November 07, 2023

To,
BSE Limited
P.J. Towers,
Dalal Street, Mumbai- 400 001
(Scrip Code: 543386)

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

Dear Sir/ Madam,

Sub: Transcript of the earnings call with the investor and analysts held on Thursday, November 02, 2023 - Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Ref: Earnings call with Investors and Analysts held on Thursday, November 02, 2023

In continuation to our letter dated October 23, 2023 please find enclosed herewith the transcript of the earnings call with the investors and analysts held on Thursday, November 02, 2023.

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

This disclosure will also be 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: 2023.11.07 19:29:34 +05'30'

Basavraj Loni
Company Secretary & Compliance Officer
Place: Navi Mumbai

Encl: a/a

"Fino Payments Bank Q2 FY-24 Earnings Conference Call"

November 02, 2023

MANAGEMENT: **MR. RISHI GUPTA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, FINO PAYMENTS BANK LIMITED**
MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER, FINO PAYMENTS BANK LIMITED
MR. ANUP AGARWAL – HEAD INVESTOR RELATIONS, FINO PAYMENTS BANK LIMITED

MODERATOR: **MRS. SHEETAL KHANDUJA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen good day and welcome to Fino Payments bank Q2 FY24 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mrs. Sheetal Khanduja from Go India Advisors. Thank you and over to you ma'am.

Sheetal Khanduja: Thank you, Arshia. Good afternoon, everyone and welcome to Fino Payments Bank Earnings Call to discuss the Q2 and H1 FY24 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 risks that the Company faces.

I now request Mr. Rishi Gupta to take us through the Company's "Business Outlook and Financial Highlights," subsequent to which we will open the floor for Q&A. Thank you and over to you sir.

Rishi Gupta: Thank you. Sheetal. Good afternoon, ladies and gentlemen. Thank you for joining us today for the Fino Payments Bank Quarter 2 FY24 Earnings Call.

We have been consistently doing well quarter after quarter and this quarter embarks another milestone of our business volumes. We're happy to share that we are going as per our strategy and priority.

Before we get into business and financial updates let me quickly update you on the strategic aspect of our business:

Our TAM strategy, which is "Transaction, Acquisition and Monetization" is making good progress and is aligning with our long-term goals.

For those who may not be familiar, allow me to provide a brief explanation of our TAM strategy.

TRANSACTION PHASE:

It is the first phase through which we have built a large distribution network of merchants totaling 15.1 lakh merchants as of September 2023. We are on plan to achieve 2 million merchants by FY26. We have successfully executed this phase and crossed a total throughput of 86,000 crores in Quarter 2 compared to 60,000 crores in Quarter 2 last year. Our geographical presence of merchants, branches and touch points across the country with north and east contributing to 67% of the total distribution. We will continue to deepen our merchant density in enhanced coverage in west and south, ensuring last mile reach. This forms a strong foundation for the SFB in the future.

ACQUISITION PHASE:

We are presently in the acquisition phase where we are actively broadening our presence in both physical as well as digital space. We have been maintaining our acquisitions free of more than 2.5 lakh new customers every month. Our renewal income has grown by 95% on year-on-year basis. This continues to significantly strengthen our foundation for the annuity income. As the acquisition becomes stronger some of the revenues from transaction income which is largely off us customers have started to gradually shift to acquisition revenue or on us customers.

MONETIZATION:

Focus and imputers of transaction and acquisition phase with increased UPI penetration enables higher customer stickiness, contributing to higher annuity income on a year-on-year basis and future opportunities of cross-sell. This will come to play more as an SFB. Digital Fino 2.0; we have been actively growing our digital presence as I've said in the last presentation as well leading to increased penetration. During the quarter we opened more than 50,000 savings account digitally through our FinoPay app. Our digital banking segment continues to exhibit robust growth, with digital throughput reaching 23,000 crores in Quarter 2 FY24, representing an impressive 120% year-on-year growth. In Quarter 2 FY24 FinoPay which is our digital app downloads has experienced 167% increase on a year-on-year basis totaling to 12.6 lakhs. We continue to contribute more than 1.25% of the total transaction volume in the UPI ecosystem, outperforming many established banks.

Thanks to the government and regulatory initiatives around digital India stack, at Fino we are driving one of our biggest changes of going digital. This behavioral change from cash to digital is irreversible and it's catching up across all stratas of society as well as present across the nation. That is both in rural as well as urban. Fino is also moving in similar direction with more and more customers becoming digitally savvy. Out of our total customer base of 9 million customers roughly 3.6 million or 40% of our customers are actively using digital service and this number is only growing faster. NPCI statistics show that the share ratio of cash withdrawal which is ATM, micro-ATM, AEPS and UPI was 45 to 55 in Quarter 1 FY23 and now has become 33 to 67. That is nearly two thirds of the transactions are now on the UPI platform. Our cash withdrawal business moved from 64% in Quarter 1 FY23 to 34% FY24 of the overall transaction throughput, much in line with what is happening in the ecosystem. UPI adaptability is growing faster. It's growing at a faster pace than anticipated. Fino is also building products around digital ecosystem both on the B2B as well as on the B2C.

