niyogin

Date: November 16, 2023

To
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort
Mumbai -400001
BSE Scrip Code: 538772

Dear Sir/Ma'am,

Subject: **Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'SEBI Listing Regulations') - Transcript of the proceedings of the Earnings Call held on November 10, 2023 for the quarter and half year ended September 30, 2023**

With reference to our letter dated November 06, 2023 and pursuant to Regulation 30(6) read with Part A of Schedule III of the SEBI Listing Regulations, we are enclosing herewith the transcript of the proceedings of the Earnings Call held on November 10, 2023 in respect of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and half year ended September 30, 2023.

The aforesaid information is also being made available on the website of the Company i.e. www.niyogin.com

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Niyogin Fintech Limited

Neha Vishnu Agarwal
Digitally signed by Neha Vishnu Agarwal
Date: 2023.11.16 15:37:30 +05'30'

Neha Agarwal
Company Secretary & Compliance Officer

Encl: a/a

“Niyogin Fintech Ltd. Q2 & H1 FY24 Earnings Conference Call”

November 10, 2023

MANAGEMENT: **MR. TASHWINDER SINGH – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR, NIYOGIN FINTECH LIMITED**
MR. ABHISHEK THAKKAR – CHIEF FINANCIAL OFFICER, NIYOGIN FINTECH LIMITED
MS. TRIVENIKA AVASTHI – INVESTOR RELATIONS OFFICER, NIYOGIN FINTECH LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Niyogin Fintech Limited's Q2 & H1 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 the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonia Keswani from Ernst & Young IR Practice. Thank you and over to you, Ms. Keswani.

Sonia Keswani: Thank you, Michelle. Good morning, everyone. On behalf of Niyogin Fintech Limited, I welcome all of you to the company's Q2 & H1 FY24 Earnings Conference Call. You would have already received the quarter results and investor presentation, which is also available in our filings with the exchange.

To discuss the company's business performance, we have with us today, Mr. Tashwinder Singh, the Chief Executive Officer and Managing Director; Mr. Abhishek Thakkar, the Chief Financial Officer and Ms. Trivenika Avasthi, the Investor Relations Officer of Niyogin Fintech.

Before we proceed with the call, a disclaimer: Please do note that anything said on this call during the course of the interaction and in our collaterals which reflects the outlook towards the future or which should be construed as a certain forward-looking statement must be viewed in conjunction with the risks the company faces and may not be updated from time-to-time. More details are provided at the end of the investor presentation and other filings that can be found on our website, www.niyogin.com. Should you have any queries or need any further information at the end of this call, you can reach out to us at the e-mail address mentioned in the company collaterals.

With that, I would now like to hand over the call to Mr. Tashwinder Singh. Thank you and over to you, sir.

Tashwinder Singh: Thank you, Sonia. Let me start by thanking all of you for joining us this morning. Welcome you to Niyogin Fintech's Earnings call for Q2 & H1 FY 24 results.

Like always, I would like to start by giving a little brief about our company.

Niyogin Fintech operates on a tech-centric platform-based model wherein we deliver Banking as a Service or the BaaS platform and credit to rural and urban India through a partnership led strategy. Our partnership led strategy allows us to tie up with local enterprise partners that have a large and deeply penetrated distribution infrastructure. We utilize this infrastructure for cost effective reach to our customers, which are largely the MSMEs. Once we onboard a partner, the BaaS platform is employed by them in their customer facing touch points that enables these touch points to provide banking, payment and financial services to their local customers. The partner-led strategy helps the company reach out to a large number of MSMEs and SMEs through every partner it on boards. The revenue model is primarily transaction-led where we earn a fee or commission on every transaction that is routed through the platform.

Being an NBFC, Niyogin has been serving MSMEs by providing credit as well. Niyogin's distribution platform, NiyoBlu enables lead generation and offers credit along with other financial services to MSMEs, digitally. The company has employed various lending models and earns either an interest income or a fee for the loan lead generation.

Let's get into the quarter that's gone by.

We are pleased to share our operating metrics continue to report a strong growth in this quarter as well. Other than that, one of our key accomplishments has been our long-term loan getting assigned a BBB-/Stable rating by CRISIL, which is an investment grade. While our lending business is undergoing a gradual scale up, getting rated acts as a boost to expanding the loan book that grew by 15% QoQ and currently stands at Rs.135 crores. As lending is one of our focus areas for the year, we have laid down a detailed path to scale it up effectively. We are adopting a differentiated approach towards building the distribution channel, managing risk and achieving cost efficiencies using technology. We identify these as the three pillars for this strategy.

