



“Fino Payments Bank Limited Q3 FY2022 Results Conference Call”

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Management

- 1. Mr. Rishi Gupta – Chief Executive Officer & Managing Director**
- 2. Mr. Ketan Merchant – Chief Financial Officer**
- 3. Mr. Sayantan Mitra – Investor Relations**

Moderator: Good morning, ladies and gentlemen. I am Inba, moderator for this conference. Welcome to the conference call of Fino Payments Bank Limited arranged by Concept Investor Relations to discuss its Q3 and 9MFY22 results. We have with us today Mr. Rishi Gupta - Chief Executive Officer and Managing Director, Mr. Ketan Merchant - Chief Financial Officer and Mr. Sayantan Mitra - Investor Relations. At this moment all participants are in the listen-only mode. Later we will conduct a question-and-answer session. At that time, if you have questions, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Gupta - Chief Executive Officer and Managing Director. Thank you and over to you sir.

Rishi Gupta: Thank you, Inba. Good morning and good afternoon to all analysts and investors who have joined us on the call today. Thank you all for taking out time to attend Fino Payments Bank Q3 FY22 earnings conference call. It was another standout quarter for Fino payments bank. Our transactions volume grew by 58% on year-over-year basis to Rs.18 crores. Our throughput value, including UPI grew by 29% year-on-year to Rs.49,168 crores. Our revenue in Q3 FY22 grew by 20% year-on-year to Rs.225.2 crores. In fact, in the nine-month FY22 our revenue in absolute terms has already grown by Rs.164 crores which is much higher than our absolute growth in the entire FY21 over FY20. Lastly, our profits more than doubled over Q3 FY21 to Rs.14.1 crores.

We continue to focus on business growth with profitability. With the evolving scenario, our business is already seeing strong traction on the digital banking side. UPI throughput value by Fino Payments Bank account holders crossed Rs.5,000 crores for the first time in Q3 FY22. We are growing this business very cautiously with limited spends on market. Our strategy on customer retention through merchant channel and then pushing customers towards physical adoption is also helping through our difficult business.

We have also launched various launch loan products on pilot basis, and there is very strong demand for this in our ecosystem. Going forward, Fino's business will get categorized into physical channel and digital channel. The digital channel increasingly off-binds our larger market share. Needless to mention, that this digital business will have a higher transaction value on a better margin comeback. All of these factors excite us, with the potential future of Fino as not only of FinTech bank, but a PAN India digital bank.

On the existing business lines, I would like to highlight a few notable milestones which Fino Payments Bank achieved in Q3 FY22. We touched February 20 our pre-COVID throughput levels in our domestic remittance business in October 21, which further grew in November and December 21. This implies that we have already recovered to pre-COVID levels in our domestic range in business and now headed for further growth. We opened more than 200,000 Fino Bank accounts in December '21 excluding our merchant accounts. For the first time in a month in the history of Fino bank the strong account opening trends is in line with our customer acquisition strategy or ownership strategy, wherein in customers having Fino Bank

accounts can use the bank's digital platforms. This will give us an opportunity to cross sell other high value products. The cash management business, which is also a cash in facility to micro-ATMs and AEPS business crossed more than Rs.2,000 crores throughput in December 21. And more than Rs.6,000 crores throughput for the quarter. For the first ever time, the robust growth in our accounts of rapid additions of clients across different sectors of PAN India covering e-commerce, logistics, retail, agritech, cash replenishment agencies and others. Our UPI throughput as I mentioned earlier, are spends by our CASA customers across more than Rs.5,000 crores for the first time ever in Q3 FY22, implying rapid adoption of digital mediums of transactions by our segments of customers.

As you already know, we have also got an RBI approval to commence international remittance business under the MTSS scheme. India is expected to be the largest recipient of remittance globally in 2021. As per estimates of World Bank, India is expected to receive \$87 billion in international remittance in 2021 and is further expected to grow by 3% in 2022 to nearly \$90 billion. This business shows us the tremendous potential for Fino Bank. We have a large segment of customers whose family members are based abroad and remit money periodically. Our ubiquitous merchant network can serve as cash-out points to our customers for withdrawing their remitted money. Being a bank, we also have the option to open bank accounts for customers so that their money can remain in a digital form.