QUARTERLY PERFORMANCE:

Now let me update on the business aspect:

Our quarterly revenue demonstrated a substantial 18.2% increase on year-to-year basis, amounting to 358.6 crores. Over the half year period we observed a 19.3% year-on-year growth in revenue, much in line with a 20% target as a guidance of growth on a year-on-year basis. PAT for the quarter registered a robust 42% on a year-on-year growth while over the half year it is even more impressive with 60% growth. Our growth in high margin products encompassing CASA and CMS now represents 30% of the total revenue in Quarter 2 FY24, marking an increase from 26% a year ago. Our own revenue share increased from 65% in Quarter 2‘24 to 69% in Quarter 2‘24 which means 65% in Quarter 1‘24 to 69% in Quarter 2‘24, leading to a net revenue margin expansion of 140 bps. CMS volumes have grown 40% on year-on-year basis in Quarter 2‘24 from 10,500 crores to 15,000 crores on account of new partnerships and incremental volumes of existing partners.

Our transaction business has been moderately impacted in H1‘24 with ecosystem challenges specifically on AEPS front. However, we believe the same would phase out in H2‘24. Regulators, banks and other FinTechs have established controls to ensure all potential risks are mitigated. We are continuously investing in technology for enhancing the capacity for incremental volumes and building new product capabilities in digital space. We are revamping our technology stack by making the core banking platform much lighter and faster. This means we are moving out some of the functionalities to outside the core. We have already started the journey of changing our core banking partner over the next 15-18 years so as to be technology ready for the future.

Consequent to our Board approval in July‘23, we are actively preparing for submitting our application for the SFB and are also exploring avenues of corporate restructuring as we mentioned in the last meeting. In the broader perspective, fostering digital penetration along with profitability remains a pivotal role in a strategic roadmap. We remain steadfast in our commitment to delivering superior performance enhancing shareholder value.

With that I'd like to hand over to Ketan Merchant – our CFO who will run us through the financial results. Over to you Ketan.

Ketan Merchant: Thank you Rishi. Good afternoon, ladies and gentlemen and thank you for joining us today once again on our Earnings Call.

I'm delighted to announce that we built a consistent trajectory of profitable quarters. We have continuously achieved strong performance and present quarter is no exception. It marks another resilient and profitable period.

As Rishi mentioned our performance in this quarter reaffirms our commitment to attaining our future goals, particularly emphasizing our 20% year-on-year growth which we've committed earlier. During the quarter we further deepened our distribution network with around 68,000 new merchants on boarded in the quarter. This coupled with digital penetration allowed us to improve accessibility and engagement for our customers.

FINANCIAL PERFORMANCE:

For Q2 FY24 our total revenue stood at 358.6 crores, up by 18.2%. Net revenue margin expanded by 140 bps to 33%. This is in line with our intended objective of focus on growth of high margin product and has a direct impact on our bottom line to the extent of 4.5 crores. Our EBITDA margins have increased to 12.9% in Q2 FY24 from 10.1% in Q2 FY23. EBITDA has grown by 51% YOY to 46.2 crores in Q2 '24. Our PAT increased by 41.5% on a year-on-year basis to 19.5 crores. During the quarter, our total throughput exceeded 86.6 thousand crores marking a substantial 43% year-on-year growth. Furthermore, as Rishi mentioned our digital throughput experience and impressive 120% year-on-year increase reaching (+23,000) crores and now represents 27% of throughput. These strong performance indicators lay a robust foundation for the future cross selling opportunities, allowing us to capitalize on our existing base and expanding our services.

Just a quick recall of our H1 numbers:

Our total revenue stood at 706.9 crores, a 19.3% year-on-year growth. Our EBITDA margins have increased to 12.3% in H1 from 9.1 in the previous year H1. EBITDA has grown by 60.3% YOY to 86.7 crores. Our PAT increased by 60% to a number of 38.2 crores. This is for H1 '24.

SEGMENTAL BUSINESS PERFORMANCE:

Our revenues from CASA, savings and currents account have increased by 38% year-on-year reaching 75.2 crores. This growth is mainly driven by a significant surge in our renewal income which has increased by 95% on a year-on-year basis and now stands at 30.3 crores for the quarter. The notable rise in our account subscription and renewal rate indicates the loyalty of our customers and underscores our status as their preferred bank. This is the cornerstone of our planned ambition of SFB.