To build our first pillar, ‘Distribution channel’, we are scaling up our business with existing partners alongside new partners on our NiyoBlu platform. These partners include Chartered Accountants and Fintechs that have large distribution infrastructure and therefore create leads on the platform and also financial institutions to enable co-lending. On the distribution side, we have more than 30 financial institution partners. This is a fee business and is ROA-accretive as we do not take any share of the credit risk, purely a distribution business.

Our second pillar, which is ‘Managing risk’, revolves around using automated models for risk assessment. The aim is to build predictive risk models by benefiting from high volume of cases being generated through Fintech alliances and the NiyoBlu platform.

In our third pillar, to achieve ‘Technology-enabled cost efficiency’, we are focused on building strong loan origination, loan management and reporting systems. We are further enabling multi-product, multi-partner integration to avoid any additional costs and therefore demonstrate operating leverage as this business scales.

We are confident in our ability to capitalize on the MSME opportunity and remain driven by unit economics.

I'm also happy to share that we appointed Mr. Hitesh Jain as the new Chief Risk Officer. He will play a crucial role in fortifying this business. Going forward, you will see the lending book contribute significantly to our profitability as it starts achieving scale and operating leverage on the back of the partnerships we are forging.

As you know, we are also building the Banking as a Service or BaaS business, which has been doing well consistently. Our revenue ex of device to sales stood at Rs.47 crores, up 5% QoQ. This has been a result of the GTV, which is the gross transaction value that grew 17% Q&Q crossing the Rs.10,000 crore mark for us for the very first time and standing at over Rs.11,500 crores in Q2 FY24. We also processed more than 42 million transactions, which is higher than what we did in the full year of FY23.

In the coming quarters, we expect our GTV trend to further strengthen as we expand our footprint and explore cross selling opportunities within the existing partner network. Our BaaS network expanded by 21% YoY to 845 partners. By leveraging the strength of these relationships, we aim to remain a key player in the industry.

The quarter also came with its unique set of challenges. The UPI business, which is a high margin business and has scaled materially for us as it contributed over 500 crores in GTV in September alone. It saw some headwinds in terms of regulatory requirements. We pride ourselves of being compliant with all exchange regulations. As the industry is evolving and the regulations around these businesses are becoming more stringent, we are seeing the impact of some of these on the margins we make. We are working with banks to find an efficient way to resolve and solve for higher margins. We believe the UPI net take rate will remain relatively subdued for the next two quarters as we find solutions. In the meantime, the business continues to scale, and we continue to add new incremental clients.

We remain focused on growth, both organic and inorganic. The prevailing market conditions have opened up opportunities for us to acquire some interesting bolt on businesses. We are engaging in multiple conversations with complementary businesses. The attractive valuations, business synergies, market adjacencies and tech competencies enablers are the parameters driving our conversations.

I would now like to hand over to Abhishek to take us through the financials and other details of Q2 FY24 and H1 FY24, post that we can open this up for questions and we can address all your queries. Thank you and over to you Abhishek.

Abhishek Thakkar: Thank you, Tash. Good morning, everyone.

So, before I take you through financials, let me give you some update about our operational metrics. Our BaaS partners today 845 as on 30th September 2023 as we added close to 50 new partners during the quarter. Gross transaction value, that is GTV including the payouts, stood at approximately Rs.11,563 crores in Q2 of FY24, up 17% QoQ and 293% year-on-year. Our transaction volumes stood at 42 million which resulted in an average transaction size of Rs. 2,753 in Q2 of FY24 compared to Rs.2,943 in Q1 of FY24. Contraction in the average transaction size was due to the release of DBT during the quarter and is in line with the industry trends.

Gross take rates dropped sequentially from 36 bps to 32 bps in Q2 of FY24, while net take rates declined from 9 bps to 5 bps. This was due to change in regulations, which led to change in UPI processing partner mid-quarter. As stated by Tash, the new commercials have adversely impacted UPI product economics, driving overall net take rate from 9 bps to 5 bps. Also, the reported take rates do not account for the revenue booked against UPI related services for the month of September as there has been a delay in revenue realization and we expect this to be recognized in Q3 of FY24.

Our financial professional network increased by 9% year-on-year and stood at 5,478 as on 30th September 2023. We further processed 19,223 loans through our network in Q2 FY 24 and reported an increase of 347% year-on-year and 51% quarter-on-quarter.

