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To,

National Stock Exchange of India Ltd.	**BSE Limited**
Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. **NSE Symbol: AUBANK**	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. **Scrip Code: 540611, 958400, 974093, 974094 & 974095**

Dear Sir/Madam,

Sub: Transcript of Conference Call for Financial Result for the Quarter ended on June 30, 2023

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 Saturday, July 22, 2023 for the Financial Results of AU Small Finance Bank Limited ("the Bank") for the Quarter ended on June 30, 2023.

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

Manmohan Parnami
Digitally signed by Manmohan Parnami
Date: 2023.07.27 19:00:59 +05'30'

Manmohan Parnami
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Encl: As above

"AU Small Finance Bank Limited

Q1'FY24 Earnings Conference Call"

July 22, 2023

MANAGEMENT:

MR. SANJAY AGARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
MR. UTTAM TIBREWAL – EXECUTIVE DIRECTOR
MR. DEEPAK JAIN – CHIEF RIK OFFICER
MR. YOGESH JAIN – CHIEF OPERATING OFFICER
MR. VIMAL JAIN – CHIEF FINANCIAL OFFICER
BHASKAR KARKERA – CHIEF OF WHEELS
RISHI DHARIWAL – GROUP HEAD LIABILITY
VIVEK TRIPATHI –HEAD OF COMMERCIAL BANKING
MAYANK MARKANDAY – HEAD OF CREDIT CARD BUSINESS
MR. PRINCE TIWARI – HEAD OF INVESTOR RELATIONS AND FIG
MR. KUNAL KAKKAR – SENIOR VICE PRESIDENT - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q1'FY24 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prince Tiwari, Head of Investor Relations and FIG. Thank you and over to you, sir.

Prince Tiwari: Thank you, Neerav, and good evening everyone, and welcome to AU Small Finance Bank's earnings call for the first quarter of FY24. We sincerely thank you all for joining on the weekend. The format for today's call will be very similar to what we have been doing for the last few quarters where we will start with an opening remarks from the senior management of the bank for about first 20 to 25 minutes, followed by a Q&A session of about 30 to 35 minutes for everyone who's present on the call.

To start the call, I'll now request our MD and CEO, Mr. Sanjay Agarwal, to share his thoughts on the overall performance of the bank and his outlook for the bank. He'll be followed by our ED, Mr. Uttam Tibrewal, who will share his thoughts on the operating highlights for the quarter. And besides them, we also have senior members of the management to answer any questions that you may have.

For the benefit of everyone, as is customary, I would request to keep your questions to two, and if needed, join back in the queue so that everyone can have a chance to ask the questions.

With that, I'll now request Sanjay Ji to start today's call and share his thoughts for the bank's performance. Over to you, sir.

Sanjay Agarwal: Yes. Thank you, Prince. Good evening and namaskar. I extend my heartfelt appreciation for each of your presence today, given its weekend and a holiday. I'm delighted to address you all today and provide an update on the bank's first quarter performance and our vision for the future.

Before going into the details, I want to express my gratitude for your unwavering support and confidence in our bank which continuously drives us to surpass boundaries. On the macro front, the global economy continued to face heightened uncertainty in the first quarter, amidst banking system fragility in certain countries, persisting geopolitical tensions, and moderating but elevated inflation. Despite these global headwinds, the Indian economy and the domestic financial systems remain resilient.

Most high frequency indicators show that India continues to be on the path of sustained growth. Inflation is moderating, current account deficit is narrowing, foreign exchange reserves are on rise, and the Indian financial system is robust. Rural economy has continued to recover government spendings and infrastructure capex programs. And the monsoon is likely to support the credit demand in rural and semi-urban areas. In whole, India is shining and poised for a sustained period of growth.

In this backdrop, let me share my thoughts on the first quarter performance. The quarter gone by was the 25th quarter of our banking journey and our performance remained consistent with the expected outcomes driven by our team's unwavering commitment. Our deposits grew by 27% on yearly basis, which is now at INR 63,315 crores. We started the financial year with excess liquidity and our LCR as on 31, March was 151%. On an average, we had 39% additional liquidity during the quarter than regulatory required. Our focus was to take advantage of this excess liquidity that we carried from last quarter, and we consciously chose to keep away from high-cost deposits and instead focus on retail and granular deposits.

Our retail term deposits increased by 8%, even though our overall deposits remained similar to last quarter. During the quarter, we have reduced our peak deposit rates by 25 basis point across savings and retail term deposits and continued to place strong emphasis on CASA retail deposits, particularly by enhancing our current account offerings. Going forward, we want to pivot our liability strategies more towards our products and services and our brand pull rather than interest rates alone.

Our cost of funds has increased by 29 basis points, reaching to 6.58% as deposits continued to re-price. On a year-on-year basis, our overall deposit cost has increased by 86 basis points since June '22. This is compared to a 250 basis points increase in system-wide interest rates during the same period. As we had previously communicated during our last year's fund raise, the impact of interest rate changes typically takes about 12 months to 18 months to fully manifest, and we are now in that cycle.

We're expecting the pace of increase to be gradual from hereon as bulk of the re-pricing is behind us. This increase in deposit costs and drag from higher liquidity impacted our margins by 38 basis points this quarter, but it remains within the guided range. We might experience a spill over of additional 10 basis points for the full year, compared to our earlier projection.

We have increased our disbursement yields by 29 basis points during this quarter, which will help our margins in the coming year. 66% of our loan book is fixed rate and 34% is floating rate. Our fixed-rate retail book will be advantageous once interest rates reversal start as we have seen in past cycles. We will be likely the beneficiaries on the margin front in the coming years, and we will look to maintain a mix of fixed to floating rate around similar levels now.

During the quarter, our asset growth was strong, growing at 7.6% on quarter-to-quarter basis. This was supported by surplus liquidity buffers and a strong credit demand. As we have maintained in the past, our asset growth will be deposit-led, and we will calibrate further to the extent we raise cost-effective retail deposits. Our focus on assets is to prioritize yields and the underwriting filters. You will hear more in this from Uttam.