In Q3 FY22 we digitized cash to the tune of Rs.18,310 crores through our cash management and remittance businesses. In Q3 FY21 we have digitized cash to the tune of 13,256 crores, which implies a growth of 38% on year-on-year basis in the cash digitize business of Fino Bank. We have also launched AePS cash deposit which is another cash digitalization product. To transition into a digital bank catering to whole of India we need to open more bank account. Digitize the cash circulating in the economy and this is when the digital payments journey starts for our customer or our segment of customers. The strong UPI growth for Fino Bank implies, this journey has already commenced for a section of our customers and when a substantial pool is built the true potential of a digital bank model will start reflecting.

We continue to add merchants very aggressively to our network. Our merchant count as on 31st December 2021 stood at 8.7 lakh up from 8.1 lakh as of 31st September 21. These merchants are a fulcrum to our product offering to the end customers on our existing physical channel. They act as a hook to Fino financial offering funnel wherein Off-us or other bank's customers visit the merchant points to withdraw the cash or deposit cash or transfer money. These merchants then play a pivotal role in converting the customers to an on-us customer by opening up a Fino Bank account and from here the digital journey of the customer actually commences.

We believe we are in a massive sweet spot. Our existing businesses are all profitable generating healthy ROE's. All our customers are increasingly digitizing cash and rapidly adopting digital mediums of transactions. You had already seen green shoots emerging in our cross-sell journey. However, it is still early days and we will cautiously monitor disbursal growth as well as collection trends before aggressively ramping up the portfolio. An advantage

to us in our low net worth base most of our cross-sell products will drive our bottom line more. As a result, even on a conservative scale of business as compared to some of the other listed Fintech players our profitability can improve multiple times and we can deliver the best in class out of these.

Medium terms business growth focus is anchored on CASA and CMS. In Q3 FY22 our CMS throughput grew by 59% on year-on-year basis. We have also opened 19.5% more accounts in nine months of FY22 as compared to the full year of a FY21. However, what excites us more than opening new account is the subscription revenue that we are generating. In Q3 FY22 our new account subscription revenue grew by whopping 99%. While our renewal revenue grew by more than three times, this helped our overall CASA revenue to grow by more than 93% on year-on-year basis. Our micro-ATM and AePS business is back to growth path in Q3 FY22, their throughput growing by 10% sequentially. Both own channel and open banking channel margins continue to remain steady despite competitive forces. Remittance business surged substantially in Q3 FY22 demonstrating a year-on-year growth of 26% and sequentially growth of 29% in revenue.

To sum up the highlights of Q3FY22 would be; the massive growth in our UPI throughput is leading us towards an exciting digital banking channel in the near future. Our CASA and CMS business touched record heights in this quarter. Our revenue growth resulted in disproportionate growth in our PAT.

I will now hand it over to my CFO - Ketan to take you through some of the numbers and ratios. Over to you Ketan.

Ketan Merchant:

Thank you Rishi. Ladies and gentlemen, Good morning and good afternoon, wherever you are. Let me start off with a statement, we are leaving no stone unturned in driving our business towards our long-term vision. While our UPI throughput even in our pre listing days where showing healthy growth trends. We never imagined it would cross a Rs.5,000 crores landmark within such a short interval. This validates our confidence in building a digital payment and digital banking ecosystem along our set of target customers which is the emerging India or Bharat. It also resonates well with our credit light transaction banking model. For us next couples of quarters are more on customer acquisition, thereby creating a platform for future cross-sell. On some of the numbers from the last quarter and YTD nine months period I'd like to say in 9MFY22, our revenue growth is at 29%. We expect it to cross Rs.1,000 crores revenue in FY22. Our year to date PAT margin is inching upwards and it already touched 3.5% year to date in nine months.

Our nine months PAT at Rs.25.12 crores is 95% higher than previous years. In Q3 FY22, our PAT margins stood at 5.1%. Our Q3 FY22 annualized ROE stands at 18%, this factors the primary the primary proceeds received in mid-quarter. If we exclude the fresh issue proceeds from IPO which effectively got credited in mid-November our ROE would have been at 33.5% for Q3 FY22.