In our Q4 '23 Earnings Call we stated that we will deepen our customer base in south and here I am with some statistics. We are happy to share that in a highly populated Karnataka and Tamil Nadu our customer base has increased by 129% and 92% respectively for the half year period. We've also seen an expansion in number of customers actively engaging with our digital services. Out of the total customer base of 9 million, 3.6 million or 40% are digitally active customers. We are consistently adding more than 2.5 lakh new customers every month and more than 50% of these new customers are digitally active. This ongoing trend is expected to contribute to robust growth in deposits and as we expand our customer base. Our average deposits grew by 53% on a YOY basis for the quarter. The other key product which we essentially have is CMS which is our driver and a high margin product. Revenue from CMS stood at 33.5 crores, up by 38% in Q2. In H1 FY24 the revenue saw an increase of 54%. On a YOY basis throughput in CMS surged by a 40% up to 14,685 crores. It showed an impressive growth of 55% YOY for the half year period. Out of the total throughput NBFC and MFI sector contributed 65% in Quarter 2 as compared to 92% when we started off the business in Quarter 2 of FY22. With an established diversified network of 189 partners a strategic emphasis has been laid on partner diversification resulting in a sustainable CMS growth. We have strong presence across 14 states wherein average monthly throughput is over 100 crores in Q2 FY24. This number was up at 12 states in Q2 FY23. Here again emphasis on diversification of geography as well as industries for CMS.

Overall, CASA and CMS continued to be our high margin products delivering better than our expectations. These businesses are poised for significant growth result in margin expansion and boosting the profitability of the Company. As Rishi mentioned the pace of UPI uptake is faster than anticipated and we are uniquely placed to ride the UPI wave in our target segment. Just to elaborate; in our endeavor to make customers more digitally savvy there is continued effort to convert a micro-ATM and AEPS customer into a CASA customer and that is yielding results as evident in our digital growth which we earlier mentioned is 120% on a quarter-by-quarter basis for the year.

While transaction business, remittance and cash withdrawal business are witnessing some amount of system challenges, customers funnel which is the hook which we use for enhancing our high margin product is maintained and that is evident from our transaction volumes. Our payment services segment in B2B space which are equally high margin specifically on the UPI payment product is contributing 18% of the digital throughput in Q2 '24.

To Conclude:

I want to emphasize that we are successfully progressing through the acquisition phase, building a strong foundation and infrastructure for monetization phase. In all of this we continue to maintain our cost at reasonable level so that PAT growth continues to be 2x to 2.25x of our revenue growth. This is our stated objective which we had maintained and we are working around the same. With this I'll just hand over the session for any questions.

Moderator: Thank you, sir. We will now begin the question-and-answer session. The first question is from the line of Mr. Ashish from Infinity Alternatives.

Ashish: A couple of things. One is, we saw digital revenues kind of coming in at 18 odd crores for the quarter. What is the kind of gross margin on this product? Because I can't see that on the next slide.

Ketan Merchant: Ashish is that the one?

Ashish: The second one was in relation to the CAPEX. If I look at in the six months, we've invested 50 odd crores in CAPEX, is there something which you expect to remain at elevated levels going forward or what's your outlook around that?

Ketan Merchant: Let me take the first one first. You are right as we've been saying it off and Rishi and myself eluded a bit in terms of our statement as well that, on the digital side we've been building our stack coming out. The margin out here, digital comprises of the payment services, the UPI Pay-in which I eluded towards and that contributed to around 20% in addition to the retail UPI thing which we are doing. There as we mentioned it off, our margin is equally high. We are looking at around 48% to 50% kind of a margin coming out in these products which we said. Having said that I think it's the beginning. Rishi earlier mentioned that it's the beginning of our digital journey and we will continue to do that. Second question of yours comes on the CAPEX side. I just go back to our statement earlier as well, at the beginning of the year or the Quarter 4 that we will continue to invest into technology and digital. The genesis of our capital was also to make this kind of stack. If you ask me the question how does the outlook look in terms of the CAPEX, we will continue to invest over next three four five quarters in terms of technology and digital. The impact of that coming in the P&L if that is what you were alluding towards, in the stated objective which we have mentioned which I just concluded my statement with, that a 20% growth in top line and a 2.25X kind of a growth of that revenue coming in the bottom line, that already factors some of these CAPEX which is essentially coming and the testimony of digital starting to give this yield result is also a point to reckon. So that's where we essentially stand.

Ashish: And the other question was in relation to SFB, when do you think you can on the SFB and the M&A what are the timelines looking like on both of those?