Our asset quality trends continue to be within the range with gross NPA increasing by 10 bps quarter-to-quarter to reach 1.76%. Quarter 1 generally is a sluggish period due to seasonality, which is the case this quarter as well. And we expect that asset quality to remain within the range without any surprises.

Cost-to-income ratio for quarter 1 was 65% and our endeavour is to keep the full year cost-to-income around the range of FY 23. Cost-to-income ratio will remain under pressure as we continue to invest in credit cards and digital initiatives and also invest in building our transaction banking capability this year. The quarter saw us increasing our net profit at INR 387 crores, an increase of 44% year-on-year. The resulting ROA and ROE stood at 1.7% and 13.8% respectively. The bank remains well capitalized with our CRAR at 21.5%.

We continue to increase our distribution and have added 11 new touchpoints this quarter. In all, we plan to add 60+ new branches and touchpoints in the current financial year. We are continuously enhancing our tech ecosystem and digital properties. A lot of work is going on internally towards automation and digitization. We are working with global tech giants like Visa, Salesforce, NPCI, Oracle, Accenture and hope to build operational excellence and efficiency through tech in the coming years.

One particular project which I'm excited about is end-to-end digital journey for our vehicle business with the help of front-end solution from Salesforce and integrated with backend BRE from FICO. Once implemented successfully, in the first phase, it will help us in straight-through processing of our personal cars and two-wheeler loan disbursements.

Notably, our digital products continue to scale. The credit card business has now reached 6 lakhs+ live credit cards with monthly spend crossing around INR 1,250 crores in June '23. Additionally, we opened 49,000+ savings counts via our video banking and AU 0101 in quarter 1.

Our outlook for the future is to move towards our long-term vision. I sincerely hope that you had a chance to go through our recently released annual report for FY 22-23, themed on building a sustainable bank, which can last forever.

Further, as India prepares itself to become a $10 trillion economy by 2035, we strongly believe that AU has an incredible opportunity to play a crucial role in this journey. We firmly believe that our first 10 years are very important in this forever journey, out of which we have already completed the first six years seamlessly. We have navigated the challenges with a positive mindset, focusing primarily on strengthening our core and growing with a purpose. A significant emphasis has been placed on building a robust foundation and driving content. A lot of leadership depth has been created, and implementation of a SBU framework has helped us strengthen our organization structure and efficiency.

Over the next four years, that is by 2027, when we complete 10 years as a bank, we are preparing ourselves by focusing on platform development, customer centricity, financial inclusion, innovation, and adopting a forward-looking approach. By this time, we hope to attain a significant size and scale, and grow our distribution, on-board a large customer base, establish our brand, and strengthen trust of our all stakeholders.

Beyond 2027, we can leverage our size and scale, benefiting from a strong brand presence, nationwide distribution, advanced digital properties, tech-driven initiatives, and robust balance sheet. This combination will enhance the bank's relevance and create opportunities for sustained growth at a larger scale. Each and every aspect of this readiness is being looked into in detail, and we are preparing ourselves to be ready for the next phase.

For me, personally, the focus is to continue strengthening our governance and compliance with a long-term outlook on productivity and efficiency, to prepare ourselves for the next phase of growth and to complete our platform buildout. You will see our initiatives around three key functions. First, consolidating our entire digital franchise and products under one umbrella. Second, buildout in our transaction banking business. And third, which is the most important, is about rural, impact, and inclusive banking.

We remain committed to our core purpose of financial inclusion and refining our products, policy, and processes to strengthen our focus on priority sector lending. As of June 2023, we continued to exceed the requirement of key SFB guidelines as mentioned in our presentation. However, as we grow, our priority sector requirement also increases. While we have a buffer in other categories, we are now concentrating on small and marginal farmers lending and creating a rural banking team to fund such farmers directly and through partnerships with farmer produce organizations and banking correspondents.

This quarter, we had to buy PSLC amounting to INR 860 crores in small and marginal farmer to meet the requirement in this subcategory and create buffers and I firmly believe that we don't have to buy anything more from our PSL requirement in this financial. Rather, we might have a surplus in other categories.

HR and brand buildout remain other key focus area. We're already working on many initiatives around becoming an employer of choice, not only for our employees but for the market at large. I firmly believe that a compelling story will unfold once we complete 10 years as a bank. By 2027, we envision a larger and stronger balance sheet with stable leadership and a well-tested matured platform. Our increased brand pull, and accelerated customer acquisition can provide us a large base for cross-sell and monetization, thereby bringing economic efficiencies. We're optimistic and seek your continued support as our track record speaks volumes about delivering on our promises.

To conclude, for FY 24, efforts are underway to improve efficiency and productivity, as evidenced by the stable employee headcount in the last 18 months despite business growth. Asset quality is well managed within the range, and we do not anticipate any surprises in credit costs. Our endeavour is to align our profitability and return ratios within the range of FY '23.

Our various investment surplus -- investment avenues, including video banking, QR codes, wealth, credit card, etc., shall start yielding profitability from 2025 and will help us unlocking operating leverage. Our size will give us an advantage beyond 2027, and we are strategically preparing ourselves for that phase.

In closing, I stand before you today, not only as a CEO but as a custodian of your trust. I assure you that we will continue to push the boundaries of what is possible to create sustainable value and to deliver on our promises. Our path may be challenging, but I am confident that with your unwavering support, we will triumph.

Thank you once again for joining us. Over to Uttam for operational highlights for this quarter. Thank you.

Uttam Tibrewal: Thank you, Sanjay. Namaskar and good evening, everyone. Wish you an abundance of health and happiness. I will now share an update on all our businesses for the first quarter of the FY 23-24.

