AU SMALL FINANCE BANK
A SCHEDULED COMMERCIAL BANK

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To,

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

Dear Sir/Madam,

Sub: Transcript of Conference Call for Financial Result for the Quarter & Nine months ended on 31st December, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we submit herewith the transcript of the conference call held on Thursday, 19th January, 2023 for the Financial Results of the Bank for the Quarter & Nine months ended on 31st December, 2022.

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

This is for your information and records.

Thanking You,

Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

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Formerly known as Au Financiers (India) Limited

"AU Small Finance Bank Limited
Q3'FY23 Earnings Conference Call"
January 19, 2023

MANAGEMENT: **MR. SANJAY AGARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – AU SMALL FINANCE BANK LIMITED**
MR. UTTAM TIBREWAL – EXECUTIVE DIRECTOR – AU SMALL FINANCE BANK LIMITED
MR. YOGESH JAIN – CHIEF OF STAFF - AU SMALL FINANCE BANK LIMITED
MR. VIMAL JAIN – CHIEF FINANCIAL OFFICER - AU SMALL FINANCE BANK LIMITED
MR. RISHI DHARIWAL – GROUP HEAD LIABILITIES – AU SMALL FINANCE BANK LIMITED
MR. BHASKAR KARKERA - CHIEF OF WHEELS – AU SMALL FINANCE BANK LIMITED
MR. VIVEK TRIPATHI — HEAD OF COMMERCIAL BANKING
MR. PRINCE TIWARI – HEAD OF FIG & INVESTOR RELATIONS – AU SMALL FINANCE BANK LIMITED
MR. ASEEM PANT – VICE PRESIDENT INVESTOR RELATIONS – AU SMALL FINANCE BANK LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the AU Small Finance Bank Q3'FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aseem Pant from IR team.

Aseem Pant: Thank you, Inba. Good day to everyone, and welcome to AU Bank's Earnings Call for the Third Quarter of FY'23. We thank you all for joining the call and we hope you are well. As usual, for approximately the first 20 to 25 minutes of the call, we will have brief remarks by few members of our senior management team, followed by 30 to 45 minutes of Q&A.

Firstly, we will have our MD and CEO, Mr. Sanjay Agarwal, share his thoughts on the overall performance and outlook for the bank. He will then be followed by our ED, Mr. Uttam Tibrewal, who will share his thoughts on the operating highlights for the quarter. Besides them, we also have few other members of our senior management to answer any other questions you might have.

For the benefit of everyone, we would humbly request that the number of questions per participant be restricted to a maximum of two and to join back in the queue or email us in case you have any further questions. With that, I will request our MD and CEO, Mr. Sanjay Agarwal to share his thoughts.

Sanjay Agarwal: Thank you, Aseem. Good evening, everyone. Namaskar. Thank you for joining in. Hope you are doing well and had a fantastic start to 2023. The quarter gone by was the 23rd quarter in our banking journey and another quarter where we have demonstrated consistent performance and the team has delivered a strong set of numbers on all the fronts. We are on the course of namely a robust foundation for building a sustainable and a scalable bank.

In terms of macro, you all know that global economic activity has been slowing down due to the adverse impact of geopolitical tensions, tightening global financial conditions, persistently high inflation and sharper than expected monetary tightening by central banks globally. Consequently, India continues to face intensified pressures due to the global inflationary trends, weakening global demand and high volatility in portfolio flows.

Specifically, the tighter liquidity and a strong credit growth has led to the increased demand for deposits and rise in deposit rates all across in the last quarter. Despite these headwinds, India emerges as a bright spot with GDP expected to grow north of 6.8% this fiscal as per the latest

RBI forecast. The effects of series of rate hikes by RBI will help in bringing down inflation, while maintaining the growth inflation dynamics in balance and keep bond yields in check.

Moreover, India's favorable demographic, stable democratic set-up and increasing impact of technological innovations like India Stack, coupled with these structural reforms implemented in the last five years, are helping us emerge as a knowledge and technology leader in the world. The governance structure and compliance culture in the country is also going through a positive change and is one of the equalizers for growth.

Coming to AU, the last quarter was among the most consistent and a stable quarter for us. I'm happy to share that we not only delivered the ever-highest net profit of INR 393 crores, but also performed well across all parameters. In line with our expansion strategy, we opened 42 new touch points, crossing the milestone of 1,000 touch points with a presence in 21 and three UTs of India. We've entered into two new states, Andhra Pradesh and Kerala in last quarter. Our deposits grew by 38% on yearly basis and 5% on quarterly basis, led by an increase in retail term deposits. Our overall CASA plus retail term deposits is around 70%.

As the system credit growth continues to be strong, the competition for deposit has intensified the rise in deposit rates for all commercial banks in quarter 3. We also raised our term deposit rates and our saving deposit rates in certain buckets. The overall reception was quite strong in the retail segment with a clear preference for term deposits, thereby locking long-term interest rates on deposits.

In the last quarter, our overall CASA moderated to 38% from 42%, but I strongly believe that it's still in the zone. Our cost of funds saw a 14 bps increase for the quarter as compared to last quarter. As a systematic liquidity continues to be tight, interest rates remains a key variable and our ability to optimize cost of funds remain a key priority. At the same time, our yearly cost of money continues to be in line with our earlier forecast at around 5.84%. We remain on course to deliver our margins for our current financial year in the line with FY'22.

Moreover, I strongly believe that cautious stance adopted by us around growth of neither aggressively building assets nor raising more money at higher rates over the last six months has served us well, and any impact of elevated cost on our margin of next year remains a key monitorable. The credit market remained strong with strong demand coming across all our asset SBUs, be it Wheels, SBL, Housing and Commercial Banking.

The asset business saw a disbursement north of INR 10,000 crores, growing 23% year-on year with the disbursement yields remaining stable. Our non-fund business also saw sanctions of around INR 500 crores. Our asset quality, which is one of our core strength, has remained resilient across cycles and we are committed to maintaining pristine asset quality.