Coming to some growth and margin numbers our Q3 FY22 PAT is not only 95% higher sequentially, but it's also higher from the entire PAT in H1 FY22. This is explained by the strong sequential growth of high margin products like CASA and CMS. Our new subscription accounts in CASA, which generate a margin in excess of 55% while on renewal income we generate a margin in excess of 75%, and this is the annuity income, which helps our business to grow and bring stability. While the new subscription revenue has grown by 99%, the renewal income has grown by 3x. On CMS, margin profile remains healthy in excess of 45% and revenue has grown by 39% YoY. Going by trajectory in January 2022, we believe that CASA and CMS will continue the exponential growth in Q4 as well. As a result, we believe disproportionate profit growth; will be even more evident in Q4 FY22. We expect a revenue in Q4 to be around 27% - 29% higher YoY.

Coming to our two legacy products which is, micro-ATMs and AEPS and remittance. I should confess to you that over last three months I have been asked this question many times in terms of the stability of this product, the rational of this product and in second cases, why low margin remittance business is important for us? I have repeatedly mentioned, and I submit once again, one of the biggest advantages in our business model is the organic footfall we generate due to remittance, micro-ATMs and AePS. This helps us to keep our customer acquisition cost zero and helps converting our off-us customers to on-us customers. These footfalls are mostly off-us and as I said, customers with other bank accounts and help us to convert. Other merchants convert them into on-us customers by opening Fino Bank accounts for them as a result, we don't have to spend on marketing or customer acquisition as such. Remittance business generate massive organic footfall across our merchant network, especially in urban areas. These customers get converted into Fino Bank customers as it evident in the CASA growth. This conversion into Fino Bank customers they can digitize their cash for free subject to certain limited transactions and as such UPIs also becomes key thing and revenue generating aspect for us. The same applies for micro-ATMs and AePS as well. So, we don't look at these products in isolation. They are very critical in our journey towards owning customers.

The business in coming quarters continues to reflect the strong momentum of Q3 FY22. Historically we have seen that through the steep sequential growth jump over Q2 and then Q4 is largely flat on marginally up compared to Q3. FY22 will be an exception to the extent, wherein Q4 we expected to have strong sequential growth over Q3. This reiterates the fact that there is not much seasonality in our business under the normal non-COVID scenario as well.

We've been initiating a lot of structural changes in our production partnership, like enrolling on both state government websites as partner for various schemes, which facilitates us to open more CASA accounts, offering passbooks and cheque books to our customers and many such more features, which help the emerging Bharat customers for banking with us. These steps are already uplifted the business momentum in December'21 as evident from the record account opening numbers in December'21.

CMS and throughput value, as earlier mentioned by Rishi continues to reflect that trend as well. We would have loved to give you some exciting update on traction of our cross-sell. But,

as I said, our current spree is more on the customer acquisition and creating a base for process and that play will come into picture over 2-3 quarters from now on.

Having said that we have rolled out our revamped mobile app, FinoPay, which continues to be marketed by our brand ambassador Pankaj Tripathi. I would urge all of you to download this app, and experience Fino's digital offering. We will be investing proceeds of IPO to add more exciting products and features on to the application and other digital initiatives in the time to come.

We are also planning on setting up a specialized in-house digital team. We will be on boarding some excellent leaders in the space from the market. We have ambitious plans to scale up our digital business. We are also in the process of quantifying our business allocation between channel and digital over three years' horizon. We will be coming with some interesting updates on all of these within the next couple of quarters.

On a good note, I will leave open the floor to question. Both Rishi and I will be happy to take any questions from here on.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have two questions. My first question is on the MATM and AePS reports. Specifically, the MATMs reports declined further in the quarter, right? It was at around 69 billion in Q1, 61 billion in Q2 and now is gone out to 59 billion. If you can talk little bit about what's happening here and what kind recovery if any would do we expect to see in this line item?

And second thing, if you can talk about here product cost as the ratios to the total revenue. So, usually in the past couple of quarters whatever data I have is been around 67% per quarter. But, this quarter is gone up to 70%. So, I want to understand what exactly has changed in your revenue sharing with your merchants how has this number scaled up 3% point over here? Thank you.