Despite the caution on global economic activity, our economy continues to exhibit resilience and has emerged as a beacon of growth with moderating inflation and strong momentum observed in various high-frequency indicators. The rural economy is also experiencing a positive trend and higher government spending and uptick in kharif sowing will provide momentum. Last quarter also saw worries around delayed monsoon and El Nino effect. However, the recent coverage and intensity of monsoon augurs well. We continue to remain watchful and agile moving forward.

The bank has demonstrated resilience while effectively navigating the higher interest rate and year-on-year liquidity challenges. Reinforcing our legacy of 28 years, we continue to focus on India's Bharat, the semi-urban and rural demographics of India, and continue towards the socioeconomic development of these geographies via impactful lending.

The bank continues to strengthen lending to small and marginal farmers, FPOs, small businesses, and social entrepreneurs in Bharat. The deposit book has largely got re-priced, leading to some contraction in our net interest margins. However, this was well expected, and during the quarter, the bank was also able to increase its disbursement yield by 29 bps on a quarter-on-quarter basis. This may help us in the coming years to better manage our NIMs.

First, to start with an update on digital banking. Happy to share that this quarter, we launched one-of-a-kind digital journeys to acquire current account and corporate salary accounts via video banking that hold great promise for our future growth and scalability. We continue to leverage technology to enhance our customer experience and expand our reach in the digital banking space. Our reputation in digital banking has yielded promising outcomes with around 50,000 savings account customers acquired through AU 0101 digital platform, and video banking in Q1’FY24. Currently, the collective deposit balance of video banking portfolio exceeds INR 1,300 crores with a year-on-year growth of 82%.

We are excited by the growing digital adoption of AU 0101 platform. We now have nearly 21 lakh customers registered on AU 0101 app, a growth of 90% on a year-on-year basis. Also, 74% of these registered customers were active on AU 0101 in Q1’FY24, a healthy indicator for engaged customers with the bank. Our digital acquisition efforts were complemented by several high engagement branded campaigns on digital and social media platforms, helping to drive 82% higher traffic on our website year-on-year and demonstrating greater customer affinity and consideration towards the brand.

To further strengthen our digital product portfolio, we introduced four key solutions: first, bill payments through video banking, allowing our customers, especially senior citizens, to pay utility bills at their convenience. Second, we have enabled UPI Lite on saving accounts, enabling seamless single-click transaction for small purchases. Third, we have launched reward programs, AU Rewardz, for our liability customers, offering loyalty points for every banking transaction, thus strengthening customer engagement. Fourth, we have introduced digital agreements for lockers, making us a truly digital bank. We sincerely urge you to experience digital products and these solutions and share your valuable feedback.

Moving towards our liability franchise. As Sanjay mentioned, our overall deposits grew by 27% year-on-year to INR 69,315 crores. This was similar to our deposit base in March '23, as the bank chose to consume surplus liquidity buffers. However, on a quarter-on-quarter basis, our retail term deposits saw a growth of 8%.

During the quarter, we also reduced our peak deposit rates by 25 basis points across savings accounts and term deposits. In Q1'FY24, our CASA deposit witnessed a year-on-year growth of 14%, reaching INR 24,286 crores compared to INR 21,216 crores in Q1'FY23. The CASA ratio of Q1'FY24 stands at 35%, compared to 38% as of March '23. As the CASA deposits saw outflow from our large transacting government saving accounts, which was a normal course of business. Our CASA + Retail TD mix remains steady, contributing 68% of our total deposits in this quarter.

Our Q1 customer acquisition for AU IVY, Royale, and Platinum constituted 36% of our total new savings account customers, excluding BSBDA on-boarded during Q1. And our higher variant current account acquisition was 49% of total current accounts source in Q1'FY 24. This reflects our key strategic focus on acquisition of good quality and engaged customers to build a sustainable and granular liabilities franchise.

We have been focused on improving the product mix of our liabilities franchise with a comprehensive suite of value-added products, spanning payments, investments, and insurance to become primary banker to every customer. Cross-sell of asset products to branch banking customers grew by 29% year-on-year, with disbursals of INR 635 crores in Q1. Our PPC stands at 1.61% for savings account customers, excluding dormant and BSBDA accounts and two for current accounts, excluding dormant. Similarly, around 57% of savings and 68% of current accounts customers have actively transacted with us in Q1'7FY24.

The recent launch of our Rewards program should enhance early activation and engagement with our savings customers. One key initiative started last year was to build out our wealth proposition, helping us to engage more with our retail and urban customers and provide them complete bouquet of investment solutions. We have started to see some initial progress. Besides SIPs, mutual funds and 3-in-1 trading accounts, we are also on-boarding customers on PMS and AIF offerings. Our mutual fund AUM grew by 48% quarter-on-quarter to INR 247 crores in Q1.

Moving to credit card business. Our credit card proposition continues to scale with 1.25 lakh cards issued in Q1, a 54% growth year-on-year. We have geared up acquisition through video banking and are pleased to share that we have issued more than 70,000 of these cards via video KYC in Q1. Overall, we have over 6 lakh live credit cards with monthly spends crossing INR 1,250 crores in June 2023. 69% of these source credit card customers are new to bank, with 26% comprising of new to credit card itself.

A quick update on personal loan business, which is completely driven through digital acquisition. We have disbursed INR 940 crores till date through a AU 0101 app and our website. On the UPI QR front, our over 10 lakh UPI QRs witnessed 17% quarterly growth in value of transactions. Our QR-based lending solutions for merchants has also seen a good start with close to INR 250 crores disbursed till Q1'FY24, all of which has been disbursed fully digitally on the AU 0101 platform.

Moving on to our assets franchise. During the quarter, credit demand remained strong with disbursements sustaining across product segments. Our total gross advance grew by 29% year-on-year and 8% quarter-on-quarter to reach INR 63,635 crores. Our GNPA saw an increase of 10 bps during the quarter, reaching 1.76%. This is quite a seasonal and a normalized phenomena for the first half of a financial year, and our long-term asset quality should remain range bound.