Rishi Gupta: On the SFB more or less our application is ready. We are doing the final touches on that. So, in the next one month or so we should be able to file it with the regulator. On the merger we are looking forward to the guidance from our holding Company Fino PayTech because they are waiting for some internal approvals to happen, only then they will formally write to us for going ahead with the merger.

Moderator: The next question is from the line of Ms. Shreya Shivani from CLSA India Private Limited.

Shreya Shivani: I have two questions. First, it's not related to the business but something that came in the media article about some employees undertaking certain fraudulent activities. Can you help us understand that better and what are the steps that you're taking to control such issues that could happen in an organization? My second question is on the cross-sell products. You had mentioned in the last couple of quarters that cross selling of loans are at the pilot stage for the merchants etc. If you can give us any update of how are the pilot programs going what kind of experiences are you building in and what kind of demand is coming in that will be useful?

Rishi Gupta: Shreya so let me first come to the first question. You're right there was an article and that actually came when we reported to the stock exchange. After that, the article came. So, there were some unauthorized actions and representations made by some alleged staff as such. We also believe there is some contributory negligence or possibility of collision on part of the certain complainants which has led to some abnormalities and non-adherence to the regular process of a bank. So that's the broad thing which is there. This complaint came to us in the month of May-June, post that we had appointed KPMG on our own as management Suo moto to look at the complaints independently both at the field level. Largely this was field related complaints. Post that we have also filed some police complaints and taken actions against some of our employees which we found were not doing as per the stated process and in the right ethics of the bank. Till now we have not received any legal case or legal complaint or any law enforcement agencies have been informed by the complainants against the bank. The bank has not benefited or lost any amount on account of this. So, prima facie based on this there is no liability or impact on the bank as such except for some of the employees and some of these things which have come up in the media and the reputations which got impacted account of that. We will also like to reiterate that this has nothing to do with customer accounts or customer money which continues to be safe and secure and we continue to work on our plans. Post this, investigations and everything else, we have further strengthened some of the processes, some of our employees, policies and knowledge nuggets and everything else, so that this kind of thing doesn't happen in the future. The Company has taken all requisite steps which are required when such kind of an event happens. I think we are in control of this situation which is there. As I mentioned there is no legal liability which has come on Fino and there's been no case till now on us. So that's brought you to the first question.

The second question on the cross-sell product per se. When we look at the cross-sell lending is obviously one of the products which we would look at referring to. But one thing which is coming on our way from taking it to the market is the FLDG expectation because we were talking to some of the NBFC partners that without FLDG because you know payments bank cannot issue FLDG as such. This matter was in gray area till the time RBI came out with that 5% FLDG regulation. Post that we have seen most of the NBFC players now insisting of 5% FLDG. So, to that extent we are not in a position to provide because at a payments bank level we can't provide any FLDG. Because of which we are feeling constrained on account of that while we see there is inherent demand from our merchants and customers for lending opportunities but because of the drying up of lines specifically because of the FLDG issue, we have not made substantial progress as far as lending is concerned. But otherwise, when it comes to payments ecosystem or UPI ecosystem, I think there has been as I just mentioned in the previous question, nearly 5% of our revenue now is coming from digital. We believe at least on that part we are doing quite well and we believe that business will continue to grow as we go forward.

Shreya Shivani: The cross-sell on the lending part specifically it is still something which remains restricted for you because of this did I read that right?

Rishi Gupta: Yes, you are right. Because of the FLDG constraint, that I think will come over as we move into an SFB mode.

Moderator: The next question is from the line of Mr. Harsh Shah from Reliance General Insurance.

Harsh Shah: So, one of the questions which I wanted to understand is that how is UPI impacting our profitability? We have moved in house, so what are the economies we can see here?

Rishi Gupta: Good question. Actually, some of it was captured in my opening remarks also and I had spoken about this in the last presentation because when people look at the UPI, they only look at one angle of UPI which is that UPI is a zero MDR product. But I think the life has moved beyond that. Obviously if you can charge a small amount on UPI, it can lead to a substantial profitability for us and many other players in the market, specifically the banks so to say. But let me talk about our UPI strategy and maybe sometime if you plan to come to our office, we'll be more than happy to take you through our entire digital stack and the digital offering. But from a high level I would say. As I mentioned nearly 40% of our customers have become digitally active. We did 37 crores of transactions on the UPI and it contributes to 1.25% of the overall throughput in the country. As I mentioned also in my remarks is that India is moving digital and UPI is driving that digital wave in a way. So, usage of cash is coming down and it is coming down at a faster pace than one would have anticipated 3-4 years back. This is inevitable. This is irreversible. That UPI wave can be curtailed or any other thing can happen on the UPI side. Further the government is also putting lot of other rails on the UPI stack. So, for us what does it mean? One is obviously if the MDR comes it will be going to substantially improve our profitability. But having said that UPI also becomes the mainstay for our CASA customers. A higher transaction on the UPI platform or UPI active customer gives us higher volume of business. It also leads to higher renewal income. It also has higher balances. So, from a UPI active customer we see the transaction volumes are higher, the balances are higher and the renewal rates are higher. That's on the B2C side. On the B2B side, as I mentioned earlier or Ketan mentioned that we have started to provide UPI rails for Pay-in products. Pay-in products are largely products where the merchants have to be paid. In that process we are seeing a huge growth coming in. Both on the B2C side as well as on the B2B side, UPI is substantially helping us to build our CASA base and to improve our profitability. Further it can improve with the MDR. But having said that I think this is something which we have to do. And we think this will drive the Fino from a physical to digital and will help us in taking a higher substantial number of accounts in the future as well.