Moving on to the consolidated financials for the quarter. Our revenue excluding device sales stood at Rs.47 crores, up 91% year-on-year and 5% quarter-on-quarter. Consolidated revenue for the quarter was a little over Rs.47 crores, up 79% year-on-year and 4% quarter-on-quarter. So, basically the sale of devices now accounts for minimal contribution to overall revenue. The revenue remains flattish sequentially despite QoQ growth in GTV, primarily due to contraction in take rates, as explained earlier.

The adjusted EBITDA actually saw a loss gap widened from Rs.4.3 crores in Q1 FY24 to Rs.8.2 crores in Q2 FY24 due to three reasons: One, the revised commercial related to UPI that impacted take rates; two, incremental positioning of Rs.75 lakhs taken towards lending; and third provisioning for unrealized receivables of a little over Rs.3 crores taken in iServeU. This provision was on account of devices that were returned by the customers. We plan to redeploy these devices with minimal incremental cost in the upcoming quarters.

ESOP charge for the current quarter was a little over Rs.1 crore versus Rs.90 lakhs in the previous quarter. The non-GAAP PBT stood at negative Rs.10 crores in Q2 of this year as against the negative non-GAAP PBT of Rs.6 crores in the previous quarter.

Our consolidated cash and cash equivalent stood at Rs.115 crores as on September 30th 2023.

So, with that, we can now open the floor for questions. I would like to wish you and everyone at your family a very happy and a prosperous new year. Thank you.

Moderator: We will now begin the question and answer session. The first question is from the line of Yash Modi from Ashika Group. Please go ahead.

Yash Modi: My first question pertains to this credit rating. At BBB- and right now we stand at a loan book of 135 crores, could you just reiterate the loan book guidance for FY24 & FY25, how are we looking at things?

Tashwinder Singh: We have not given a formal guidance for FY25 on the loan book size, we've not given that out, but my expectation is that we will get to anywhere between Rs.200 to 215 crores for FY24 right and FY25, we will try and get close to about Rs. 400 to 450 crores, depending on how these partnerships scale up, may even be a little a little higher than that in FY25.

Yash Modi: Second question is on this net take rate coming down from 9 bps to 5 bps. So, you're saying that the UPI portion say is hitting Rs.500 crores in September, in best case I will assume 1,500 crores of UPI in the quarter, which is roughly around say 12%, 13% of the total GTV. So that coming down from 10 bps to 4 bps, taking down the entire book from 9 bps to 5 bps. What am I missing mathematically -- is something else has also come down or is it only the UPI portion?

Tashwinder Singh: I think firstly, let me explain the UPI thing and I want to explain this clearly to everyone. Firstly, the September UPI revenues of Rs.4 crores has not been booked, which will get booked in October. Primarily because of the changed regulations in UPI, we had to change our nodal bank account from one bank to the other, right, because of various reasons and the revised economics were worse off than with the first bank, and we need to go back to the first bank as we solve the regulatory requirement that the bank has. So, that is point #1. So, this is a temporary phenomenon that has happened where these revenues have come down. As we move back, our economics will be better again and we will be back to the higher economics that we used to have, number one. So firstly, GTV has been counted in, but the revenue of the September GTV is not brought into the numbers. So, that's what is missing in the numbers right now. You add that, the GTV anyway moves up by a paisa or so, so it goes to about 6 and 6.5 on that basis. That explains first thing.

And secondly, there will always be a 1 to 2 paisa movement of GTV up and down because of the way the business is structured. As you know, the cash out GTV is always on the lower side, right, because that's just a cash out product. And if the cash out is high on a certain quarter, then the GTV for that quarter will move down, it doesn't change the business in anyway. I think what is important for us is while we are solving all these issues, the underlying fundamentals of the business continue to remain strong with customers accepting our tech, our solution, and scaling up on our GTV and on our business. So, both things are important to us. We need to keep scaling, get new partners in, get more volume through it, but then we also need to make sure that we are processing that volume with the most efficient way of performing. In UPI business, this is a specific issue that has happened. Previous quarter, we were between 9 and 10 paisa largely driven by the full economics that we're making of UPI. So, I'm still optimistic that we will solve the problem and therefore you will get that economics going back around that level in the next couple of quarters.

Yash Modi: In terms of partner addition, this quarter has seen excellent partner addition growth after a long time on a QoQ basis. I'm seeing around 50 partners getting added, roughly around 6%, 7% of the total partner base we had. So, any big wins during the quarter which you would like to highlight? In the last quarter you had said that we're looking to go deeper into the partners that we already have. So, the pleasant surprise that the partner count has again started to increase.