Starting with wheels now. This quarter, the vehicle industry sold 53.61 lakh units, showing 4% growth year-on-year and 12% growth quarter-on-quarter. Strong quarterly growth was visible in the tractor and commercial vehicle segment with 33% and 22%, respectively. Keeping with industry trends, we disbursed INR 4,091 crores in Q1, a 10% growth quarter-on-quarter at an IRR of 14.66% and an increase of 22 bps sequentially. Our average ticket size remained around INR 5 lakhs on disbursements and INR 3.1 lakhs at total asset level, excluding two wheelers.

As of 30, June 2023, the total loan portfolio gross of securitization of wheels stood at INR 24,441 crores through 8.82 lakh live loans, comprising of 60% new vehicles and 40% used. While the personal segment contributed 43%, the commercial vehicle segment and tractor segment contributed to 47% and 10%, respectively. Gross NPA stands at 2.2%, improved 13 bps on year-on-year basis.

Coming on to our housing finance business. We maintained a steady pace in this quarter. Our home loan business saw disbursement growth by 32% year-on-year to INR 572 crores and the total portfolio has now reached to INR 4,698 crores, comprising over 44,000 loans with an average ticket size of INR 11.71 lakhs and a portfolio yield of 11.7% with GNPA of 0.4%. At present, home loans are offered at 240+ branches of the bank through a plug-and-play model, and we may scale this distribution gradually as required. Notably, being an affordable housing book, much of our book is also eligible for long term refinance from NHB.

Moving on to our secured business loans. Our distinctive SBL business model focuses on providing loans for productive business purposes. While adopting a relationship-based approach, SBL business continues to see positive traction with disbursals at INR 1,407 crores in Q1, a growth of 10% year-on-year. As on 30, June '23, our loan portfolio gross of securitization stands at INR 19,994 crores with portfolio yield of 15% across 1.86 lakh live customers. Our average ticket size stands at INR 10.4 lakhs across 2.31 lakh loan accounts, and our GNPA increased by 20 bps quarter-on-quarter to 2.7%.

Coming now to commercial banking. Commercial banking plays a vital role in building retail franchise for the bank and provides liability cross-sell opportunity along with general CASA book. The commercial banking portfolio grew by 57% year-on-year to reach portfolio of INR 13,461 crores as of June '23. In Q1"FY24, commercial banking disbursed a volume of INR 2,419 crores with two main businesses of Business Banking and Agri Banking accounting for 75% of the total disbursements.

GNPA for commercial banking stands at 0.2%. Gross advances for Business Banking stands at INR 5,510 crores with total fund base disbursed growing by 4% sequentially at INR 1,047 crores. The growth in portfolios was driven by leveraging our branch network, yields from existing customers, and cross-sell to existing current account customers, Business Banking GNPA stands at 0.2%.

This quarter, Agri Banking saw disbursement of INR 755 crores with total book crossing INR 4,335 crores portfolio mark. As on 30, June '23, Agri Banking has reached more than 81,000 small and marginal farmers via funding 191 FPOs, with total disbursements of INR 24.75 crores. Agri Banking GNPA stands at 0.4%.

To conclude, our efforts across branch expansion, product innovation, customer engagement, people capabilities, and continued digital innovations have positioned us to scale our business well. This year, our core resolve is to strengthen efficiencies across productivity, cost optimization and distribution through technology investments, while building a low-cost and sustainable deposit franchise.

We are actively working towards sustainably expanding the current account deposit book, leveraging our comprehensive merchant solutions, and the strong foundation of our SBL and Business Banking customer base. We have started the project to operationalize our AD-1 license and have received our SWIFT membership. We intend to build a tech-led comprehensive product suite for SMEs and individual customers in this space.

In the coming quarters, we are committed to providing accessible and inclusive financial services to reach the unreachables, foster financial literacy, promote entrepreneurship, and facilitate sustainable development. We continue to align our business objectives with the broader goal of driving positive impact and making a meaningful difference with purpose-driven banking for a stronger Bharat. We are optimistic about the opportunities that lie in our area of strength, that is the value of India. I'm eager to share more positive updates with you in the upcoming quarters. Till then, stay safe, stay healthy. Thank you.

Over to Prince for Q&A.

Prince Tiwari: Thank you, Uttam Ji and thank you Sanjay Ji. Neerav, we can now open for questions and answers.

Moderator: Thank you very much. The first question is from the line of Renish from ICICI Securities. Please go ahead.

Renish: Sir, just one question on the deposit side. So, in Q1'FY24, it seems that we have entirely exhausted the excess liquidity and incremental growth in Q1 was funded by this excess liquidity. At the same time, we have also cut our deposit rate. So, going ahead in absence of excess liquidity-plus the deposit rate cut, sir, what gives you the confidence that we'll be able to accelerate deposit mobilization in coming quarters?

Sanjay Agarwal: Yes. So, I think Rishi would give you more colour on this, but our sense is that we have come a long way. Our last four years CAGR on deposit growth is around 35% north to 35%, right? And we have built more or less on everything, whether it's about offering better rates, it's offering better products, services, but I think as we already commented that we want to have a deposit-led asset growth strategy more on table than anything else.

And we can't have only an interest rate as our only attraction towards depositors, right? We need to build around other things also. And we have built lot many things, from credit card, our wealth management practice, cross-selling options from insurance team and all those things, right?

So, idea is to be really try out to build deposit. I know it will remain tough for us. It's a high-interest regime scenario. Everybody is putting their best effort to build deposit. But I think as a team we are trying our best so that let's play on other things also and want to give our best try for may be a quarter and two and then see how we really want to play a long inning. But we are putting lot much into this, and our key focus area is to really build very granular, very sticky, low-cost money, right. That's the first objective as a bank, right? So, I think it's an effort from our side, but let's see how we play our inning in the long run. Rishi, you want to really comment more on this?