Harsh Shah: One more thing on it. So, what all products can we plan on a UPI stack and are there any launch pipelines there?

Rishi Gupta: On the UPI stack, we have the normal UPI payment products which are there. We also started to open UPI stack. We have started to provide to our partners as well. We have also started to do UPI Pay-in. Over and above that, we are looking at providing credit on UPI, we are also looking at UPI Lite. So, whatever is there in the UPI ecosystem including UPI Collect, all those functionalities will actually be most of it will be ready by March of '24. And with more functionalities we expect the volumes to further go up on the UPI side and also making our customers become active. In fact, one product like UPI Lite actually enables transactions of less than Rs. 2,000 without the pain, without the OTP. So, it makes life simple for our set of customers.

Moderator: The next question is from the line of Mr. Ravi Mehta from Deep Financial Consultants Private Limited.

Ravi Mehta: Just extending the previous discussion. The entire UPI stack and the whole host of services that you can provide, is it again more of a hook that to keep your customers engaged and hence more renewals or it's money-making proposition? Is it accretive to earnings? Some color on that.

Rishi Gupta: So, on the B2B side there is obviously a charge which we make to the B2B partner and through him we make money. On the UPI on the B2C side there are two propositions. One is the P2P and the other is the P2M. P2M is now constitutes nearly 55% to 60% of the overall transaction volume on the P2M side while there is no charge currently but there is a meity charge which we receive from Ministry of IT. That's a charge which we receive on the P2M side. It may not cover the full cost but there is still some recovery which we do. On the customer side this is a default option you have to give, it's like providing an internet account to a customer or an app to a customer, you have to provide UPI. UPI is a default option now for every customer. If you don't have a UPI probably you will not even open an account. So, it is from that point of view that the UPI becomes critical to open an account. I will not say that because of UPI the balances are higher. I will say we have accounts because we have UPI.

Ravi Mehta: And one thing was mentioned in the annual report that you're working on hollowing the core, so that every transaction doesn't hit the core. So, is it more like you're trying to create a wallet kind of a structure where you enjoy zero interest?

Rishi Gupta: Very good question. I'm glad that you asked that question because that's one of our substantial projects which we are monitoring at my level, and it is something which is very dear to my heart also. This is something which is very important. I in fact covered that in my opening remarks also. But I'll reiterate, see the world has changed in the last maybe 5 to 7 years where the volume of transactions was largely going through all core banking platforms because the transaction volume in a bank account of a customer was not that many. Now with all the digital play coming in, UPI is becoming one of the mainstays, on an average we are seeing 40 transactions on UPI platform for our customers on a monthly basis. So, if that volume of transactions actually starts hitting my core platform on a daily basis and which will further lead to some kind of slowness in the system or some latency would come in and because for every transaction there are a lot of engines which have to run in parallel specifically when it comes to core banking platform. We are relatively a new bank compared to some of the older banks but this is a challenge which is being faced across all banking ecosystem around the world. For bigger banks and old generation banks it becomes more difficult to move them, move some of the functionalities outside the core because of the legacy which they carry. In our case fortunately for us we had built a lot of things already outside the core in part of our Phase 1. As part of our Phase 2 which we are now implementing in a way getting ready for 2030 plus we are now moving a lot of functionalities which were still in the core banking platform outside the core and making the core very lighter and it can then result in faster turnaround also. So not only that we are looking at hollowing the core but we are also in the process of changing our core banking partner as such and the work has already started. We are more than 6 months to 9 months into the process. We are hoping that in the next 15 to 18 months we should be not only looking at a new banking partner but also hollowing the core, which means that the entire control will come into us. I'll just give you one more example. In March of 2023 we actually moved our UPI switch, till that point of time like many other banks, the UPI switch which was with a third-party service provider and were at the in a way—not to say but just in a way—at the mercy of that third party service provider to give us the right kind of products and manage our growth. Post that we have seen in the last 7 months, 8 months of our switch moving away from a third party to in our controlled and we have now the switch in our in-house facilities. We have developed it as well as we manage it. So, we are seeing a substantial growth, I would say more than double growth we have seen in the last 7 months with near zero technical declines and very low or limited very little latency or maybe zero latency as such and plus products. So going forward technology will play a very important part in any bank because the entire ecosystem becoming digitally savvy. Banks who don't invest in technology today will face a problem when we get into the future of the country. Because if around 20 crores people are using UPI today, 5 years from now you will see 50 crores people using UPI. And that volume if it starts coming and hitting your core banking or your existing technology platforms you can imagine the amount of blood bath which will be there on the banking systems. So good that we have started this about 6 to 9 months back.