Moreover, we are seeing an increased awareness around customers to repay their dues on time. And there is also a strong momentum in the business, resulting in improved collection across buckets and products. Our collection efficiency for the quarter was around 107%, resulting in a gross NPA of 1.8% and net NPA at around 0.51%. In fact, asset quality of our post-pandemic book is even better. 81% of our book was originated post-pandemic where GNPA is around 0.6%. The restructured book has also seen healthy recovery and now stands around 1.4% of the advances. Our balance sheet has now crossed INR 80,000 crores. The bank remains well capitalized with capital adequacy around 22%. ROA and ROE for the quarter was around 2% and 15.2% respectively. I think more will be shared by Uttam.

Around customers, we welcomed around 3.3 lakh customers last quarter. And with a view to serve our customers holistically, we also expanded our third-party offering by entering a partnership with HDFC Life and ICICI Lombard for the insurance. We continue to invest and make progress in our technology journey. We went live with our upgraded CBS, a few days back, which has been in the work for last 10 to 12 months and will provide us better scalability and resilience as well as new functionalities. Our automation effort also started yielding results with more than 150 processes automated. This will go long way in cutting our cost. We are also progressing well in implementation of our data platform which will go live in phases, starting in Q4 and improve our data analytics capabilities.

On the digital side, we continue to scale-up and improve our various initiatives, be it our own app, AU 0101, Video Banking and Credit Cards. We have around 16 lakh digital customers now. And we have around 4 lakh credit card customers and our monthly issuance is around now 35,000 cards per month. For our progress, we are awarded the Best Technology Bank and Best Bank in a Digital Engagement by the IBA. And of course, it was in Small Finance category. Throughout the last year, the leadership team of our nine SBUs presented their business model and strategy at various AU Insight sessions. I hope you had a chance to interact with our senior leadership and their department to get a deeper sense around the SBUs sustainability and profitability.

Our senior team as of now is quite stable, well balanced and driving the business with a lot of passion, purpose and pace. We are building the culture of these 3P's in our organization. In fact, recently, we also were featured among the Top 50 Companies with Great Managers. And out of that, three leaders made our Top 100 across the industry.

I'm also delighted to share with you that AU Bank has been adjudged as Great Place to Work for 3rd year in a row. We continue to introduce progressive HR practices which are best in the industry with an intent to build this bank where our people not only develop their career, but also retire from here. Our recent introduction of Menstrual Leave for women colleagues and AU Forever Pass, entertaining our alumni to join us any time, are probably among the first in the banking industry. Despite from our philosophy of Badlaav Humse Hai, policies like leaves for special occasions, paid sabbatical leave, education assistance, subsidized PL and home loan are some of the key initiatives so far.

I'm happy to share that we've also been awarded a Certificate of Recognition for Excellence in Corporate Governance by National Awards of Company Secretaries Institute in the mediumsized listed corporates. To make our governance more robust, I'm also delighted to welcome Madam Malini on our Board as an Independent Director. She joined in today's board meeting only. We look forward to her guidance in building our bank and take her inputs in the area of her specialization like sustainability and CSR. With Malini madam addition, the total strength of the board has now reached 11 Directors with nine being independent. But with the heavy heart, I need to also say bid adieu to our two veteran board members, Rathi sir and Jyoti madam who are due for retirement in this quarter by March 31. After a great, long, fruitful and very impactful inning at AU, which we are very deeply grateful, I've lot of gratitude for them and we'll miss them.

Last year, we also began our sustainability reporting journey. And I'm very happy to present the first sustainability report of our bank, taking you through our journey of care, of taking banking to all, and now being a catalyst in bringing positive changes in lives of our communities we work with. The report is global reporting initiative based and its externally assured by PWC. I would request you to please go through it and share your feedback with us.

In the end, we are nearing six years in our aspirational journey of emerging as a best-in-class highly sustainable retail bank of India and each year continues to bring new hopes and milestones. We welcome 2023 with great enthusiasm and energy. This year too we'll continue to leverage the India story and further our franchise business by 3S; Standardize, Scalable and Sustainable. The bank is well positioned in terms of balance sheet strength, distribution and digital properties, stable leadership and offers a compelling value proposition for customers on both the deposit and the loan side.

As we also move ahead, we will continue to strengthen our governance framework, maintain our underwriting and asset quality, invest in our retail franchise and digital outlook, build a strong brand, attract and nurture talent and provide one of the best-in-class experience to our customers. We are also committed to learn and grow every day.

Thank you so much for this patience in listening to me. I hand over to Uttam for the operational highlights for this quarter. Thank you so much. Namaskar

Uttam Tibrewal: Thank you, Sanjay. Namaskar. Good evening. I'm wishing you a very purposeful and cheerful year 2023. Hope you all are in the best of health. The strength of our foundation and resilience of our business model is getting reaffirmed every day. And I'm happy to report that we have experienced the same momentum in the current quarter as well with all our businesses delivering a very strong and stable performance across all parameters.

To reiterate, we started the fiscal year with a strong performance in Q1, which probably in my experience, was one of the best first quarter in the last five years. This was followed by a good Q2 helped by an early onset of the festive season and the festivities continued in current quarter as well. Throughout the first nine months of FY'23, we have consistently excelled across all aspects of our businesses from deposit growth to CASA growth to improve granularity and stable spreads to strong disbursements and collections. We have maintained a steady course navigating the ever-changing landscape, while preserving our margins and capitalizing on new opportunities, ensuring that our market position remains unchanged.

We will continue to push ourselves to reach new heights and stay ahead of the curve. In the last quarter, we reached 1,000 touch points with a branch in Indiranagar, Bengaluru. In total, we opened 42 new touch points in Q3, taking the total to 1,015 touch points, including entering two new states, namely Andhra and Kerala. With this, we have now established the Pan-India presence barring North-East region with presence across 21 and three union territories out of 28 and eight union territories, covering a total of 709 unique locations.