Rishi Dhariwal: Yes Renish, Rishi Dhariwal here. So basically, it's like this that our journey has been to granularize our savings book and in any case, the overall share of the retail deposits in the overall liabilities of the bank. And to tell you some numbers, we have close to 120,000 Platinum family savings account, which is essentially the emerging, affluent kind of customers that we have acquired over the last 27 months, and incrementally for the last 12 months, two-thirds of the new acquisitions are Royale and Platinum savings account and we continue to ramp-up more these now also, right?

So, for example, in the foregone quarter, 72% of all the accounts acquired by the branch banking team are Royale, Platinum accounts, which are INR 25,000 and INR 1 lakh average balance family savings accounts, right? So, these are really emerging affluent customers where the ultimate rate offered by us is much lower on the savings side, right? And we've grown our distribution to ~~551~~ (552) branches over the last few years.

Our deposits are more diversified because we've built our channels on current account, enterprise salary, NR, TASC, and the IVY channel. And our expansion of geographical footprint from Mumbai to Guwahati and Jammu to Kochi actually gives us the capability and confidence to acquire customers across various segments from salaried, self-employed, small business owners, non-resident, TASC, HNI.

So, like what Sanjay said, it is a calibrated decision to reduce the premium on our deposits compared to midsized universal banks. And we have traversed the journey of gradually reducing the spread to other banks over the last six years. And I would believe that the current reduction is part of that journey. So, we will make our best efforts and make sure that this is something that we are able to deliver.

Renish: Right. So, Rishi, just to follow-up on that, so let's say the 25-basis point deposit rate cut in this quarter and flattish growth sequentially on deposits, ideally you are saying there is no strong correlation between rate cut and the, let's say, muted deposit on sequential basis. We will be able to make up in coming quarters with the product propositions.

Rishi Dhariwal: Yes, that is the effort that we are making.

Renish: Got it. Thank you, Rishi. And my second question is on the SBL. So, unlike other products, our lending rate in SBL is static at around 15%. And despite that, our let's say, sequential growth in this segment has been muted since last six months. So, in Q4, it was 2%, this quarter it is also 2.5%. Plus, this quarter, we have seen the gross NPA moving up in SBL. So, if you can just qualitatively tell us what is going on in this segment? Is there any stress building up or, let's say, customers are not ready to take any extra pain on the EMI side?

Vivek Tripathi: Yes, Renish, Vivek here. So, you've asked a couple of questions. One on the asset quality, it's more of a cyclic thing. We always have this uptick in the Q1 on the GNPA number, and that's nothing unusual about it. And historically this has been the case, right?

Second on the demand side, in the last quarter also, we've given some of the colours that this segment which caters to the marginal customer base, the end user of those customers and which had a K-shaped recovery post COVID. So, it's coming up well and the disbursement would grow, though we had a muted this thing, but the ground situation has pretty changed in terms of the demand and incrementally we would see the numbers coming back to the normal.

On the rate front, obviously, since we are operating on a bank platform now, customer also has expectation on the rate front and plus competitive pressure also from the smaller NBFCs, though we don't have a pan-India competition, but there is a competitive pressure in pockets around the franchisee.

Prince Tiwari: Renish, Prince here. Just to add, the overall NPA on the SBL segment, as Vivek said, obviously, it's more seasonal. But in any case, you'd note that it has only gone up by about 20 basis points, right? Obviously, we came out of a period where after COVID the NPLs were very elevated. And it has since been considerably coming down and has now kind of settled. And from here onwards it's going to be, like what we have commented in the presentation as well, that's going to be range bound from here.

So, you typically start seeing first quarter, second quarter, probably some amount of slippages, and then a lot of recovery around the third and the fourth quarter when the cash flows improve at the ground level, right?

And on the overall growth front, I think, on a year-on-year basis, we have grown by about 18% in SBL. And I think adjusted for the first quarter, we are saying we, in any case, have guided that some of these matured businesses, which are around INR 20,000+ crores, which have historically we have got an advantage, we will grow somewhere between 20% to 25% only and not necessarily look at a very extraordinary growth here.

Moderator: Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Service. Please go ahead.

Nitin Aggarwal: We appreciate the tough decision that bank has taken in building a strong and resilient bank, which can stand tall over the long term. So maybe a few questions. First, in the past, we've mentioned about the competitive pressures, which may be difficult to pass on higher rates in terms of the disbursement yield. But this quarter, we have a good 29 basis point increase in disbursement yields. So how do you see the trend going forward, which segments now we are seeing the better ability to pass on these rates?

Sanjay Agarwal: Yes, again my friend, I would only say that this is the tough environment because in a rising rate, and then two, intense competition for asset buildup. Every financial institution is making themselves accountable on the ground, right? So, it's not easy to really pass on everything, but the team has done a very good job in last one quarter that they are able to pass on around 30 bps. And I think incrementally, we will do better here, that's my sense. But overall, our 64% book is around fixed. So in this scenario, it looks very ugly.

But in the longer run, when the interest rate cycles will again start reversing, then this book will start yielding you again, right? So, we need to be a little patient here, right? Because it's just a matter of 25 bps here and there, but we are trying our best, but we need to grow ourselves, we need to raise deposits, and it has to be deposit-led growth strategy.

So again, as I narrated in my commentary that we are in our 7th year of banking, right, and it will take around whole 10 years to really understand every part of the banking, right, every minute thing about banking, and this is another of that phase where when interest rates are high, there is intense competition on the ground for both deposits and assets. How we as a team perform on the ground, it has to be more on the basis of hope. And we believe that the way we have built ourselves in the last 28 years, that should help us in terms of our product offering, TAT around it, customer affection towards us. So, I think that's the overall thing. Vivek or Bhaskarji, you want to add on something around whole interest rate on your assets.

