, sequential quarter, it is from 31.9% to 31%. However, the way we are also seeing the kind of the growth which is coming is we're balancing the margin versus the total profitability as well. So nothing further changes in what I have said earlier. We will not have too much of fluctuation. There will be in certain cases based on the product mix, which is changing, some margins, which may go up and down.

However, if you go back to the earlier slide, which I was referring to, where I have given the pie chart of how 25% growth will also come through for the remaining 3 quarters, wherever we are seeing the growth like CASA and CMS, which are the highest margin, that will compensate a relatively lower margin product.

So margin guidance, if you're looking at it is, we'll try and keep it rained out, which is what we've said earlier as well. If I'm not remember -- if I remember correctly, I think two calls back, I had mentioned that we will try and be anywhere in the range of around 30-odd -- 30% to 32%, depending upon the product mix drive, which we are looking at.

Renish Bhuva: Got it. And sir, just last question was this take rate in CMS business. Again, that has been tapering off. It seems though we don't disclose the take rates, but when we look at on the profit margin, it used to be some 45%, 46% margin business for us, which is now 37%. Naturally, it seems to suggest that take rates are being tapered off. So how do you see this business going ahead in terms of the margins?

Ketan Merchant: Renish, that's a fair observation and a good question. I think CMS earlier also I had just mentioned across, it is kind of the client mix also, which we are looking at. It's a B2B business where we have more than 250 partners. Each industry, the rate -- the take rate changes. I think somewhere in my earlier note I had also mentioned about that around 62-odd percent of our CMS is being contributed by MFI and so on and so forth. So while take rate is a point to reckon, we are looking at an absolute kind of a growth, which we can get around if we are changing or if we are enhancing the industry as we've done for the last 2 quarters.

Renish Bhuva: Okay. So then the 25% revenue growth, ideally, the increase in revenue growth guidance should translate into a similar PAT growth or no? I mean, that is what I'm just trying to...

Ketan Merchant: No, I gauged your question, and I think someone earlier also asked a similar question that what does a 25% growth entail to. Now if you have seen our current set of numbers, the 25% growth is coming to a 30% kind of profitability growth. Yes, the product mix is essentially changing, digital is at a 22%, 23% margin.

What we would -- what we are aiming to do and aiming to do it reasonably consistently for the remaining quarters of the year is maintain our absolute growth, which we had anticipated earlier in terms of profitability as well. So whilst we are upping the revenue growth, our -- there will be a corresponding increase in the profitability, but not in the proportion of our revenue growth.

Moderator: The next question is from the line of Divyansh Gupta from Latent Advisors.

Divyansh Gupta So just following up on the previous question that was asked. If I look at the margins for each of the line of businesses, right, so I understand the product mix can, let's say, sway the overall numbers. But each business line item margins that you give, they have been seeing a reducing trend.

So from June '22, where, let's say, CASA was 57%, now it is 50%. For each of the line items, the margins have been reducing. And just to build on to it, that last time when we had interacted, you had mentioned that as digital or self-service increase, the margins should ideally go up, whereas the actual trajectory is down. So what might be the reason for it?

Ketan Merchant: Divyansh, Ketan here. I'll just take you to the previous presentation where typically the CASA margin was in the range of 53%, 54%. Currently, we are seeing 50%. And I also just mentioned in our -- in my earlier this thing as well that between quarter 1 to quarter 4, typically, the revenue goes up by 15%. Now it's also in terms of percentage, which part of the revenue goes up. I gave some statistics on renewal and annuity income which was for 33%, then it went to 38%, 39% and 43%. As and when renewal trajectory goes up, the margin essentially increase as well.

I will also take back to just give comfort to you and Renish both having similar questions, what I referred in my statement as well. If we just go during FY '24, our breakup of revenue in H1, H2 was around 48:52 and profitability was 44:56. This is what something which we essentially expect to replicate as well.

So whilst, yes, there is an element of a quarter-by-quarter seasonality, which comes specifically the way I explained about renewal, on the CMS front, yes, there has been a take rate point, which are essentially coming. However, the attempt is to compensate on an absolute basis the profitability increases of.