I will now take you through some key operational highlights for this quarter. Starting off with liability performance in this quarter, our total deposits have now reached INR 61,101 crores, maintaining the momentum from Q2. We increased our deposit book by 5% despite tighter liquidity in the market. Q3'FY23 witnessed an increase in deposit rates across all banks, and we have maintained competitiveness by increasing our deposit rates too, this gave us higher traction in term deposits against saving deposits. Our CASA ratio for the quarter closed 38% with overall CASA at INR 23,471 crores, a year-on-year growth of 35%.

One of the key target areas for us has been becoming the primary account for our customers, and we've continued to design, innovate, and launch savings and current account products to make this transition natural for our customers. The customers acquired in Q3 for our Royal and Platinum savings accounts constituted 24% of total new saving account customers (excluding BSBDA). Similarly, acquisition in our higher variant current accounts stood at 47% of total current accounts that we opened in Q3'FY23, up from 37% in the previous quarter.

In October '22, we launched our AU Platinum Business Current Account designed for retail merchants. On the back of merchant-specific inbuilt solutions such as QR, POS and soundbox. We have been able to onboard 1,195 Platinum Business Current Accounts till December '22. We are on the verge of launching another premium savings product, which in my mind, will be among the best in the industry. This program is especially designed to provide comprehensive banking and lifestyle experience and will give us a strong foothold and market share in the fast-growing HNI segment.

With our cross-sell efforts, we disbursed 15,000+ life and health insurance policies, registered 15,000+ new SIPs and opened ~6,500 3-in-1 trading accounts during the last quarter. To further increase the bank's third-party insurance offerings, we have partnered with HDFC Life Insurance and ICCI Lombard General Insurance this quarter. Asset cross-sell has also been an important focus area for us to deepen the engagement with our customer base, and in Q3 we disbursed INR 589 crores to our Branch Banking customers across Wheels, SBL, Home Loans, Business Banking and Agri loans. With all these initiatives, we are steadily improving product mix to increase our average balances.

Our product for customers has been consistently rising and presently stands at 1.62 for saving account customers and 1.99 for current account customers (excluding dormant and BSBDA accounts). Our digital initiative, AU 0101 app, Internet Banking, Video Banking, Credit Cards, UPI QR and Personal Loans have played an important part in improving customer experience and engagement. Our monthly transacting customers have increased to 57% of our total active SA customers with average number of monthly transactions increasing to 33. Further, over 70% of the current account customers are regularly transacting with us with average monthly customer initiated transactions be 75.

Through our digital proposition, we added 1.2 lakh new customers, which is nearly 36% of our total new customers onboarded by the bank in the quarter. Today, the aggregate balance in 2.4 lakh Video Banking accounts stands upwards of INR 1,000 crores, and we continue to acquire and manage high quality retail saving accounts through Video Banking at almost half the cost of a physical channels. We are also happy with the growing digital adoption of AU 0101 app. We now have nearly 1.6 million customers registered on the AU 0101 app and more than 60% of them were actively logging in December '22.

Our credit card proposition continues to scale further with 3.9 lakh live cards and 35,000 monthly card issuance run rate. We have geared up our credit card acquisition through VKYC in this quarter and we are happy to share that in month of December, we issued 13,000+ cards via VKYC channel. On the UPI QR front, we have installed 8.7 lakh UPI QRs in Q3'FY23 and seen a 33% growth quarter-on-quarter in the value of transactions. I'm also happy to share that this quarter we have disbursed person loans worth INR 134 crores, taking total disbursements till date to INR 664 crores, all of which has been disbursed fully digitally on the AU 0101 platform.

Moving on to our asset businesses, let me start with Wheels. This quarter, vehicle industry sold 51 lakh units, which is 9% growth year-on-year and 3% quarter-on-quarter. In keeping with the industry upward trends, we disbursed the highest ever quarterly volume of INR 3,864 crores, 27% higher than same quarter last year with an IRR of 14.38% and an increase of 9 bps sequentially and an average disbursement ticket size of 4.9 lakhs excluding two-wheelers.

As on 31st December 2022, the portfolio of Wheels stood at INR 21,477 crores to 8.17 lakh live loans, which comprised 52% in new vehicles, 36% used and refinanced, 10% tractors and 2% two-wheelers, while personal segment contributed 44%, commercial segment contributed 46% and tractor contributed 10% to the portfolio. Our average ticket size on the portfolio stood at 2.94 lakh, excluding two-wheelers. The asset quality of our Wheels business continues to improve with gross NPA of 2.22% and collection efficiency continues to remain north of 100%.

Moving on to our SBL business. We disbursed a total of INR 1,678 crores in Q3'FY23. In totality, we have disbursed INR 4,417 crores in nine months period at a weighted IRR of 14.4%. This is an increase of 63% over the same period last year. The asset quality of our SBL business continues to improve with gross NPA at 2.68% and collection efficiency continues to remain north of 100%. In Q3, we added 6,000+ new-to-bank customers, taking the total to 1.81 lakh unique SBL customers. In the same period, our average loan ticket size stood at 11.67 lakh with LTV of 44%.

Talking about our home loan business, we financed 4,400 houses in the quarter, disbursing INR 547 crores at a weighted IRR of 11%. The total home loan portfolio as on 31st December 2022, stood at INR 3,695 crores across 37,000 loans with an average ticket size of 11 lakhs and GNPA remaining stable at 0.42%. Currently, we are operating in eight major states with home loans available across 240 branches. Being an affordable housing book, much of this book is also eligible for long-term refinance from NHB.

Finally, on our commercial banking business, it comprises of four major divisions, mainly Business Banking, Agri-Banking, NBFC Lending and our Construction Finance business. Together, they have a portfolio of INR 11,179 crores at weighted IRR of 11%, focused mainly on providing working capital solutions like CC/OD and term loans to MSMEs and small businesses. This book is almost entirely floating rate book and thus portfolio IRR has benefited from the recent increase in the repo rate.

The commercial banking lending business is dominated by Business Banking and Agri Banking, which together accounted for 59% of total disbursement volume of INR 2,895 crores during Q3'FY23. We also have a strong non fund-based business where we sanctioned limits of INR 498 crores during the quarter. More specifically, our Business Banking portfolio has reached INR 4,370 crores as on 31st December, growing on 13% quarter-on-quarter with a disbursement of INR 1,033 crores in Q3.