Bhaskar Karkera: Yes. So, Nitin, Bhaskar here. On the wheels front, what we had done by design itself when the cost of funds started going up, we have this ability to fortunately have a product mix in store with us between new, used, tractor, two-wheeler. So, we have this entire product range, which helps us moderate our offerings accordingly so that we are able to give that balance and build a rate direction and that is something which has helped us.

Fortunately, all the vehicle models also are doing decently well in the market, and having a vertical and having a position which is one where we have put ourselves correctly placed, we have been able to take advantage of that and that product mix is where we have been able to manage the yields on the wheels part. Yes, Vivek, go ahead.

Vivek Tripathi: Yes, Nitin, on the commercial assets side, we've already increased yields because obviously this was book which was a floating rate book. So, we already have seen that uptick by 100 bps from if you see Q1 last year and this Q1'FY24. Also incrementally, we're able to pass on the higher cost of fund to our borrower, and obviously since this asset is a floating rate asset, linked to the floating rate benchmark, so we're able to pass on the incremental cost so far.

Nitin Aggarwal: All right. Thank you. And the second question is on the AD-1 license, how do you see this contributing to the revenue and business growth over FY 25 once everything is in place? And what are the plans to apply for the universal banking license also?

Sanjay Agarwal: So, Nitin, again, work-in-progress. The capacity of AD-1 license creating a large pool is there, right, and we want to build in that way only, but it will take some time. I strongly believe that. Next year will be too early to comment that it will have a large income pool for us or revenue pool for us. But I think in three-year term, you will see it on a size and scale because we will service 360 degree around it, whether it's retail, whether wholesale, whether it's remittance, whether it's about credit and all those things. So, difficult to comment as of now that what it will have an impact on our P&L next year. But it will have the positive one only, right? It can't have negative one, right? It will add down to our overall revenue pool on our balance sheet, right.

But on quantum we will only comment once we complete our whole overall build-up time and then overall. And what's your other question? Okay, so again, so I would say, so we are on the process right because we got that AD-1 license in April only, and we need to implement that first. Again, we have to showcase to the regulator that we can build it up to their expectations and can service the customer as a whole.

In my opinion, after AD-1 license, we have now everything to offer for our customer in comparison to universal banks' offering, right? It is well-rounded now. Whatever we are not doing is our own choice. It's not being stopped by any regulation. So, for a customer, we are now, to be very honest, full-fledged bank in next one year. But internally, of course, there are certain things which everybody expects us to become universal, but I think, we are not in a hurry. Let's take things one-by-one, and let's see how we want to progress for next couple of years and then see how we want to go for the next level.

Nitin Aggarwal: And just lastly, one data point on the incremental cost of funds. While we have not raised much deposits this quarter, but I just wanted say the cost of fund of 6.6% which we have reported for the quarter, where do you approximate the incremental cost of funds that is right now?

Prince Tiwari: Okay. So, Nitin, I think incremental disbursement yields and cost of funds actually we have stopped giving for the last couple of quarters as you know. But yes, you'll have to understand that or probably intuitively we have a CASA mix, a CASA ratio or cost of SA has been around 5.6% that you already know. And the savings accounts, because we have been focusing more on retail, and retail typically ends up coming in the higher slab, so which we have kept for two years to three years, which is around 7.75. So, you make an educated guess around the blended rate and that's where we would be.

Moderator: Thank you. Next question is from the line of Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: Yes. So, I have a slightly long-term question. As you alluded to your completion of 10-year journey in 2027, question is, in that journey, we are at 1.7% ROA now. Where do you see the ROA? Especially my question comes from the cost to income ratio trajectory. So where do we see ourselves in that journey by that time?

Sanjay Agarwal: So very, very long-term expectation around these things. But if you ask me because it is not only a combination of cost to income and all those things because interest rate cycles will also play a very important role in estimating all those. But I strongly believe that AU has remained in some of their last period in the last six years also around north of 2% ROA and ROE of around 16%.

I strongly believe by building-up the entire revenue pool from credit card, QR codes, personal loan space, TBG, AD-I license, everything will become profitable in the next four years, right? We'll get a scale. Maybe we double our balance sheet in next four years, right? So, I think there everything will be very different in the sense that cost-to-income ratio can be around 55- 56%. Our ROE can be north of 2% again. So, I think this is a journey, but don't hold me for this numbers, right?

But I'm saying because the entire other data point whether it's about the size of the balance sheet, whether it's about the overall distribution, the kind of investment we made over the years, like our credit card will become profitable from FY 24-25, right, or may become breakeven in next year.

Our TBG will get involved, it will have extra revenue pool, we'll have maybe around 10 million customers, so we'll have more options around cross-sell, around insurance, wealth and everything. So, what we have done in last six years is this that we have put everything in place now and that has given us more cost to income ratio.

But I think everything will get matured in next two to three years. So, I think the most important thing for us is that let's not be only one-sided bank who is only focused on ROE and ROA for next four years. Let's see holistically that AU will be coming up as a very formidable franchise for a customer, right. It serves them entire product range. So that's my sense. That's why I'm saying, I think the quality and content will be very high in next four years and it eventually will lead us to a better ROA and ROEs, and for a sustainable future.

Madhuchanda Dey: I'm just repeating the questions which…

Moderator: We lost the participant. The next question is from the line of Shailesh Kanani from Centrum Broking Limited. Please go ahead.

Shailesh Kanani: Sir, I wanted to know what is the size of ECLGS in our book and how is it classified as of now? Is it standard or what is the amount of it?

Prince Tiwari: ECLGS?

Shailesh Kanani: Exposure, if any, in the book?

Prince Tiwari: Yes, it is about closer to INR 560 crores.

Shailesh Kanani: INR 560 crores. How is it classified in the book?

Prince Tiwari: Typically, the behaviour is very similar to the overall book. Bulk of it is standard, and there is some amount of, I think, NPA, underlying contract. Obviously, you know that ECLGS is guaranteed by the government. But on the underlying contract, it's very similar to the overall book behaviour.