Tashwinder Singh: See, what's happening is the proposition, the solutioning that we have is now getting well accepted in the market. So, while we have a small sales team that is out there getting partners, we are also getting a lot of inbounds and therefore the increased partners are all, some of it are coming because of our own sales, some are coming because of word of mouth because people in the market have started accepting our solution as a good solution for what we are providing as a BaaS service, number one.

Number two, we are getting deeper and the whole idea is that for the existing large enterprise partners, we should be able to offer incremental products. One of the data point that I track is also how many products we're doing with every partner. So, that also is an interesting way to think about cross-sell and getting more bang for the buck, is the way we are thinking about it. We have a couple of marquee partners who've been acquired this quarter, but they haven't gone live and we do not have permission from them to share their name yet till we go live. So, those names I will circulate in the next quarter or maybe when we go live with them. But, there are some interesting partners that have come across on our line. With India Post for example, we have expanded two new products and there is work happening on incremental products with them as well. So, slowly and steadily, I think the real operating leverage will start kicking in the next couple of quarters. That's when the game will start becoming a lot more interesting.

Yash Modi: In last quarter, we had taken some costs related to the prepaid card that we intend to launch during this quarter. Any update on the prepaid card portion of the business?

Tashwinder Singh: So, the prepaid card proposition is completely done. In the sense that our build is done, right. What we've done is we have contracted with four or five parties where they will be issuing these prepaid cards. Regulation requires that prepaid cards can be issued by people who have PPI license. So, we don't need it, but the partners who have the license can only issue the prepaid cards. So, the conversations are going on. There is integration required at various ends. So, the cards have not been launched yet, but we are hopeful towards the end of this quarter, we will have our first cards out in the market as well. There has been a little delay in that. My expectation was that we would be live by now. We are live on our platform, but the dependence on customers deciding when they want to launch the card program will decide when our revenues start flowing in.

Yash Modi: So that probably explains the flat GTV that we see for October probably for 4,000 crores.

Tashwinder Singh: That's right. October is flattish. You're right, your observation is correct. The impact of the cards business hasn't taken off yet and therefore there is no GTV of that in this October number. Once that comes in, we are obviously very optimistic that will scale the GTV up materially. So, the team is working on getting that off the ground in the sense with the customers.

Yash Modi: My last question would be the receivables, as Abhishek explained, that the devices that have come back, so last quarter we had taken a provisioning of around Rs.4.5 crores, total first half we've taken a provision of 8 crores. I understand that these devices will again go out in the market. But any explanation because Rs.8 crores for our company is a little on the higher side.

Tashwinder Singh: No, no, it is on the higher side. I mean let's call a spade-a-spade, right? Last quarter when we had taken the provisioning, the receivable related provisioning was only about Rs.1.2 crores. The balance were all old items in terms of reconciliation issues with banks, etc., as I explained, right, those were all one-time issues. What has happened this quarter is that about Rs.2.4 to 2.5 crores worth of devices that we had sold between the last six to eight months, because we don't sell too many devices now, right, that's not a line of business that we pursue anymore, right, we only do it when there is a specific contract for one of the enterprise partners. It's a funny situation because we've actually received a large contract for devices from one of our large enterprise partners. And one of the strategies we took was that instead of going and buying new devices, if we have some devices that are stuck with our old partners which they're not able to sort of utilize or sell, maybe we should get them give it back to us so we can redeploy these devices to other partners because we have the orders for these devices. So, what we did was we spoke to the partners, we got the old devices returned to us, right. But what that also meant from accounting standpoint, right, till the time the new devices are actually delivered to the new enterprise partner who has asked us for these devices, right, we will not be able to book that revenue, and from a provisioning standpoint, the auditor felt that the old receivable was running high and therefore a provision has been taken. This will get reversed out as these devices go away. We have contracts whereby these devices have to be delivered to a new party. So, I think our hope is that this device-related matter will get resolved in this quarter itself. That is the plan and that is the hope that we have.

So, this is a little bit of a self-inflicted wound if you may wherein we've actually got these guys to give us the devices back, and the devices are sitting with us, but because these are six, seven eight-month old devices, right, the auditor was very clear that we should provide for this because if the sale doesn't happen, then what will happen. So, we've provided for that. And when the sale happens, this will come back.

Yash Modi: On this, the lending institutions that we do distribution for, so say out of this Rs.47 crores of revenue this quarter, if I just break it down, so Rs.12,000 crores GTV at 32 bps would be 37 crores, Rs.7 to 8 crores would be interest income because of our Rs.135 crores book. So, the balance Rs.2 to 3 crores would be this distribution income that we are doing for these lending institutions, is that correct?