Ketan Merchant: Shreya, let me just take your second question first. Product cost features is actually a function of product mix as well. As you've seen our remittance growth which has been increasing. In the Pre COVID time, remittance was the product which got impacted and then now we've come to a 100% of the pre-COVID level as well. For product cost, essentially, the growth is the function or is due to the remittance cost and has also open banking growth, which we are seeing. In regards to, how do we keep it happening, as I said, our margins currently are in the range of 32% and we intend to maintain that in a range bound manner. One of the emphases is also that as and when CASA and CMS our group driver's further increase, the momentum which we've seen over the last month or two at that will enhance our overall margin coming through. However, we will continue to balance the remittance, micro-ATMs and AePS. They will continue to drive a footfall for us for eventual conversion. That is answer to your point on product cost and margin overall level.

On your first point, if I understood your question, right? I think the line was a bit challenging, but you're saying, how do we see micro-ATM and AePS shaping up? Is that question coming up, right?

Shreya Shivani: The micro-ATMs throughputs are declining quarter-on-quarter. So, what is the challenge over here and how are you trying to overcome that challenge? Because that is the one-line item where your revenue growth is sort of slower, versus other revenue lines where you are still doing stronger. So, the challenges and how you are going to cope with them?

Management: If I talk about micro-ATMs and AePS, the throughput for this particular quarter have reached 14,356 vis-à-vis the last quarter which was around 13,068. Now, to answer your point now it is an important aspect to us. It's actually an important product, it generates own channel margin in the range of 50%, the ups and downs keep on happening. This is largely a function of how the seasons in the market also happened sometimes in festive season there is a higher throughput, which is coming up. So, there is a behavioral pattern which is essentially coming. From our perspective these continue to be important product for growth and we will continue to push the envelope on this as well. However, as I said earlier, these relatively matured or legacy products and these will continue to grow out of moderated way in the guidance which we have given earlier. This will generate a lot more cross selling opportunity for us to come. Our focus on micro-ATMs and AePS continue to grow on from here on as well in quarters to come.

Moderator: Thank you, our next question is from the line of Renish Bhuvra from ICICI Securities, please go ahead.

Renish Bhuvra: Congratulations on the good set of numbers. Just circling back to Shreya asked from the gross profit margins. Sir I think essentially is in the increasing pie of open banking in the revenue share is now almost 35%, and this is what actually breaking down the overall gross profit margin. So, is there any internal target or limits we have around the revenue mix going ahead? Because, if that share in the pie continues to increase downward trajectory will continue.

Rishi Gupta: Our open banking strategy is more driven from the fact higher market share. It is also driven from fact that it would be a partner with any entity. On one product we also have entity to bring in other products started remittance you can add AePS, you can add CMS, you can add micro-ATMs also as a cross sell opportunity, along with one product relationship which we have. Our range in which we are working on the open banking platform somewhere between 33% - 37% is something which we think is a good range to be within. But having said that some of the products which we have seen remittances for example, is growing more on the open banking platform because of the vast reach of our partners specially on the urban side. And we are using the same partners for our CMS and other businesses as well. It is a part of a well thought out strategy to grow our open banking platform, along with our own channel platform. Because end of the day, we want to service as many customers and through this process we'll be able to get a lot of customers on to the platform and then be able to cross sell over the next few years and will improve substantially.