Sanjay Agarwal: And we classify them as NPA.

Prince Tiwari: Yes, we do classify them as NPA, the moment it turns NPA.

Sanjay Agarwal: Despite that it is guaranteed by government.

Prince Tiwari: Yes.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Sorry, I joined in late and if the questions are repeated. But firstly, when we look at it in terms of like the choice between margins and growth, and given that you highlighted that you have reduced fixed deposit rates and maybe the focus is on retail rather than the wholesale. But if that leads to some kind of a compromise on growth, would you do that just to sustain the margin somewhere around 5.5% to 5.7-%, or maybe would allow it to dilute more given the competition?

Prince Tiwari: So, Kunal, hi. Prince here. So obviously, I think what we have as a philosophy or a strategy as a bank, what we had adopted is that we want to have a deposit-led asset growth, right? And within that deposit also we are very clear that we are focusing more around retail deposits, right? Our preference for current account is CASA + retail and granular deposits remain very very high.

So, to that extent, obviously, first quarter, we had a lot of liquidity, we consumed that, and we grew very well. We saw that.

Even going forward also, I think when we have said that we'll be able to maintain margins in the range that you talked about, we have considered what kind of deposit growth we can do at this pricing.

And as Sanjay said, again, some time back is that what we are trying to do here is we are trying to see if we can compete on products and services instead of competing on interest rate alone on the deposit side. We'll see how it goes for the next couple of quarters and then we'll take a call. But all-in-all, we are very confident that we will be able to deliver the growth that we have talked about with this kind of margins.

Kunal Shah: Okay. So even though LCR is now down to almost like 119% if you look at year-end and if deposits doesn't come in, then still we are confident in terms of at least doing 25%+ growth?

Prince Tiwari: Yes, I mean, at 119% also it's around 20% higher than where the regulatory is. Typically, we have our internal policies of keeping it around 110%+. So, we will definitely have enough and more room. Yogesh Ji, if you want to add anything?

Yogesh Jain: Additionally, we have non-SLR book, liquid book, which comes for liquidity. So, we have around INR 3,500 crores book which is non-SLR investment which is yielding more than the cost of funds. So that is also there other than this LCR.

Kunal Shah: Sure. And secondly in terms of credit costs. So now here also we have utilized the COVID buffer and what is left out is say relatively lower. And given the uptick in the slippages, how should one assume in terms of the credit cost trajectory because I think maybe this quarter had the advantage of utilization to the extent of almost INR50-odd crores and INR15-odd crores on this structure, but maybe if that gets over, then should we ideally see the credit cost also inching up?

Prince Tiwari: So, Kunal, again, there what we just talked about earlier that typically Q1 is a seasonally weak quarter, and to that extent slippages obviously are slightly higher, but we don't really see that playing out for the full year. So, for the full year, our credit cost guidance doesn't change very dramatically from where we were in FY '23.

Overall, whatever cash flows we are seeing on the ground, whatever customer feedbacks we are getting, I think continues to be quite positive. So, adjusting for the seasonality for the full year, our credit costs, we don't really see a material change in our credit cost.

Moderator: Thank you. Next question is from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Just couple of questions. One is in follow-up to last question of Kunal which he asked about INR 62 crores that we utilized this quarter. What would be your thought process of using this buffer that we've built-up over a period of time and then utilizing essentially in one quarter? What was the thought process for that?

Prince Tiwari: So, again, Prakhar, contingency, if you remember, we had created during a period when obviously a lot of uncertainty was there around the COVID period. And given that specific contingent event has gone through, I think, the advice that we have received, we have been utilizing that.

We don't really envisage given that we do a secured lending and our historical credit cost hasn't been especially loss-given default hasn't been very high, we have definitely, I think we already are at PCR 70+ if you see, whereas historically we used to keep it about 30% to 40%. So, enough buffer is already there in the balance sheet in terms of provisioning.

So, at this stage we don't really think that additional contingency provision is required. Of course, we have about INR40 crores of floating provisioning that we have created. And also, the fact that the overall structure of the book itself, right, what we talked about last quarter as well, that incrementally the home loan and the commercial banking book, which are more better credit book that has gone up to almost 30% in the overall advances. So that obviously is expected to have further reduction in our slippages as well as the credit cost requirements.

Prakhar Agarwal: Okay. And what would be your normalized level of credit cost, not for FY24 but from a business model perspective, what should ideally be a normalized level of credit cost for the business that you have?

Sanjay Agarwal: So Prakhar, this is Sanjay this side. So, we run around seven, eight businesses now. We run vehicle business, which is more in retail, more in semi-urban areas. Then we run SBL, again, which is more of a semi-urban rural area, and then of course, housing loan, too, is like this, but we also run business banking, Agri banking, NBFC, REG book, which is more about urban customers with more of a balance sheet driven approach, and then we also want to build our PL and credit card business.

So, I think it's a mix of everything, but my sense is that FY '23 was one of the best year for the overall asset quality perspective. And from hereon there would be some normalization happening in next three to five years. But in next three to five years, our book composition will also get changed dramatically because as of now, commercial banking is only around 25%. But it may go up to 30%, 35% in times to come.

So, I think in the longer run, I still strongly believe that AU gross NPA should remain in the range of 1.5 to 1.75% and our net NPA should remain around 0.5 to 0.6%. So, we need to build or a calculation around this, right? Ultimate credit cost, an entire book, should not exceed 0.5% That's my overall sense.

Prince Tiwari: And, sorry, if I can just add the Prakhar. We continue to have additionally INR 100 crores on the restructured book as well, right? So that provision also continues to stay, which is over and above the provisioning –(PCR).