Our digital payment services, we've captured our margin. And I think in Sachit's question, we just corroborated how it essentially works, too. So margin will continue to be range bound, as I said in our this thing. However, any challenges or downside coming in margin may not have any impact on the absolute profitability which we are looking at. There are levers which we are looking at compensating or changing in terms of profitability.

Moderator: We'll move on to our next question. That is from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: Congratulations on a good set of numbers. Just a question. The throughput for the transaction part of the business, which is your AEPS, micro ATM, remittance, has been declining and is compensated by the digital throughput, which, as you explained in this call, was on the B2B side. We need the transaction for the ownership part of it as part of our TAM strategy. So do you think that is declining throughput could be a challenge in customer acquisition maybe going forward a couple of quarters down the line?

Rishi Gupta: A very good question, in fact. The way we look at it is that the transaction definitely leads us to more CASA. The only thing is that because of the transaction also moving cannibalizes both digital as well as our own customers. So the total volume of transaction will not drop that much. A lot of the people used to come to do off-us transactions, they are now doing on-us transactions through our own savings account. And plus a lot of them have started to move to UPI ecosystem. In fact, DMTs as well as cash withdrawals have come down because of the UPI ecosystem.

We also are now promoting our merchants to not only look at walk-in customers who come to the point to do transactions to open account for them, but also to create a kind of a network within their geographies and open accounts, to go and meet people so that they can open accounts for them as well. So both in terms of inward customers as well as around the geography customers are being sourced for savings account and current account as well. So the ecosystem in that geography is quite robust. And I think while off-us is moving to on-us, but still we have a long road on our customer acquisition strategy, so to say.

Moderator: The next question is from the line of Kunal Sukhwani from Indvest Group.

Kunal Sukhwani: I'm actually relatively new to your business. Just wanted you to talk a bit more about the digital payment services. Can you please explain the B2C and the B2B part of it?

Rishi Gupta: Okay. That's a good question again. So on the B2C side, as we had mentioned in the previous meetings also, see when we open a savings account of a customer, we are now promoting him to start using UPI. And we have seen that the UPI usage has gone up in the last 1 or 2 years. Now 42-plus lakh customers are on the UPI platform. We are contributing to nearly 1.42% of the total UPI transactions in the country. So that is the B2C side. It's like you having account with the X bank and you also use UPI of that bank or a PSP. So that is the B2C side of it, which currently doesn't yield any revenue because of the zero charge on the P2M and the P2P side, only the MeitY incentive is there.

The second part is the conversation around the B2B services. So there are a lot of companies who are there in the market who are offering UPI services, just like IMPS, NEFT, RTGS. So if you are a client and you want to do some services on the UPI, you have to go to an aggregator and the aggregator comes to a bank. So we become the bank for the aggregator and the digital companies who want to say, for example, we want to do UPI collect service.

So you would have seen that when you go to for car servicing. And in that car servicing, you have to make payment. So you rather than going and making payment, they might send you a link on which you could make the payment either through UPI or IMPS or any other platform. So that kind of UPI services are considered as part of the B2B platform. So that's the digital payment interface, which we have. That's just one part of the service, which is the UPI paying service where somebody pays into your account.

Then there is other services also around payout, there could be other PPI services, which can, at some point, come within Fino. We have started on a small note that volume is going to grow. That's largely the digital payment interface, which is there. I hope it is clear.

Kunal Sukhwani: Sure, sir. And sir, given that it's B2B and potentially, it would be very price competitive, so will the business will be sticky or how does it work?

Rishi Gupta: So two, three things are there. Obviously, apart from commercial, it's the kind of service and the technology platform, which is there. So both in terms of our service levels with our clients, and also with really 99.99% uptake on our UPI Switch, I think the clients are quite happy with the kind of services and technology platform they are able to get.