- Renish Bhuva:** Got it. So, I mean, let's say we are working with a 32-35% kind of a band. So, we are pretty much there currently. So, I mean it right to assume that gross profit margin has bottom out that current level of 31%, or do we put some moderation from current level as well?
- Rishi Gupta:** Through our guidance in the past has also been that gross margin will be range bound. So, within plus minus few percent, I think we'll be working in that range is what we would expect going forward as well. Some of our new products and also some of our products like CASA are also improving the gross margin percentage. So, I think within a plus, minus two percent range, you can expect the gross margin to be in the future.
- Renish Bhuva:** I mean (+) 30% percent plus minus 2%, is what you're saying, right?
- Rishi Gupta:** Yeah, 32±2%. So, between 30% - 34%.
- Renish Bhuva:** Just last question on the strategy side. So, when we say a cross selling off course it will be financial services products, but let's say to start with will it be with the loan products, or we'll start with the investment products?
- Rishi Gupta:** So, the loan products, we have already started doing some pilot locations and we are seeing good traction on the loan products. We have to fine tune the products. We have to also see the collection ratios and how the disbursements can accordingly move in the times to come. So, from our existing products of liabilities as you know, CASA and some other products that also there will be quite good on the payment side. We also tied on the international remittance credit is something which is going to come first. And then we are looking at investment products. which is mutual funds and digital gold. We are waiting for approvals from Reserve Bank on some of our products especially FD, RD and Mutual Funds. International remittance we have already received and digital gold also we have received.
- Renish Bhuva:** So, any timeline when will international remittance product will be live?
- Rishi Gupta:** So, we are already in the final stages of signing the agreement with one counter-party on the MTSS side. We are expecting that along with the signing, we will also start the technology integration as such. Our slated timeline in the Q1 of FY23, we should be able to go live with the product.
- Moderator:** Thank you, our next question is from the line of Jayesh Gandhi from BNP Paribas Mutual Fund. Please go ahead.
- Jayesh Gandhi:** A couple of questions from my side, first and foremost, the last call we had mentioned about the competitive intensity, in the micro-ATM placements in north India, the company was witnessing the first half. How is the situation now and how do you see the outlook or the medium term in terms of micro-ATMs, to the merchants?
- Rishi Gupta:** The intensity on micro-ATM specially on the device pricing which we mentioned last time continues in the market, we have also planning to launch our new device in this quarter, which

will kind of take benefits in terms of the pricing, this is the lower price product, which would help us in gaining some market share because of the low pricing which is offered price by the competitor. As you can see, we have grown in this quarter and then margins have been more or less constant in fact, it has gone up marginally. So, we will continue to play that participation on the competition, especially on the micro-ATMs, AePS. In some geographies where there intense competition, we will match the competition and in other geographies we will try to manage our margins better, but yes the intensity, as you asked is continuing and I don't expect that under another few quarters, we probably taper down. We will all adjust to the new pricing and everything and move in that direction.

Jayesh Gandhi: I understand, so, is the funding for the competition, not only coming from banks or if it's an NBFC, because obviously to keep on funding these device require real deep pockets.

Rishi Gupta: Some of them are, I would say, are funded not to that level, but reasonably they are funded. Also looking at the numbers in which they want to give out those devices at lower price. I don't think they are getting funded by NBFC or banks. They are largely funded by and their own set of investors and stakeholders.

Jayesh Gandhi: The second question I had is on this opportunity that we have of international remittance. We all know that India is one of the biggest markets worldwide for remittance, but this seems like pretty well entrenched market for the bank, banks has been doing this business for many, many years, what is our proposition or what is our ability to take some market share out of these banks and do this business in a profitable way for us?

Rishi Gupta: It is a very interesting question. So, couple of things on this international remittance total business is about \$90 billion of which about 25% comes through MTSS which is largely non-banks, we can look at Western Indians and MoneyGrams and other parties manage about one-fourth of the remittance from a non-bank channel. Our focus is currently to look at the non-bank channel to start with and then do some more tie ups on the other side where we can direct international remittance. Our forte comes from the fact that this remittance is a largely four, five big states Kerala, UP, Bihar, Punjab, Gujarat and we have a very entrenched, deep network of merchants in all those states and we have quite well known in that ecosystem. Apart from the fact that we have also started to see that largely this traditional money transfer company incentivize people to withdraw the money immediately when the international remittance is hitting their system, whereas in our case we have a twin benefit we can offer a bank account. So, the money can be kept in the bank account and does not need to be a KYC every time you withdraw the money. So, one time KYC and then you can open an account and keep the money in the bank account and withdraw it at any point of time. So, both our product offering on opening an account as well as giving them cash options as well as deep penetration of merchants some of them who are already international remittance player also gives us that added advantage to get the higher market share in this business over the next three to five years.

Jayesh Gandhi: Any aspirational target for three years out?