Tashwinder Singh: Yes, we are doing about Rs.30-40 lakhs a month broadly, gross revenue coming out from the distribution side, which is actually negligible because as you know, we just launched the NiyoBlu platform, right. My estimation is before the end of the year, we should be sitting in a crore plus is what I think we should be hoping for per month and this is all as you know fee income, right, there is no risk that we're taking out here.

So, the NiyoBlu platform is stabilizing, and we've got more and more partners now logging on to the NiyoBlu platform and putting transactions through that. The idea is to create a complete digital journey where a customer can come in through their partner and on the flip side have more than these 20 lenders who can actually take up the loan and just disburse the loan and we make our commission from that. So, it's an interesting proposition. The tech spend has been done, the sales team that we've created is all done. I think from nothing we have already started creating Rs.30 to 35 lakhs of revenue every month, which will gets you to a number of 2-3 crores give or take for the year. But, I think the actual number for this year will be much higher than that, and for next year I'm expecting this number to be materially higher from the distribution business.

Yash Modi: So, the right way to look at this is the BSE update that you gave, the standalone portion of the business, the fee income that is there after the interest income, 50%, 60% of that would be this distribution business?

Tashwinder Singh: Not 100%, because even on the lending side, we take fee income. won't be 100%, but that's a fair way to think about it.

Moderator: We'll take the next question from the line of Pranav Gupta from Aionios Alpha Investment Managers. Please go ahead.

Pranav Gupta: Tash, if you can just tell me the details of what the regulation change was on UPI and how it has impacted? If I am understanding it correctly you mentioned that it's impacted a partner bank in terms of compliance and hence you had to switch mid-quarter to another bank, so if you can divulge the details and explain to us what's actually happened there?

Tashwinder Singh: I'll explain that. See, what has happened is that RBI came out with a circular which basically looks at anyone who's doing the payment acquisition business. What is our UPI business? We are actually powering other platforms to be able to accept UPI as a payment. So, if you have a website and you want to suddenly start accepting UPI payments, I can power you for doing that. That's the tech that I'm providing you. So, I'm on the acquisition side largely, I'm also on the issuance, but more on the acquisition side. So, RBI came up with a circular, saying that the people who are operating in this space should be having a PA/PG license, which is a payment gateway license. They have not issued any payment gateway license. All licenses are stuck for the last two years they have not issued and therefore, it was just a guidance circular that they gave. Our nodal bank that was doing our settlements told us that you need to apply for the PA/PG license. We don't need to get the license, we need to apply for the PA/PG license, right? So, we need to be in queue for that, right? And their view was that for them they didn't want to take RBI questioning them that why are you doing settlements for us, right whereas it's not a clear regulation saying you have to have it because the PA/PG licenses have not been issued over the last two years, people have applied and we are hopeful that RBI will start issuing these licenses in the course of this next quarter. Other people are still doing this business, we are doing this business also and other banks were willing to accept, so, we had to move our nodal account from this bank to another bank. Obviously, the economics changed as we moved away because we were going with one hand tied at the back for doing the new settlement. Now we need to apply for the license. We had applied two years ago for this license and RBI had asked us to come back with the application with clarification. That's why I said over the next couple of quarters, we will get this sorted. The relationship with the old bank is very, very strong. We still use them for doing all the settlements for all the other products. Except for this product, they've asked us that we need to get the application done. So, it's an interim phase that we've done where we are working with the second bank. I'm sorry, I can't share names of the banks, but we are doing that and therefore the economics have taken a little bit of a hit. But like I said, it's a temporary economic hit because we are doing this with another bank and we plan to go back to the old bank once we have sorted out this issue of application, etc.

Pranav Gupta: Just as a continuation to this question, are we in the process of applying for the payment gateway license or you have already applied and waiting for RBI to respond to that?

Tashwinder Singh: We are in the process. We have not applied. There are some very interesting ways to get this sorted. So, you will have to just give us a little more time for us to come back to you with how we are solving this while keeping our economics intact.

Pranav Gupta: Second question was just a follow up on to the device returning part, the provision that we made on the book. I mean just want to understand how you're accounting it? You can correct me if I'm wrong. If and when you had supplied the devices to your erstwhile partners or partners who were using these devices, I'm assuming that you're going to sort of charge the partner upfront. And if they are returning them for whatever reasons, we had already booked the revenues as and when they paid so why are we taking a provision?