Prakhar Agarwal: Sir, the basis of asking this was the fact that most of the other banks, if you ask them, they are in wake of the fact that they probably had to transition to Ind AS over a period of time. And given the profitability that we as a system are seeing through, most of the other banks have started to add in bits and pieces or at least maintain that. In that context, if we have to transition to Ind AS in FY '25, and we are using this buffer, so that probably creates a corridor of uncertainty at that point in time.

Sanjay Agarwal: No Prakhar, because we make our ECL every quarter, the ECL calculation every quarter, and need to submit to the regulator also. So, if you go by that whole calculation, it is more surplus for us than a negative for us, right? And in that sense only, as Prince already commented that our NCL are very low, right?

We are having around 75% is PCR coverage and we are having contingency provisions for restructured assets. We have one floating contingency reserve. So, I think overall we strongly believe that we have covered up everything and more than maybe double the requirement, right? So that is why we are not going overly, overly conservative to build more buffers.

But if anything, which I strongly believe that next two years to three years there's no point for discussion around asset quality. It will remain under a range. That's the sense we are getting it. And also let's be very fair to everybody there and let's do whatever is required rather than become more conservatively, build more buffers, which we have done in the past. So, requirement if anything comes in future, then we'll see it. But as of now, I'm very strong that we will not require for next two to three years.

Prakhar Agarwal: Got it. And in terms of just one more question in terms of ROA. So, while this quarter as we have taken a large part of the knock-on margins, which probably highlighted in large call as well. Then how do you look at for the full year and what will be the improvement levers in ROAs?

Prince Tiwari: So, again, Prakhar, if you go back to our presentation, slide number seven, we have talked about the profitability and ROA and how we as a bank think that despite the challenges around the margins, we will be able to deliver profitability around similar ranges as last year, and again other income, the fee income on the credit cards, the entire third-party distribution, the wealth management that we are building in, some of these elements of our investments which we have been doing over the past few years will start kicking in. And that should support the other income profile and hopefully that should well cover up for the margin reduction that we have seen, or we are going to see.

And also, the fact that overall cost to income also I think we are trying to see if we can keep very similar to last year level, so some amount of cost to asset benefit can come in. So, let's see. I think as of, yet we are quite confident that we'll be able to maintain around similar levels. I wouldn't say what exactly will be the percentage, but very closer to FY 23 levels is where we are targeting.

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

Ashlesh Sonje: Just one question from my side. If I look at the slippage number for the quarter, which came in at around 2.2% on an annualized basis, I appreciate that this was a seasonally weak quarter when it comes to asset quality. But if I look at the previous year, we also reported a similar slippage of 2.2%, where about 30% of those slippages came from the restructured book. Given that we had a much lower restructured book now, would you say that there were any one-offs in the current quarter in terms of slippages?

Prince Tiwari: So even this quarter as well around, Ashlesh, very close to 30% has flown from restructured book of the forward slippages that has happened on a net basis.

Moderator: Thank you. Next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: So, I wanted to ask on the credit card business, what sort of credit cost are we building into the business model going ahead? Because generally, if you look at it for the large players, the credit cost in this business has been in the range of 5% to 6%. Now if you have a INR 2,000 crores book here, that looks like INR 100 crores to INR 120 crores of provisions on a run rate basis. So that can cause a delta to our credit costs going ahead. So, is that something we're building in or are we looking at lower credit cost from that business?

Mayank Markanday: Param, this is Mayank. I Head the Credit Card business. So normally if you have seen, the 5%-6% which you were talking about is 2% remains in the GNPA and the rest goes to the credit loss as write-offs.. So similarly, most of the banks operate or card issuers operate in this trajectory only. So almost as of now we are quite low than this. But yes, as the business build up, because we'll do more of a NTB business. So, we are also thinking of keeping it in the same range.

Param Subramanian: Okay. So that would mean an uptick from the current book level, because last year you reported INR 150 crores of total credit cost and this year we are looking at similar credit costs. But going ahead, this is going to pick-up, right? From the credit card book itself it should mathematically just pick-up because of that?

Mayank Markanday: No, I don't think it will be a pick-up because if you see, INR 2,000 crores of book has already been built-up, and we have got a seasoning of 18 months on a book of around INR 700 -800 crores already.

Prince Tiwari: Yes, I think, Param, I think 1 important point to highlight there is this INR 2,000 crores is technically out of pocket, right? Not all of it is credit exposure because credit card, as you know, only the revolvers or people who have taken EMI have a credit risk attached. But it's almost 60% to 70% of the book pays on time, right? Sorry, Mayank, if you wanted to add.

Mayank Markanday: Yes, so Param, if you see only 5% of the book remains in 30+ buckets. Rest all is either current or they are just in the X days.

Param Subramanian: Yes, but if I look at it, Mayank, so the book is up like more than 3.5x Y-o-Y, so if I look at the lagged NPA, so if your NPA is 1.6, but on a lag basis it's more like 5%, right? Is that not the ballpark correct number?

Mayank Markanday: No, this is not the correct number. The lag number is much lower than this.

Param Subramanian: Okay, fair enough. And when we're talking about the credit card business breaking event, so the lending yield here is also 13%. If you look at some of the larger players on a book basis, at least the lending yield looks higher at about 16-17% at least. So, is that something that in your view needs to pick up when we're talking about this business breaking even in FY 25? Yes. That's it from me. Thanks.

Mayank Markanday: So, this is because our EMI book is yet to build-up, and we are in a process to getting it build up. We have seen the large issuers; their EMI books are pretty much in the range of 25% to 30% of the ENR. So, we are still at around 15%-odd. So, once we'll build up to that levels, you'll see our percentage interest margins going up.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari: Thank you, Nirav, and thank you, everyone, for dialling in today. And if you have any residual questions, you can always reach out to the IR team, and we'll be more than happy to provide the answers. Thank you for dialling in and on behalf of AU, have a good night and see you again next quarter.

Moderator: Thank you very much.

Sanjay Agarwal: Thank you so much.

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

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