Agri Banking business has now touched INR 3,447 crores portfolio amount, registering growth of 14% quarter-on-quarter, with the disbursement of INR 690 crores in Q3. Our growing footprint in newer geographies, new product initiatives and increased synergies with branch banking have been some of the key factors supporting these businesses. Asset quality for the commercial banking business remained stable with gross NPA at 0.30%.

To sum up, post the 225 bps increase in repo rate by RBI over the last three quarters and the increased competition for deposits necessitated by the strong credit offtake, the system-wide deposit interest rates saw significant pressure last quarter. We will continue to monitor and calibrate rates as per the market environment. Our focus remains on garnering granular CASA deposits and our new product offerings like Platinum business accounts and our Premium SA offering would strengthen our existing CASA acquisition franchise.

The business momentum on the ground has been strong and we expect the credit demand to be robust in the current quarter. We remain watchful and agile as we step forward with continued on-ground engagement with customers, while relying on our strength and processes. I remain confident of our business model and execution capabilities and optimistic that we are well positioned that AU will deliver one of the best Q4.

You would agree with me that despite the macroeconomic headwinds and the geopolitical challenges, India has emerged as a bright spot in the global arena. Similarly, within the banking landscape, I believe AU at this stage is at sweet spot. Having led a strong foundation with a well-capitalized balance sheet, sustainable business model and with strong and stable leadership team, we continue to identify white spaces and position ourselves to take advantage of the opportunities thereon. I look forward to share more with you in the coming quarters. Till then, stay healthy, stay safe and keep banking with AU. Thank you and take good care.

Aseem over to you for Q&A session.

Aseem Pant: Thank you, Uttamji. Inba, we can now begin the Q&A.

Moderator: We take our first question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Congrats on good set of numbers. Sir, the first question was, we have consumed contingent provisions during this quarter despite healthy asset quality trend and good profitability. So just wanted to understand thought process of consuming the same and not building the buffers? That's one. Second is, in the last two quarters, we are seeing a reduction in employee base. So what's happening there? And third is that, currently, what are the challenges in PSLC business? And also, why are we not tapping IBPC route in terms of selling down excess PSLs?

Prince Tiwari: This is Prince here. So, around the first question around contingencies, like as we have articulated earlier as well, that contingencies are precisely created for a particular purpose. And in this case, as you are aware that it was created for COVID and COVID-related contingencies. Of course, as things are getting normalized, we'll need to resolve those contingencies and we cannot keep on it forever. So, if you see, in the first quarter, we did utilized part of it to create floating provisions. And the balance, like whatever is around restructure that's getting used as and when the restructured cases are getting resolved; either it is getting released to the P&L or getting created towards the NPA provisions for the forward flow from the restructured book.

As far as contingencies are concerned, very clearly, as I said, we will need to resolve it at some point in time. And we are in discussion with the board and the auditors in terms of their view. And as per their suggestions, whatever is required during the quarter, mind you, we are not taking any provisions through the P&L. What we have been doing is that, if you see, we have increased our provision coverage ratios from what we used to maintain about 50% earlier to about 75% now, including technical write-off. So that's where the utilization is. And whatever is left over at the end of the annual financial year, basis the guidance from the board, we'll take a call in terms of what do we intend to do with the remaining contingencies.

Yogesh Jain: So, on PSLC, you know that market is subdued. In last quarter also, though we tried, we issued ~INR 2,300 crores in last quarter also, but premium was not there. So we will try in next quarter also. On your question on IBPC, we balance ourselves between IBPC, PSLC and securitization. So as we mentioned in Q2, we sold around INR 1,000 crores portfolio and this quarter ~ INR 1,200 crores. So it's a balance between IBPC and securitization. It is kind of a tool for our cost of fund. So we'll see next quarter also.

Rohan Mandora: And sir, third was on the employee base?

Prince Tiwari: Yes. On the overall employees and the hiring, it's purely routine. See, I think we had commented this earlier as well that during the COVID period, there were some amounts of excess capacity or buffer capacity, which was built in the system more because people were going on leave and they were (away for) 14-day, I mean, they were taking time to return and the counters had to be manned. So to that extent, we had some extra hiring that we had done. But as things are normalizing, as per our own business plan, things are getting rationalized. So there's nothing more to read to it.

Rohan Mandora: Sir, is this further reduction in employee base intended or are we towards the end of that?

Sanjay Agarwal: I'm Sanjay, this side. So in terms of HR, I think we already commented that we're really working on the productivity side. We've built a buffer, as Prince commented. But now things have become normalized. And so there not be any further reduction, rather we are hiring extensively, and I think more hiring can be done for the basis of the next year business plan.

Moderator: We'll take our next question from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: Congratulations, Sanjayji and Uttamji on very good results. Two questions I have. One, if you look at Slide 14, the disbursement, and advances yield, they have [inaudible] over past one year from 3Q FY '22 to the current quarter. I understand that this can be because of the scaling of the housing business?

Prince Tiwari: Nitin, your voice is not very clear. Can you just repeat that part or maybe just come near to the mic.

Moderator: Nitin, if you are on a speaker or hands-free mode, switch it to handset and speak, please.

Nitin Aggarwal: So I was saying like if you look at Slide 14, the disbursement and advances yield have hardly moved up over the past one year. I understand that this can be because of the -- we are scaling up the housing business. But given the extent of rate hike we have seen in the system, this still looks like a little surprising. So if you can share some color on this? And why the disbursement yield during the third quarter have gone down over the second quarter? Very marginal decline, but any reason behind that?

And the second question is on the collection efficiency. Now we have been reporting for many quarters in a row, we have been reporting collection efficiencies of more than 100%, this quarter being 107%. So how long to expect this? And what is really driving it? Is it like the back book areas are higher which is driving this or is it like a prepayments which are coming through to drive such high collection efficiencies? Any color on these questions, please?