Ravi Mehta: So, when we see CAPEX spends of close to 50 crores in first half, it is towards these initiatives or something else?

Rishi Gupta: So, this is a mix of multiple initiatives, one is capacity also. Our volumes as you see 50% growth in capacity has happened. We have to continuously look at capacity increase, lot of investments actually goes into security, cybersecurity and other features also, software. The cost itself of technology solutions started to move up and plus also it looks at some part of hollowing the core is also included in this. The core banking platform migration and everything is still not factored into this. That will come in the future months more as a CAPEX. Probably Ketan can talk a bit on that.

Ketan Merchant: Just to answer your question, the question which Ashish asked and you were alluding towards the 50 crores CAPEX, that is largely on account of technology and digital. Rishi rightly bifurcated it off. We are also increasing our capacity. The growth which we have seen 1.6 lakhs crores of throughput which is essentially coming and that is also essentially growing. So, we are building the technology and digital stack into this. We also in house the UPI switch and just to corroborate since we are talking about the benefits of the HPC besides the agility, the UPI switch essentially ended up giving at that point of time 4.5 to 5 crores of bottom-line impact coming as well to us. So, we will continue to put up a perspective. In regard to specific point of Rishi in terms of the core banking, we started the project and like any other change in core banking it is a massive project which will go up to 18 months as well as Rishi said. From a business model perspective, I come back to the earlier conversation as well. The business model which we envisaged and which we have stated for the 20% growth and 2.25x of the profitability of that growth, factors the depreciation coming on account of this in the years to come. As we speak this year, this year there might be minimal to no impact coming essentially on account of anything on the core banking as and when the project progresses over next three four quarters. The depreciation line on account of core banking will also be impacted but it will be in line with the model which we made.

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

Divyansh Gupta: One question follow-up on the tech expense. Is the tech expense also being incurred for the SFB development? Because what I understand is the RBI process is in-principle approval then a final approval after which you can go live, there's the CSA audit and other things. So, is the tech expense of tech efforts that are being taken right now are also to prepare ourselves for the SFB which might be let's say 2 years down the line because the application takes time and other stuff, or this is just purely for the payment bank optimization?

Rishi Gupta: Yes and no. I would say, so while this technology expense or the core banking expense doesn't include the platforms for underwriting or loan management system or loan original system that will come over and above once we have the in-principle approval from the regulator. But having said that still what we are building today will become more and more relevant as we move into an SFB because all of the core and the fact that lot of things, we are building is outside the core banking platform which gives us the ability tomorrow in line as a SFB. We'll be able to build lot of things outside as well. So, whatever we are doing now will definitely help us. No doubt it's largely for the payments bank, will definitely help us on the SFB side whereas specific platforms on LOS-LMS will come at the subsequent date.

Divyansh Gupta: One data keeping question. I was going through the annual report and in the operating expenses there is this other expenditure which is about 75% of the overall expenditure. Can you just throw some light? What are these expenses incurred on and what are the biggest categories and how much do they contribute to the overall expenses?

Ketan Merchant: Divyansh, RBI prescribes a particular format in which the schedule 16 of the annual accounts is to be given operating expenses. Now what happens is for a typical lending institution, the key expense essentially becomes an interest expense and NII becomes the key driver. For us if you've seen our income as well, the other income constitutes 90% and similarly other expenses is nothing. If you see our presentation slide #13, we call it as a product cost. So, product cost is nothing the way our business model works, we don't operate through fixed cost, we operate through variable cost which is where the merchant and the entire ecosystem comes. In simple terms a distribution cost which we end up giving to our agents who are variablized and linked to the sales. We call it as product cost and becomes a part of the major expenses. And that is where we again say that around (+70%) of our OPEX base is variable in nature and is connected to this. In simple terms product cost and a distribution cost.

Divyansh Gupta: So, our other income is around let's say Rs. 100. Then out of that Rs. 100, Rs. 70 will be the OPEX cost or the product cost and that Rs. 70 is more or less captured in that other expenses.