- Rishi Gupta:** So, we are looking at the 5% of the MTSS market as our aspirational target. It is a good ask it is a fair ask I think so and hopefully with our network and our superior offering, we would be able to capture a larger market share.
- Jayesh Gandhi:** 5% is \$4-5 billion, and that is a pretty sizable number all the very best to you on this hopefully this will open a new avenue business model for us for the future, my last question is basically housekeeping question.
- Rishi Gupta:** Just to add to this on international remittance see this what happens is that when a merchant or a customer gets money in his bank account his ability to cross sell and other products also comes up. So, our international remittance strategy is not only limited to just the product, but also opening a bank account and our ability to bring in other product also to the same customers. So, you can say it is a three-pronged strategy which we are looking at. Our objective is to increase as many footfalls into our merchant network.
- Jayesh Gandhi:** Good to know that, great. My final question is on the balance sheet so because we have a bank as a subsidiary in our consolidated numbers that we put out it is very difficult to understand the operating cash flow number because of the deposits coming in and money flow because of the payment bank, is it possible for the team to give out the operating cash flow number on a quarterly basis or a half yearly basis so that we know how much of the profit or EBITDA is converted actually into operating cash for us?
- Ketan Merchant:** I think that is a fair ask while ours is not a balance sheet business, but our cash accrual even before in the pre listing days has been sufficient enough to meet our expenses earlier and what we were doing we incorporate and summarized balance sheet or operating cash flow in the future investor presentations.
- Moderator:** Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.
- Chandrasekhar Sridhar:** I have three questions one was when you said that you will keep broadening gross margin constant, is that a function of the share of open banking going up, is it being driven by that or because ideally it is favorable product mix your margin should be trending higher or is it because you are seeing treasure in segments like remittances and Micro ATMs and margins are going down, so the increment in margins because of CASA and CMS are offset by slightly lower margins if you have in this, is it product one offsetting the other or it just a share of open banking going up that is question one. Second if I look at the renewal rate in your subscription accounts you basically need about Rs.8 crores of subscription revenue renewal this year and this should sort of correspond to the income which you made last year on saving bank account if I am not wrong which is about Rs.8.4 crores from 12 months ago, so it seems like you have made almost all of what you made last year by new savings bank account this year from renewal obviously you have hiked your saving bank account charges, but maybe you could just share with us how many impact has just coming from a renewal rate, what is the renewal rates and how much of it is coming from the charges and thirdly just on the sustainability of this

Micro ATM in the AePS revenues I notice that the transaction revenues have not actually increased much, but the subscription the on boarding fees for merchants have gone up I am again trying to understand the sustainability of this because if you are on boarding revenue merchants, but the transaction for merchant is not really getting up are the on boarding revenues in themselves sustainable?

Rishi Gupta: Ketan, I will start and then probably you can add to the point. So, the first question Chandra was in terms of margins which are there is it because the margins are getting impacted to some extent because we have open banking or the product mix within our own platform. So, I would say the answer to this is somewhere in between it is both the open banking margins are lower because of which our gross margins also gets impacted one and secondly also the remittance share probably would have impacted some of our gross margin on our own basis, but our new products which is CASA and other subscription is kind of offsetting the drop in margins especially on the own product side and the remittance business obviously as it gains more and more percentage the margins are lower on that side, so that is the answer to the first. Ketan you want to add anything to this.

Ketan Merchant: You fairly covered the sub process around margins.

Rishi Gupta: Chandra, can you just repeat that second question?

Chandrasekhar Sridhar: So, your renewal income from subscription was Rs.8 crore this year?

Rishi Gupta: Actually, the renewal income for this quarter is not only reflecting of the accounts we opened in the quarter year before this. So, it is an accumulation of previous three quarters also which we have faced some of the additions which we did in this quarter last year would come in our next quarter. So, you cannot match it to the quarter-to-quarter basis so it is an accumulation which has happened roughly around 55% to 60% is the renewal rate which we are seeing on our ecosystem as far as subscription products are concerned but matching it by accounts opened in the previous quarter versus this quarter may not visible right desirable numbers because normally the renewal does not happen in the same month it may happen over the next normally 3 to 6 months.

Chandrasekhar Sridhar: Sorry, just to understand this a little better is it I would presume so you have subscription charges on quarterly as well as six monthly so it is not like it is a one is to one I thought this was typically one year subscription, so the subscription renewals from that...

Rishi Gupta: So, I will give you an example so somebody open an account in October of 2020 renewal will be due in October of 2021, but it may not necessarily be that he renews in the same month. We might renew it in January, February or December or somebody open account in September of last quarter and they will pay us in October to December quarter of this year. So, while the account becomes accrual, the payment is something which we look at when we account for in the income side. So, it is only when the customer pays is when we look as a subscription renewal income.