Tashwinder Singh: Revenue had already been recognized when the devices were sold, right 6-9 months ago, whenever they were sold, right?

Abhishek Thakkar: When we sold the devices, we had booked this revenue. Generally, what happens is when the devices are returned generally it is built up in inventory or you sell it. In our particular case, there wasn't ample time because the devices were returned by September, when the accounting is done, and now we are in this particular quarter and devices were like 7 to 8 months old. So, the auditor said since you have received the devices back before 30th September and you are not sure of the way forward, for now you please reverse the revenue since it's a material amount of about Rs.2.4 crores. And whenever you sell it again, you book the revenue again so that is why we have reversed this particular part of devices.

Pranav Gupta: Have you refunded this amount to customers from where you received the devices back?

Abhishek Thakkar: No, they were in the receivables only. They did not pay any amount for these devices.

Tashwinder Singh: The point was it was an entry sitting in the receivables. The devices were sold and there was a receivable outstanding. So, there was no question of any refund.

Pranav Gupta: I will take it offline just for better understanding. A last question, I believe you gave some numbers on how the loan book will scale up over the next couple of years. I missed that because your voice sort of cracked. If you could just repeat, that will be very helpful.

Tashwinder Singh: See, we're not aggressively scaling up to suddenly go from Rs.135 to 1,000 crores in a year, that's not the plan. Plan is to be thoughtful in the way we scale up this business. We are at about Rs.135 crores end of September. We think this number can easily go to Rs.200 to 215 crores in that ballpark by the end of this financial year. And we can pretty much double that book in the next financial year. And the reason, even though our book size is small, we still went ahead and got the rating done was primarily to make sure that we are able to activate this plan of scaling up like this. The leverage that we have is negligible. Our net worth is in the ballpark of Rs.320-odd crores, which will go up to about Rs.360, 380-odd crores. And even if you take 1x debt-equity, we'll still be below that to meet our requirements. So, that's the plan. The plan is to get to a number which is maybe between Rs.400 and 500 crores for FY25 and for FY24 will be anywhere between Rs.200-215 crores, in that ballpark.

Pranav Gupta: Just lastly on the UPI again. You mentioned Rs.4 crores is the revenue we could not book in September as there was a change in partner bank.

Tashwinder Singh: So, you mentioned UPI September revenue, you had a question.

Pranav Gupta: It's Rs.4 crores is what you mentioned, right, that's not been recognized this quarter and that's the gross revenue?

Tashwinder Singh: That's right.

Moderator: The next question is from the line of Vishrut Bubna from 77 Capital. Please go ahead.

Vishrut Bubna: So, I'm curious as to the existing customers who are fairly mature, for example, like an India Post and an NSDL and a Bharat Financial, what percentage of their sort of existing merchant distribution are we already deployed in and what degree of penetration is still left with those existing customers?

Tashwinder Singh: It's an interesting question because there are different partners who are scaling up at different levels. So, take India Post for example, India Post, we are probably there in about 10,000 to 15,000 retail outlets, but they want to build 2,00,000 outlets which are there BC agents that they're building. So, the point is at some level we are expanding in their current footprint and they are expanding their footprint and all incremental footprint automatically is coming to us. So, as they put on a new BC, that business comes to us 100%. For the existing platform, obviously it's a little slower because they need to get the existing teams on the ground, train, etc. The new guys are all coming to us. So, we think a significant level of growth will happen. The GTV contribution to our enterprise is more than 50% now, right. So, the enterprise businesses are scaling up much faster. In CSC's case, again, one needs to look at product-by-product, because we started with them with micro-ATM. And therefore, the micro ATM penetration is the highest. All the other products, DMT, AePS, every product has gone live at various points. So, there is significant opportunity for us to continue to scale up with these guys still, right and we still see growth quarter-on-quarter with each of these partners.

So, I can't give you what the percentage penetration is, but I think it is safe to assume that we can easily double whatever we are doing just with these existing partners.

Vishrut Bubna: Just a follow-on question that so say with each of these merchants which we've acquired via these partners, from what I understand is with the one micro-ATM device we currently provide with them and the software on top of that, it does not have the checkout facility that say a sound box or one of those placards with the QR code would have, just to clarify that?

Tashwinder Singh: So, for a QR code, again, you go back to the whole payment gateway issue. For us to be issuing QR codes, we need to have a payment gateway or a payment gateway partner who can issue the QR codes and we don't need to have the license, we can just tie up with a partner, number one. Number two, the sound boxes is something that we have received requirements now from one major bank where they want us to include the sound boxes in the micro-ATM product that we have. So, we are getting that sorted as well. But, so far the deployment that you are talking has been largely without the sound boxes, that's correct. But, in the next quarter, you will see that there will be some deployment with sound boxes.