Ketan Merchant: Yes, to be very precise this time as I mentioned in one of my statements. This time I think the net margin which we see is around 33%. So, giving by your example 167 and 33 and from 33 then we come to the OPEX and depreciation and so on and so forth. And that's how we come to a number of around 19.5 crores for the quarter. Not applying the traditional bank's P&L format to this but this is a prescribed format by RBI. So, in that annual report it is there, in slide #13. We showed it in a simplified form the way I mentioned.

Divyansh Gupta: Got it. I understand that RBI format. So then as digital adoption increase, this product cost will also come down because you will have lesser incentives to give to the distributor.

Ketan Merchant: Yes, I think it's a good point which you're saying. The product cost depends upon the kind of margin which we have set in our statement we essentially said that CASA and CMS and also the digital B2B business, if typically, my business or product margin which is 54% in CASA and around 40% in CMS and around 40% odd, 48% odd in the new product which we just said, the more these products become the pie of revenue, the product cost I mean the net revenue will keep on increasing. And obviously one point which is there is our operating leverages. I just want to reiterate that operating leverage or maintaining the leaner cost will continue to be our USP and we will function on a lean cost to income ratio. And here the cost income ratio refer is the operating cost other than product cost to the total revenue.

Divyansh Gupta: And just one last question and it is more futuristic than let's say you become an SFB. Do you see CMS being at risk because banks might not be comfortable in another competing banks handling their CMS? Because right now you are not competing—like an NBFC or an MFI you are not competing—for the same set of customers. But does it become a challenge in the future or is just a cash movement service and it doesn't matter?

Rishi Gupta: So, it's a good question. I don't see there going to be a challenge. If I look at the constituents of our CMS around 55%-60% comes from the NBFC-MFI portfolio and the rest comes from other industries which is your e-commerce, logistics, CRA, so that part will not get impacted at all. The other on the NBFC and MFI, largely these are agents who come and deposit money at our centers. So, customers coming and depositing money will be a small portion than the agents who collect from the customers and give it to us. And if I see most of the banks are already providing them the same services. So NBFCs, MFIs are already using other banks also. So, for them to use us will not be a challenge. As an SFB we might see more banks coming to us from a CMS also as such. But I don't see it to be a challenge at this stage at all, absolutely not.

Divyansh Gupta: Because my understanding was usually the MFI loan officer will go and collect and then he will go and deposit in a bank. But now if the agent or a customer --

Rishi Gupta: That is what they do, so rather than depositing in the bank they come and deposit it to the merchant. So, bank is only working from 10 in the morning till 2 PM. So only 4 hours they have and during that morning hours and everything they are themselves collecting money from the merchants, from their customers. So, by the time they collect money it's already afternoon and then to go to a bank to deposit it becomes more cumbersome and specifically over the weekends also where do they go and deposit. That is where we provide them a very good alternative or should I say bank have become an alternative to what Fino is providing as far as NBFC-MFI is concerned for depositing cash.

Divyansh Gupta: So, in the last call there were some discussions on CMS and collections and Fino was having a view that it's a similar service. But being from the industry and having done that I know that when you are managing cash and a customer coming and giving to you versus collections for your overdue accounts, is a different process altogether, right?

Rishi Gupta: Yes.

Divyansh Gupta: So have we given a thought of because last time when it was been discussed it was that there won't be any additional hiring at the branches for collections. Has there have been a relook at this or we are still confident that we won't need to hire more people for overdue collections? Normal collection I understand but overdue collections is the question that I have.

Rishi Gupta: So, your point is valid. So, when we look at it from an ecosystem point of view, largely if you look at the large institutions or the NBFCs or even the fintech companies they don't have any physical presence. We have physical presence across the country. So, there can be multiple modes in which these overdue collections can be looked at. One is the merchants themselves who has sourced the loan can become an agency to collect overdue collections. Part of his collection percentage or efficiency percentage or over and above also from an incentive point of view. Secondly, we also have about roughly 2,000 employees over there on the ground. We can use that network also to help us collect the money. And also, just to reiterate, as an SFB we are going to open up all the geographies at the same point of time. We are also going to phase it and open up in geographies where we are much stronger and then we go deeper into that geography and parallel geographies. So over and above that I think there are a lot of collection agencies also who have come up in the last few years as such. So, we believe we can manage the collections pretty well. Having said that when the rubber will hit the road that is only when we can see. But definitely your point is very valid, and we'll put that as part of our—it's already part of our—strategic thinking. But you have a very valid point.

Moderator: The next question is from the line of Mr. Mayur, an individual investor.

Mayur: Actually, my question was regarding when we onboard merchant, what due diligence we perform? And my second question is what is the merchant attrition rate?