Sanjay Agarwal: Nitin, I am Sanjay this side. So I'll answer the second one. So I would say that the credit compliance of the culture, I already commented in my speech that it is one of the best time for us as a lender. People have become lot much conscious around even borrowing money. And the whole repaying their EMI on time has come to be some kind of discipline, some culturally, people have become more disciplined around it. And this I'm saying across products, across geographies, across buckets. So that is why the recovery percentage or the collection is north of 100%. And the business momentum we are seeing, the exuberance in the customer we are seeing, I strongly believe that this year at least, I'm saying the next year -- next financial year 23-24, I would be surprised if it drops. So that's my sense.

So I think you will see this kind of same asset quality maybe for long time now. I can't comment or explain the long time, but the way, after the COVID, we have seen our gross NPAs coming down and the collection efficiency remains so strong. I have more hope than a worrisome aspect around it. So that's on the collection. I hope I answered your question. On your early one is around the business trend.

Moderator: We have reconnected the management now. And Mr. Agarwal, I've unmuted your line as well.

Prince Tiwari: So if I understand clearly, your question on the first part had two parts. One was that the disbursement overall on a year-on-year basis looks flattish on an overall, what we have given on Slide No. 12.

Nitin Aggarwal: Yields have not gone anywhere year-on-year. And this quarter, the yields have come down on disbursement. These two parts?

Prince Tiwari: Sorry. Yields has not gone upwards year-on-year?

Nitin Aggarwal: From 12.7% to 13%. And this quarter it has moved from 13.1% to 13%.

Yogesh Jain: Nitin, actually for this quarter, this was active quarter. In October, it was Diwali festive. So because of that, in that particular month, you get business. So yield was slightly lesser than last quarter Q2.

Aseem Pant: Nitin, the decline is only 5 bps. And that's also partly because the mix of the commercial banking has increased slightly. Our yields otherwise have held up if you talk about the retail.

Nitin Aggarwal: So can I assume that we have been able to pass on the rate hikes that you are seeing in the system to the customers at incremental level because the yields otherwise are staying flat otherwise?

Prince Tiwari: I mean, on the vehicle side, very clearly, there has been a pass on. And as I think Uttamji also articulated in his speech, there has been a 9 bps of sequential increase in terms of disbursement yield. Of course, commercial banking book, if you see the overall yields have jumped up significantly given that they are floating rate and repo-linked. In terms of SBL, it is broadly flattish. But again, you'd agree with me that that book is already at a slightly higher yield. So yeah, I think not really worried too much in terms of passing on the incremental cost.

Vimal Jain: So if you see the Slide No. 13, our NII (%) almost same in the last four, five quarters.- (36:43)

Nitin Aggarwal: And just a follow-up on the other question that I had around collection efficiency. So with collection efficiency being more than 100%, does it imply that we are recovering from the back dues or we are having prepayments or can there be any other reason?

Aseem Pant: It's a across buckets, as we said in our commentary, Nitin. So, its also on loans which are we past due where we have been able to recover now because business activity has sustained

Prince Tiwari: So our collection efficiencies don't include prepayments (Correction: 'Foreclosures' instead of 'Prepayment'), Nitin, as we have disclosed. So this is primarily -- and I think we have also articulated that, what we saw this quarter was some very strong collections both across buckets as well as across products. So that in some way signifies that the underlying cash flows in the underlying businesses has been very-very strong.

Moderator: We'll take the next question from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: Sir, my question was around the cost of funds. You have obviously made detailed disclosures on incremental and outstanding cost of funds and they've not moved much if you compare it to most other banks that have reported. More importantly, if you just calculate from balance sheet averages and cost of funds are risen much less than even what you've disclosed obviously because you disclose on daily balances. So how is it that relative to the system you've done much-much better on cost of funds despite hike in CDs? And what is the outlook for fourth quarter and longer term just in terms of cost of funds or cost of deposits? That's my first question.

Prince Tiwari: Mahrukh, first of all, we haven't done any CDs in this quarter, as we have disclosed. Our CDs have in fact been coming down. Now as far as the overall cost of funds is concerned, you would agree that our cost of funds were quite high when we started the ~~bank~~ (Correction: year). It was around 5.95% unlike some of the larger peers that you are comparing us with. And we have benefited from some of the repricing on that book. Now of course, if you look at the incremental cost of fund, I think that has -- as we have disclosed, it's about 23 bps up in this quarter and that is in line with the broader industry. So I don't think there's too much to read there.

Yogesh Jain: And secondly it was a mix of our funding rate like we did securitization and we raised low-cost refinance also, which helped in our overall cost of funds. And in terms of Q4, I think as we mentioned that we should be within what it was last year, overall year. It was around 5.95%. So we expect that we should be in that range only. And for next year, very difficult, we are also reading the market. So as we mentioned in our commentary also that this is key monitorable for us and we'll see with the time.

Mahrukh Adajania: And my next question is on the ECL circular. Also, have you been filing mock runs with the RBI? And obviously, your provisions, you've given a detailed slide on your provision to AUM in excess of 2%. Given that, do you see any major impact from IFRS on your book? I mean, any comment that you can give on the IFRS circular?

Sanjay Agarwal: So Sanjay this side. So again, this is just on paper discussion and it just came recently. So it's difficult to comment as of now because once the overall scheme of things are settled down. But of course, we are filing with RBI. And by that, we have a positive impact than a negative one. And so I strongly believe that once it is implemented, it will have a neutral to positive impact on us.

Mahrukh Adajania: And why is that so because of early provisions on certain buckets or what is it? Like if you could just...

Sanjay Agarwal: So you know about that. We provision so much and our net credit losses very less secured book, of course that's why our NCL is less. So I think you're absolutely right because we provision more than what is required. But just to make our balance sheet stronger and stronger, but in ECL we have to just estimate. So I think this is that. It will have neutral to positive impact.

Moderator: Our next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Congratulations. Firstly, a follow-up on one of the previous questions. On the cost of funds front, has there been any rundown of any older higher cost borrowings on our book? And if yes, how long do you expect that to continue?