Vishrut Bubna: So, just a follow-up question on that. Does any incremental software build need to go on or can the existing software just be repurposed for that?

Tashwinder Singh: The existing software is getting repurposed. We've also done the UATs. It's all already done. So it is just the existing software that's got repurposed. There is no incremental spend that we need to do. It's the same team that has just repurposed our software to include the sound box also, but that's largely for the POS machines.

Vishrut Bubna: Do you view this as a way by the incremental revenue per merchant can be increased by essentially upselling this to your existing merchant base or have I got that correctly, where they have two separate devices, basically, one for the withdrawal -?

Tashwinder Singh: So, RBI requires the micro-ATM devices, AePS devices to be different from the POS devices. So, there is no integration of these devices into one device. The sound box is largely used on the POS devices where you are accepting payments. As you would have seen, when you go to these small merchants, you do a UPI payment and suddenly there's a loud voice that says Rs.300 received or whatever the number is. In the micro-ATM proposition, this is just an execution device which is being authenticated to give you cash. It's a withdrawal product. So, there is no need for a sound box in a withdrawal product. But in the accepting product, there is a need for a sound box. So, the POS deployment is very different from the micro-ATM deployment. So, our large deployment has been really the micro-ATM deployment, not the POS deployment. So, I don't think you can assume that there will be a significant build out on revenues because we sell this product to every merchant, I would not go up that path.

Vishrut Bubna: Just wanted to go into another product, which is the debit card product. So just wanted to understand that where all along the sort of debit card product stack are we catering was the solution covering, everything. So, from what I'm understanding there's like a switch layer, there's an issuance layer, there's also the card management system. So, if you could just go into where all are we present?

Tashwinder Singh: We have the card management system, we have the switching capability and the card issuance per se, which is the physical issuance is all outsourced, we don't need to build that in-house. But the switching capability and the card management system is all in-house. That's the solution that we are providing to our partners.

Vishrut Bubna: Just wanted to clarify another point. You had mentioned earlier, I think to Yash's question that you had a certain number of partners whom you have already onboarded and are yet to go live with or are they in the integration phase or are they yet to be like contractually onboarded?

Tashwinder Singh: No, no, no. So, contractually we have done a few contracts, but they have to go live when they want to go live. So, we are ready with the tech solution. Every partner is in a different stage of evolution. So, I can't put one sweeping brush. I'm hoping we'll go live in the month of early December with one partner, with the others we are doing tech integration because they need a full tech integration of our platform with their platform. So, that will take a bit of time, but we are on the job. Nobody gets into tech integration without signing contractual agreements. We would not spend our time and effort if the contractual agreements are not signed. So, this product will go live. It's a matter of time. We are very optimistic. Think about the whole card infrastructure in India. There are about 90 million credit cards. There are about 900 million debit cards. So, each of those debit cards can effectively be converted into a prepaid card. So, the market opportunity is so huge. We just need to get the ball rolling. And I would have liked this to have already been done, but we have to work with the pace of our partners. We've done everything that we had to do in terms of building out the infrastructure. Now, we have to wait for our partners to sort of get the card issuance done. I think we will issue some 50,000 cards for one partner, that is the plan soon enough, but that again is just a tip of the iceberg really, not really the real opportunity. So, I would say we should just keep watching out for this space. Over the next couple of quarters you will have some news around how this is playing out.

Vishrut Bubna: What is the revenue model again for the debit card business like is that fixed plus variable or how does that work?

Tashwinder Singh: It is a fixed plus variable. There is a fixed fee that they would give, there's tech integration cost, when a card is issued there will be a cost, because we have a cost also. Then, on the MDR, there is a sharing that happens, and then the prepaid wallet, whatever money is lying in the wallet, what we can make in terms of float revenue, again this needs to be negotiated there are two discussions happening with two banks. So, there are multiple opportunities for revenue generation there. And I think that's why we feel pretty excited about this product because this product will have economics which are hopefully better than the rest because, micro-ATM, AePS, these products have become standardized products, and there is no way you can scale up your net revenue or net take it on these products. You can scale volume absolutely, but the net take whatever it is between 6, 7, 8 basis points, that's what it's going to be. Card business, I think, the take rate will be higher. The UPI business, the card business, some of the new things we are doing, the account opening, these are all businesses which have higher margins. As these margins come in, as these businesses pick up then you will start seeing the take rates move up, notwithstanding the blips that we keep happening that we had in this quarter on the take rate driven by a very specific issue. Long term, if I look at the business, I think the fundamentals are quite strong, which is why we have incremental customers coming in, we have incremental GTV happening, and we have the scale increasing. And as these new products get deployed, I think we will see the take rate enhancement also happening.