Ketan Merchant: Mayur just take your first question. For us, a merchant is like a customer, so whatever KYC norms which we follow typically for a customer and which is mandated by RBI we attempt to follow all of those which are there for the merchant. At the end of it our model is such that he earns, we earn, and he handles the control function or he's a representative for the bank out there. So, in simple terms whatever the KYC norms which are essentially there and maybe even more we just go and see his capacity how well he's equipped to service us our eventual customers. That's what we essentially try and do that. Whereas there are various checks which happen on the field and also happen off the field from the back end as well in terms of onboarding a merchant.

Mayur: And my second question was regarding merchant attrition rate. What happens to the customers, which are the merchant serving which got off from your platform?

Ketan Merchant: So, it's a very good question and it actually puts a perspective to the entire business model. A lot of times in last 3 years I have been asked this question that does a merchant have exclusivity with you? I should just reiterate it off that no merchant in this entire business has an exclusivity with you. A merchant typically will have 2 to 3 kind of handles which are essentially there. Now in such a scenario what difference it makes, just to give you a number approximately 50% odd of our merchant base is active and that's what we attempt to leverage. Why would merchant be more active on us as compared to other players, is two reasons out here is, one is we are a bank. A bank following a model of a BC is something which generates a lot more confidence in terms of as compared to the other fintech players which we essentially do it off. The biggest incentive why a merchant would be active is the amount of products which he can sell to us as compared to other fintech players. For other fintech players he can largely do a remittance or a micro-ATM and AEPS. For us, the CASA or the account opening is also a mode which he essentially has. Just to reiterate, the 50% sort of active merchants which we have and merchants is as good as a customer and more for us.

Mayur: So why I'm asking this question is actually when 40% of customers are digital savvy but the rest 60% treat the merchant or the shop of merchant as a branch. So, when this merchant cut off from your system so how we handle those customers? How we provide better services to them if what they know is the merchant. But if a merchant cuts off from our platform, then how we provide services to them if they are not digitally savvy and specifically we don't have physical branch presence in those areas?

Ketan Merchant: Good question. Mayur just to again give answer just to put a perspective, the 40% of our own customers are active on digital. However, we need to look at the galaxy wherein how do we get these customers, our own customers. During the statement I think I just mentioned a point that the footfalls we have approximately 2.5 crores odd footfall coming onto our merchant points. Mind well these are not our banking customers. These are the customers who come essentially for other bank customers and perform all of these transactions. So, when all of these transactions comes our merchant who is growing, maybe in the last quarter we had some 68,000 merchants growing and those guys will attempt to convert an offline or offi us customer to our customer and then we will attempt to give this kind of a perspective and this kind of a service to him. Our merchant will facilitate and we incentivize the merchant to take the customer to the digital as well. Here we are not talking about a typical urban customer, we are talking about a customer who is non-urban and for him the digitalization journey is in the relative nascent stage or we are the ones who are triggering that digitalization journey for him.

Mayur: Another question if I can ask is regarding our CASA and CMS segment is growing very well at the rate of 35% to 40% CAGR and rest 50% to 60% of our products portfolio is stagnated in growth. So once our CASA and CMS portfolio takes bigger chunk of our revenue, so isn't our top line growth will be more than 20%?

Ketan Merchant: Well. I do not want to comment about how the top line growth will go beyond the stated objective which we are looking at. One thing which I can definitely say with CASA and CMS and this I answered in one of the earlier questions as well, that the CASA and CMS growth definitely enhances the margin which I said was 33% in terms of after deducting the product cost. So that any high yielding product if it continues will definitely result in a higher profitability coming as well. In terms of other aspects where specifically CASA can help us, going back to Rishi's point on the SFB vision which he mentioned as well, once you are owning the customer a lot more things can be essentially done with the customer as well. So that's where our acquisition phase is going through.

Moderator: Thank you. In the interest of time that would be the last question. I would now like to hand over the conference to the management for closing comments.

Rishi Gupta: Thank you for participating in the conversation today. As I mentioned earlier, the Company is actively focusing on the TAM strategy where we are looking at transaction as a hook and then building up the acquisition platform. Fino 2.0 which is largely around digital is also progressing well. We expect that more products and more B2B lines of businesses will come as we move forward into our journey. We have spent quite a bit of time today on the technology part explaining, how technology is important and how it is to be built up for the future. I think that is something we will continue to strive and be on top of it. Our SFB aspiration is very much there and we are building our internal things around that. Our application is more or less in the final stages. We should be able to file in the next month or so. So those are from our side and we look forward continuing support from all our investors and analysts. Thank you very much.

Ketan Merchant: Thank you everyone.

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