Yogesh Jain: So we don't have any grandfathered borrowing right. That has already been closed. This is now six years running. So three, four years, we had those grandfathered borrowings. So this is in normal course of business.

Ashlesh Sonje: And secondly, on the TD front, on the term deposits, there has been a decent traction on the retail as well as bulk TDs. They're up by 10% to 15% quarter-on-quarter. Can you share the blended cost of deposits on the bulk TD book? If you can answer this?

Prince Tiwari: We need to have blended cost of...

Ashlesh Sonje: Bulk TD book.

Yogesh Jain: So my bulk TD cost is around 6.4% in nine months for this year, means overall TD cost I'm telling you, fix deposit cost.

Ashlesh Sonje: So this includes both the retail as well as bulk TD?

Yogesh Jain: Retail and bulk, both.

Ashlesh Sonje: Is it possible to bring out the bulk TD cost separately?

Prince Tiwari: So Ashlesh, I think we have commented earlier as well that typically, we don't prefer bulk TD. I mean we have been articulating that that there has been an internal drive to go more granular, more retail. And what we are measuring right now is CASA plus retail TD index which you see is now about 70%. So honestly, on the wholesale side, we generally prefer to give lesser rate as compared to retail. And on the retail side, we generally have a slightly higher mark-up. So while we don't disclose this number independently, but if you ask me, it should broadly be similar or slightly lesser.

Ashlesh Sonje: And just one last data-keeping question. Have we hiked the interest rate on new loans in the SBL book this year so far?

Sanjay Agarwal: Sorry, come again.

Ashlesh Sonje: On the SBL book, have we hiked interest rates on new loans during this year so far?

Sanjay Agarwal: Not much. Still very high rate of interest book. So it's a very long-term book. So yeah, we don't want to push that rate on a higher side.

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

Renish Bhuva: Congrats on a good set numbers. So sir, my first question is on yields on the business banking side, which is the number almost...

Moderator: Mr. Bhuva, sorry to interrupt. Could you please speak on a handset mode?

Renish Bhuva: So sir, my first question is on the business banking yield. So the yields on the business banking side has been up by 100 basis points. I understand that it's a floating rate book, but if you can help me with the reset period. And what is driving this high, I mean, are we able to pass on the hike or there is like a different set of customers we cater to where in large banks are not there?

Vivek Tripathi: So this is Vivek here. The entire business banking book is linked to the repo rate and it's a quarterly reset. So any rate hike which is there is passed on the next quarter. So every 90 days there is a reset for each contract.

Renish Bhuva: And then in presentation what we disclosed is the disbursement yields or its blended yield?

Vivek Tripathi: No, I'm saying the portfolio yields have gone up because it was -- the entire book is linked to the repo rate. And even in case of incremental business what we are doing, we are sourcing at the incremental higher rate because the overall regime has changed. Even the competition has increased rates, but obviously not to the extent that what repo rate has been increased, but there is a significant rate hike on the new acquisition.

Renish Bhuva: And sir, my next question is on the bit of clarification side. So one is on the AD1 license. So I mean, I know we have applied, but would you like to comment on the status of that? And number two is on the RBI divergence report. I mean, does the audit had concluded? And what's the outcome of that, if any?

Sanjay Agarwal: On the divergence side because we haven't published anything so that should be taken that the RBI -- the report is in well in place and is in the shape. And your other one, the AD1 license, yes, we applied in the month December and we are waiting for that. And of course, the regulator has to decide, but we have applied for that.

Renish Bhuva: And any timeline? I mean, historically, any evidence within what time...

Sanjay Agarwal: Sorry, we can't comment on that, but it generally takes maybe around five to six months. So generally takes five. So it's in general statement, not expecting to us. So, and we applied it in December.

Moderator: Our next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Sir, last quarter you sounded a bit cautious on growth front, I think that deposit cost has gone up. What is our stance on outlook on growth now? And going into FY'24, what is your outlook on growth?

Sanjay Agarwal: So the last time also people read more into that. But if you have seen our growth in quarter 3, it is absolutely in line what I commented. And because it's not about only an asset growth, we need to see how deposit is being built, at what cost, at what tenure, at what rate. So I think we have -- we want to play very balanced role because we really want to build a very sustainable bank without any noise in any quarter. So I strongly believe that quarter 4 is always better than quarter 3, and we are absolutely on track.

What I commented or promised as a team from quarter 1, we are supposed to deliver that. And I would say, we are on track because our profit is growing north of around 27%, 28%. Our asset is growing north of 27%, 28%. Deposits, we are playing a very calibrated game where we don't want to borrow at higher rates. So we want to be mix of them. Our digital properties are doing well. The SBUs are performing well. We are building our governance structure. Asset quality remains strong.

So I think overall, we are very happy the way we are building ourselves from last nine months. It remains very tough because the interest rate has gone up. We still managed to manage our cost of money at around 5.85%. So in that sense, and now what, another 75 days for this year, so you will see the result by April 1st or 2nd. So overall, I would say, I'm very happy that the team has come together, has navigated these challenges with the flying colors. So very optimistic about our future, but need to take call every quarter. And because it's a very balancing game, you can't comment or we can't be over aggressive or we can't be just look for growth at any cost. So we have learned hard way. So although remain very cautious, but very optimistic.

Nidhesh Jain: And secondly, sir, our share of unsecured have increased to 7% of the book, which was quite negligible three, four years back and we have always focused on secured segment. So what is our strategy on the unsecured? What percentage we would be comfortable with? And I see that the large part of unsecured has been driven by credit card book. So if you can also share some comments on the asset quality and credit cost in that part of the book?

Sanjay Agarwal: Absolutely. So unsecured book has three, four linkages where we do from credit card, we do straight to our existing depositors and we also want to build something around the commercial customer for QR code? So everybody is building their business. We are in a very initial stage. Overall, we don't have any significant numbers around it. So I would want to wait for maybe two, three quarters to really comment on the quality of asset, on the size we want to pursue around it. So I think it's very early for us to comment on anything to be very honest.