So I would say this is just the beginning of our journey as far as Fino Payments Bank is concerned. I think there are a lot of opportunities which will come in our journey, and you stay glued to it for the next 1 or 2 years. There are a lot of new things which we are also planning, which, at this stage, I can't share, but there are a lot of other initiatives also which are under planning.

Moderator: We'll move on to the next question from the line of Himanshu Dugar from Safegainz Financial Advisors.

Himanshu Dugar: My first question is, I would like to understand the ratio or the correlation between the digital active customers versus the CASA accounts. I mean, the kind of penetration seems to be kind of increasing. How do you see that going ahead? And a follow-on question to that is, if you could share some retention metric on these two accounts?

Rishi Gupta: So on the digital account activation versus our total CASA accounts, so there are two things which one has to understand. One is that the fact that digital -- while we started opening CASA accounts for a lot of our customers 5, 6 years back, but that point of time, the UPI penetration or the smartphone or the data penetration were pretty low. So a lot of those old customers are still not on the UPI platform. Secondly, because we cater to a large set of rural customers and below the poverty -- or below the middle pyramid of the country, so a lot of them may not have smartphones also and may not be comfortable using -- doing financial transactions on the mobile.

So we thought, and I will be very candid on this, but if you would have asked me 2, 3 years back, I would not have said that we'll have 40% plus of our customers who will be digital active. I would have probably said 10%, 15%, maybe at an outer range. But I'm pleasantly surprised by the uptake, which is there, specifically in the new generation, even in the Tier 3, Tier 4, or the younger generation, which they have started to use UPI as another big mediums for their daily transactions.

So that's why we also -- you would remember, started to talk about everyday banking, Har Din Fino, because we felt -- because Fino is being used more as a transaction account rather than as a lazy money account. So to that extent, the transaction businesses have grown, and that is where the UPI ecosystem have also grown with us in the last 2 years, so to say, and nearly 42 lakhs of our customers are on UPI active.

And coming to the second part of your question, retention. I think that's a very important question. We started with nearly 45%, 50% renewal ratio. Now we are at 60% to 65% renewal ratio. We have seen UPI customer not only the fact that is more active, but also keeps a higher balance to the extent of about 30% to 40% than a non-UPI customer. And also, the renewal rates are far higher at about 80% plus compared to 60%, 65% for a non-UPI customer. So UPI becomes a big hook for us for our CASA strategy.

In fact, we do a lot of -- under the CLCP thing, which is customer life cycle plan, we do a lot of initiatives in terms of bringing the customer to a transaction mechanism, then training the customer, giving him offers, working with them, providing them more options and products and everything. And we also did our Finopay app, a new version we launched last year, and iOS version also we launched it. So all this is part of the retention strategy of the company to retain good UPI customers or even other transacting customers.

Himanshu Dugar: Just a follow-up question here. In terms of...

Moderator: Sorry to interrupt. Sir, may we request that you return to the question queue. There are participants waiting for their turn.

Himanshu Dugar: I will just ask one question. You said I can ask three questions, right?

Moderator: Yes, sir, we are restricting questions to one per participant. The next question is from the line of Karthik Saity from APBL.

Karthik Saity: Basically, one question is why the CASA balance has degrown quarter 4 versus quarter 1? And the second one is, your assessment on the DMT pricing increase and the PAT benefit out of the increase in the prices. These are the 2 set of questions.

Ketan Merchant: So Karthik, let me just take the first question first. What you're seeing as a degrown is a balance sheet kind of a movement on a sequential basis. If I look at, at an average deposit which is where how we look at it, it has actually grown by double-digit percentage. So that answers the first point of your contention now in terms of the CASA growth. Also to give a perspective is that 37% is Y-o-Y growth as well. If I understood your second question right, you were looking at the kind of the impact coming on the DMT pricing. Am I reading it right?

Karthik Saity: Yes, yes.