Vishrut Bubna: One product that has seen other similar companies in the payment software company upsell is online dispute resolution and something around this entire dispute resolution piece. So, I'm curious, do we already have a solution or some sort of tool that we give around that, given that it's a big problem both in AePS and I'm guessing in card payments, so just curious as to how we tackle that?

Tashwinder Singh: For the consumer, there is an online method to put out a complaint. There is a bot to help a consumer, but the consumer is not the person who's working, we don't have a consumer app here. In our business, our app is used by the retailer. So as far as we are concerned, our customer eventually becomes the retailer. The consumer is the customer of the retailer. But there is a helpline, there is an online portal, where the consumer can also log in their complaint, which I think it’s required by law, I’m not sure, but we have it. But like I said, our customer is really the retailer and if the customer has a problem, the customer has to first reach out to the bank where he is banking with because we are serving the customer on behalf of the bank. So, if you are an Axis Bank customer, you go withdraw money from a retailer and if assuming you feel that something is going wrong to you, your first port of call has to be your bank because that's the entity. Because you don't know me because I am a TSP to the bank and I am providing the app to the retailer. So that's how the customer service angle works. We have a customer service, entire infrastructure for helping the retailer in case he has a problem in executing the transaction. The individual consumer who has a problem, that problem actually goes to the bank and then that can circle back from the bank to us, asking us for the data, etc. So that's how it works right now.

Vishrut Bubna: Just for a clarification, I was referring to more of selling that product to the bank itself where I've noticed this management chargeback automation and just for the dispute management itself as a lot of these banks traditionally use these large risk management teams and risk officers tends to be siloed in that department, they can use these sort of tools and payments companies are trying to effectively upsell this because they can increase the contract value per bank.

Tashwinder Singh: I think we can explore it, not done yet quite honestly, but a good thought. Why don't we take it offline? I want some more details on this. Let me take it offline with you.

Moderator: We'll take the next question from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: Basically, I had a question regarding the iServeU business. So, if I look at the iServeU numbers over the last, let's say 8 to 10 quarters, the revenue, net of fees and commission expense has been a bit volatile. So basically, what I've done is minus the fee, commission expense from the fee, commission income to just to get at a margin number. So, this number has been able to volatile it in the last, let's say, 8 to 10 quarters moving from 3% to 4% to I think last quarter it was around 20%-odd. Just wanted to know what could be the stable margin we could get from the iServeU business going forward? And if the volatility continues, how will we arrive at the guidance of 10% EBITDA margins?

Tashwinder Singh: So, with the iServeU business again like I said, the business starts becoming interesting, as the revenues scale up and operating leverage kicks in. Today, if you look at the net take rate, net take rate is in the ballpark of anywhere between 6 to 8 basis points, notwithstanding the five paisa that we have shown on the slide out here. Once the Rs.4 crore gets accounted in, it'll come to closer to 6. So, 6 to 8 basis points is where the net take rate will stay. And that's really the number that matters to us because that's the money we take home, and is used to pay for our expenses. We think at that take rate at about 6 to 8 basis points, our EBITDA margin should be anywhere between 18% to 20% on a steady state basis once the business stabilizes. But it will take us a couple of quarters to get there, it is not going to happen in one quarter. The volatility stays because we are building businesses, we are adding products, we are adding new customers, we are changing the mix from retail to enterprise. So, there are a bunch of moving parts that are happening and every quarter we are seeing changes happening on this count. So, some level of volatility has stayed. I think we will still need a couple of quarters for this to start stabilizing and then giving you numbers that you can then try and easily model.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you sir.

Tashwinder Singh: Thank you all for joining the call. We wish you all a very Happy Diwali. Our business continues to scale. I think we remain excited about the opportunity. I think the one thing that we haven't discussed is the potential M&A opportunities that are coming along us. I'm hoping that in the course of the next quarter or so, we will be able to talk to you about some interesting bolt-on acquisitions that we may land up doing. So, that is an interesting thing that we are spending some time on, but these are binary outcomes. But I think the market is presenting interesting opportunities for us. So, I would urge all of you to stay tuned on to our company and I look forward to talking to you again next quarter.

Moderator: Ladies and gentlemen, on behalf of Niyogin Fintech Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.