So give us some time in maybe two, three quarters to really spell out our strategy around unsecured. But I think as an organization, we're very happy that we are driving all those opportunities, whether it's through QR code, through credit cards, through your data analytics on your existing depositors. And so it's -- we are not running that program on FOS. That is more through digital, data-driven kind of story. So give us some time then we'll comment more on this.

Prince Tiwari: Nidhesh, Prince here. Just to add on that specific 7% number. Not all of it, I mean, while it's classified as unsecured, but bulk of it, like on credit card, again, as the portfolio is growing, it's mostly the out-of-pocket that we have at any point in time depending on the spend in that particular month. Not all of it is actually a loan, so to speak. But I mean, it doesn't revolve. On the second part, there is a decent chunk of SBL book there in that 7%, where for various reasons, the collateral might be imperfect or in the process of getting perfected. And because of that, it's classified as unsecured. But if you look at the core business wise, it's not really unsecured.

Nidhesh Jain: So INR 1,000 crores number that we have disclosed in the credit card, isn't it revolver or?

Prince Tiwari: Sorry. That INR 1,000 crores is the out-of-profit not the revolver.

Moderator: Our next question is from the line of Hiral Desai from Anived Portfolio Managers.

Hiral Desai: So if I just club what Mahrukh and Nitin asked earlier, so just wanted to get your thoughts on margin over next four to five quarters. Because if I see the incremental spread, they are about 70 basis points lower versus the back book and the deposits might continue to get repriced at least for the next couple of quarters. So I wanted to get your thoughts on margin actually for next probably a year or so?

Sanjay Agarwal: So again, I would say, it's difficult to comment now because, again, it's an evolving story that what type of interest rate cycles we are all are expecting. My sense is that we are nearing to an end of a higher interest rate regime, maybe one more or maybe not more than two. Our inflation is in our control. We are moving as an economy. So, and as I've already commented that bank is about balancing so many things. It's not only about NIMs. There are so many other things, and every year something plays out. Like this year, there's no treasury, no PSLC. But we are still able to manage our NIMs and other incomes from other sources.

So I would rather won't comment on this by next call because then there will be lot much clarity on many tendencies around us and also how the whole year would be looking in terms of interest rate and all those things, how we really play our quarter 4 also in terms of our business yield. And so I think it's more around evolving story as of now. So give us some time. But as I already commented that NIMs are just one part of the whole balancing.

As a bank, we remain very strong. We know from where the deposits should come. We know how to lend. We know how our assets are behaving. We know how we are building our team, how the SBUs are performing. So I think those things are more for me as a CEO, are more important because interest rates are more transitory. Maybe one year we might have 1% less ROE. But as we always comment that AU is here for long-term, forever kind of story which is built on scalability and sustainability. So for me, that is more important. And I'm feeling very much confident by passing every quarter that we are building more-and-more on good foundation and is building on it.

Hiral Desai: Fair enough. The other is on the core other income that you mentioned in the presentation. So is PSLC a part of the core other income or it is outside of the core other income?

Prince Tiwari: Yes, Hiral. So PSLC is part of the core other income, treasury profits are not.

Hiral Desai: And Sanjay, it is the first time on the investor deck where you've spoken about granularity of the fee income. So just wanted to get your thoughts on that because credit card is obviously showing good traction? And on the distribution side also we have tie-ups now on insurance or mutual fund and broking. So I think most of the bases are covered. So how should we look at the core fee income growth over the next two or three years?

Sanjay Agarwal: My friend, still we are waiting for our AD1 license which can have a huge impact on other income in next maybe three to five years. We are building wealth product which is just in nascent stage. We haven't seen any kind of other income from there. And of course, our insurance is performing well. The cross-sell is performing well. Of course, the credit card will become bigger-and-bigger, better-and-better. Our QR code is performing well.

So as I commented, and what I've learned in the last 5.5 years is that banks don't run from one revenue stream, it's a pool of many revenue streams. Some years, something doesn't work and something works very well. So we need to be very cautious and we should be very smart enough to figure out that what particular year, what kind of stream can work. And there is already a long-term steam like insurance, wealth product, credit card and all those things. So I think it's a balancing and mix of so many things. But I think we are arriving on our other income aspect which was not there three years back.

So you will see better-and-better in terms of our cross-selling ability, in terms of building a lot many hooks for our customers so that they just bank with us or just they deal with us. So I'm very happy with the way we have built our product. And that is why our opex was also very high for so many years. But I think you will see that results coming out maybe next year onwards.

Moderator: Our next question is from the line of Punit Bahlani from Nomura.

Punit Bahlani: Sir, two questions from my side. Firstly, on the margins a bit. Like on the vehicle book, you mentioned that you have been able to pass on the rate. But if I look at the last three quarter advance yields, they have only increased by around 10 bps. Just on a disbursement basis, if I see the total disbursements made in the past two quarters, they are around over 35% of your vehicle AUM. Just on thumb-rule basis the repricing and basis -- I think the yield impact would be more. So is it like -- because of competition we're giving -- this exchange we have not been able to pass like some color on that? And the second thing on the credit cards...

Sanjay Agarwal: Punit, your audio is not clear at all. Voice is coming muffled.

Moderator: Punit, maybe we can check your connection and rejoin you to the question queue. In the meanwhile, we'll take our next question, that's from the line of Prabal from Ambit.

Prabal Gandhi: Congrats on good numbers.

Moderator: Sorry to interrupt. Management team, are you able to hear Prabal clearly?

Sanjay Agarwal: No, unfortunately.

Moderator: Prabal, we'll check your connection and rejoin you to the question queue. We'll take our next question from Pallav Garg from Star Health.

Pallav Garg: Sir, my first question is on the changes of the CASA ratio. So while I understand that there was pressure on the rates, deposit rate, so have you seen any migration of the retail customers from CASA blocking in the long-term rate in the term deposits or some other trends that you have got in?