Ketan Merchant: So DMT pricing is driven by the industry, not -- it's typically a pricing, which is there, which is determined based on how the industry prices it off as well. I think all the banks are looking at it in their own contention of what remittance has to be grown and how much it is. At the current stage, we do not have any statistics to say that what will be the kind of impact which we'll have in terms of DMT pricing. However, we're not seeing any challenge coming in terms of our forecast or our footfalls, which we've seen on account of any of these changes in the pricing.

Moderator: The next question is from the line of Parimal Mithani from Credential Investments.

Parimal Mithani: Thanks for the opportunity.

Moderator: Sorry to interrupt Mr. Mithani. Sir, your audio is sounding very feeble. Can you come a little more closer to the mic?

Parimal Mithani: So I just wanted to know in the media interview today, you mentioned about CASA growth of 40%. What makes you so confident about this growth?

Rishi Gupta: The first point, if I understand what you're saying is...

Parimal Mithani: Hello?

Ketan Merchant: So that is, if I understand your question right, in terms of the CASA growth, I think earlier in my this thing also, I mentioned that our revenue on a year-on-year basis is at 93% vis-à-vis INR 66 crores -- INR93 crores vis-a-vis INR 66 crores on a year-on-year basis, which is 40%, which comes on the back of the 54% growth on the annuity stock revenue -- renewal income, which I just mentioned.

Also to give a perspective, I have given a trend of how renewal income, which has grown over the last 2 years from 33% to 38% and to 43% over the overall CASA pie. So renewal is annuity income, which is building up. It also has the seasonality, which I earlier explained in the context of margin as well. So that's something which the kind of accounts which we have built, and as Rishi earlier elaborated that it's about the Har Din Fino account people transacting it off. So our bullishness on our renewal income becoming more and more significant part continues to be there. My bad I could not gather your second question.

Moderator: Ladies and gentlemen, we'll be taking the last question. That is from the line of Sachit Motwani from Motilal Oswal AMC.

Sachit Motwani: I wanted to check if digital payment service business at EBITDA level, is it positive, just thinking from operating leverage perspective, so what are the costs below the gross margin level?

Rishi Gupta: Actually being digital doesn't have too many manpower support, which is required. I think there was a 22% margin. I don't have the breakup how much it translates into EBITDA as such because it's a common technology, digital platform, which is there. So -- but it is definitely value accretive. And also in terms of EBITDA would be higher percentage compared to the other businesses because of the very limited operating expense and manpower costs.

Ketan Merchant: Sachit, Ketan here, just to corroborate or elaborate more on what Rishi just said is we've earlier also mentioned that we've had an in-house UPI switch, which has been built in over last 2, 3, 4 quarters as well. So I think that also brings the right kind of economies of scale for us. We do not have to pay transaction by transaction UPI charges, which mostly some of the other banks have to pay out.

So it's a good question, and I'll take this opportunity to put a perspective out here is, we -- our philosophy when we are in phygital or physical or digital is to new products, not only for future cross-sell but which are profitable and digital on account of B2B, the way Rishi explained the product is also profitable.

Sachit Motwani: Sure. It would be helpful if in a quarter or 2, you can start helping us with EBITDA number also, that will be really helpful.

Ketan Merchant: Yes. Let us just think through how best we can do that.

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

Rishi Gupta: Thank you, everyone. Quarter 1 is always a new beginning, the first quarter of our new financial year. So we look forward to a great financial year as we have already upped our guidance from 20% to 25%. We used to focus on CASA, CMS and transaction business. So they were the 3 layers or the 3 areas, which we're focusing on, and now digital also becomes a big area from a revenue as well as from a bottom line perspective.

As I mentioned, we continue to focus on technology and bringing technology, digital and keeping on -- and we'll keep on investing in building up our technology platform. As I mentioned, our -- the new core banking platform and the HTC, we plan to go live by end of this financial year. And as the company focuses on ways for the SFB thing, we continue to build on our TAM strategy. And we are quite hopeful that in the coming quarters also we'll see a good growth not only in digital, but also in other areas as well as we move forward in that direction.

Thank you all for joining us today, and wishing you a very good evening, and a great day.

Ketan Merchant: Thank you, everyone.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Go India Advisors, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.