Rishi Dhariwal: Pallav, Rishi Dhariwal here. I look after liabilities for AU Bank. You're right that, yes, as with other banks, there has been a trend for some of the customers to move their deposits to move some of their savings to deposits because I think when the rates came down in the last couple of years, that was really fast.

And now when the rates have come up, customers haven't seen these kinds of rates in the last few years and they want to book their deposits at these kind of rates. But if we talk about the CASA ratio, what I would say is that we added to our branch network in the last couple of years and our acquisition continues to grow.

And therefore, we are comfortable to be having the CASA ratio in the range that we are in. And we continue to build our retail portfolio, retail deposits, as what Sanjay and Prince have mentioned earlier. And you would see that the current account volumes have actually gone up for us since March. And therefore, we continue to build on that traction both for savings as well as current accounts.

Pallav Garg: So how should we look at this going forward, let's say, next two, three quarters in the time there is a pressure on deposit rates particularly?

Rishi Dhariwal: That I think is something that one will only have to see how the industry plays, because all banks have really gone aggressive around their TD rates. We all know that. And we obviously have to keep pace with the rate hikes which have been done by -- I mean, all the universal banks as well as -- I mean, the PSUs as well as the private -- large private sector banks. So the only thing that I would mention is that maybe the spread between us and some of the large private sector players have actually come down.

And our focus continues to remain on building the transacting book, what Uttam mentioned in his speech. And that I think is the most important part of what we have been doing. The savings number of customers, the transacting accounts at 57% and that has moved up in terms of number of transactions per transacting customer moving from 27% to 33% a month. And the current account transactions moving to 75% from 69% per month for almost 70% of our current account customers is what basically gives us the confidence that, yes, the customers are basically using our account to do their transactions. And therefore, this, like what Sanjay also said, is a transitory phase and you play it as it comes.

Pallav Garg: Sir, next question is on the percentage of refinancing that you're leveraging based on your housing finance book. If you can give some quantitative number on that? You said that the housing finance can be used for -- to avail an NHB finance?

Sanjay Agarwal: So what's the question? So could you...

Pallav Garg: Just wanted to understand the quantum of it, from the whole borrowing traction?

Prince Tiwari: The refinance as a percentage of the overall borrowing? Most of it is refinance only.

Pallav Garg: But only the housing finance...

Prince Tiwari: You'll see that our CD and borrowings forms about 9% of our overall liabilities. So bulk of it will be refinanced. We of course have some Tier 2 bonds and other things, but bulk of it is refinance, which is through NABARD, SIDBI, MUDRA and NHB.

Pallav Garg: So now just moving back to the asset side of thing. So if you can give some color on the yields on the new vehicle, used vehicle, tractor and the two-wheeler? And maybe you can point to...

Prince Tiwari: Sorry, Pallav, we haven't disclosed that number anywhere in terms of various segments. So we'd like to deal with the overall yields business number, which is already disclosed.

Pallav Garg: And anything about, any color on the gross NPAs in this particular sub-segments?

Prince Tiwari: Sorry, I missed that part.

Pallav Garg: The gross NPAs for these sub-segments, the new vehicle, the used, tractor and two-wheeler? Any color on that?

Prince Tiwari: I mean, both the disbursements and the portfolio yields at a sub-segment level, we haven't disclosed. We'll prefer putting out the whole number.

Pallav Garg: And in the SBL segment, if you can give some color of where the distribution of this INR 18,000 crores in terms of either industry or geography-wise? Any color on that basically only ballpark numbers or any sense would be great?

Prince Tiwari: The question is that in SBL business, you want a geographic split?

Pallav Garg: I just wanted to understand how does that book look like?

Sanjay Agarwal: Pallav, we just did the AU Insight on 4th of December which was on SBL business. That presentation is there and we have given a link in the presentation itself in IR presentation as well for this quarter has all the details around the sub-segments, the geographical split, the ratios from various...

Pallav Garg: Yeah, we'll refer that one.

Sanjay Agarwal: All of that is available.

Moderator: Our next question is from the line of Punit Bahlani from Nomura.

Punit Bahlani: First is on the yields business. You mentioned that you have been able to pass on the repricing towards your customers. But on the last three quarters, the incremental increase in yields that you have reported is around only 10 bps. Just if I compare the disbursements of the last two quarters, they are around over 35% of the yields AUM. So what am I missing here? Like, because 10 bps seems to be quite low. Is it because there is increased competition, you have to do loans at lower rates, like which is common with the bank, like which is common with the commentary that other banks are reporting? So first is on that.

Secondly, on the credit cost, even other banks have utilized their floating provisions, which even you seem to have done and accordingly the credit costs have reduced. Any color on this like how much, do you plan to do this in the near-term? What will be the extent of it, just on that?

Prince Tiwari: So if the first question is on Wheels, what I understand is you're saying that in the last three quarters, the disbursement yields have only gone up by 10 bps?

Punit Bahlani: Yes.

Bhaskar Karkera: Punit, Bhaskar here. If you look over Y-o-Y, we have gone up by about close to 65 bps there. And just over last quarter, we have gone up by 10 bps. What does happened is that by the time you knew the older rate and the new rate, the blending takes time, and that's all it is. But there has been a clear transmission of rates starting from the beginning of this year itself where every month-on-month we have been -- barring the month of Diwali where it just takes a small blip out there.

But otherwise, by design, if you ask me, by design, we are on the upward trajectory and by a product mix we are able to handle that and we do not really see that getting greatly impacted. It's just a matter of the older book, new book and by the time the rate impact gets to kick in, that's all.

Prince Tiwari: As far as the second part of the question is concerned, if I understand that correctly, what you're saying is we have created a floating provision and there is a bit of contingency that we still have on the balance sheet which is related to COVID. And as I commented earlier, we'll see at the end of the financial year, depending on the guidance from the board how to better utilize that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Aseem Pant for closing comments.

Aseem Pant: Thanks, Inba, and thank you, everyone, for joining us and for your support. On behalf of the entire AU team, we wish you a happy, healthy, and prosperous 2023. Please reach out to the IR team for any further questions.

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