- Chandrasekhar Sridhar:** And what is the average realization for subscription account right now?
- Rishi Gupta:** So, about 55% to 60% you can say is the accounts which are getting renewed on a yearly basis.
- Ketan Merchant:** Two points out here Chandra. One is the realization as you said in the year one our essential margin is in the range of 55% of subscription when we come to a renewal the margins because we do not have some incidental cost like plastic, etcetera coming our margin or the realization rate goes up to somewhere in the range of 70% -75%. Also, remaining on the renewal rate, Rishi had earlier alluded that our first year renewal rate is coming at the rate of 55%. Now that we have entered our second year of renewal cycle the people who are renewing it for the second time is more than around 75% and as we go into FY23 in at some stage in the latter half of the year we will be going into the third year as well. So, for us it is about accumulation of renewal of customers on a year-on-year basis. So, this is where our statistics currently lie. First year we have renewal rate 55%, first we have margin in the range of 50% - 55%. Our second-year renewal rate is around 75% and the margin for renewal is in the range of 75%.
- Chandrasekhar Sridhar:** Ketan I think the question was not the gross margins, but basically what are the average subscription charges which you realized this quarter?
- Ketan Merchant:** Average subscription charges are in the range of around Rs.320 or Rs.350.
- Chandrasekhar Sridhar:** The ceiling to this will obviously always be as you benchmark with the cost of saving bank account so that would be around in any case some of these accounts will have Rs. 455, Rs. 600 charges so that would be the ceiling to which you can get up to?
- Rishi Gupta:** Yes, typically our highest variant is around Rs. 449 also we will be evaluating with that. It has to be making economic sense between the saving account for us and the rest.
- Chandrasekhar Sridhar:** Last question which was on the share of on boarding revenues in MATM and AePS has gone up?
- Rishi Gupta:** So, Micro ATMs and AePS the on-boarding revenue is largely related to one project which we are doing in UP which is a BC Sakhi so that is where the on-boarding revenue has gone up, but those merchant which we have added on those geography especially in UP, will start transacting in this quarter. So, being a semi government kind of a project, which is there so the on boarding happens much in advance and the transaction flow happens a little later. So, that is where you would see there is a marginal higher number on-boarding that would be related to only one product otherwise it is more or less in line with the other numbers.
- Chandrasekhar Sridhar:** This should eventually the idea is this should eventually flow in the transaction that is the whole idea?
- Rishi Gupta:** Yes, but it takes a little time in a normal on-boarding it takes couple of months for the merchants to come up and ramp up transactions. In some of these projects where government is an anchor customer, it takes a little longer to happen as such.

Moderator: Thank you. Our next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: So, my question is on merchant if you can give us a little more extra color on merchants they have grown 50% all banking merchants, what is the active ratio do you track them what are the numbers like, what are the drop off rates can you give us some color on that would be very helpful?

So, we have 457,000 merchants which has grown 50%. I just wanted to understand if we can get some more color on them which is how many what are the drop of way, what is the let us say one-year active ratio and so on and how that is trending because this is the nodal part of our business.

Ketan Merchant: Typically owned channel merchant division of 457,000 odd merchant typical active ratio is around 70%. So, 70% of them are generating income out for themselves and for as well and that our active ratio might be is decent given the expansion which we are doing it off, why in terms of the entire merchant proposition obviously earlier in one of the questions also eluded what have they gain with us and one of the gentlemen also asked about Micro ATM. So, our endeavor is to have more and more merchants in multiple products coming through so that it increases their fleet of products, someone who is doing remittance in addition to convergent to a CASA account we will try and see that if we can do a Micro ATM and AePS as well. So, from a strategy perspective we are going into 2 pronged the kind of growth which we are looking at over the next three-year period or maybe a 3x kind of a growth on overall merchant on a total acquisition of merchant plus a merchant doing more in terms of what he essentially the product which he is doing it off. Currently, I think a merchant typically earns somewhere in the range of around Rs. 1,200 to Rs. 1,400. I think our endeavor giving them more products including in the future like international remittance and the loan facilitation etcetera on a very structured basis and we will continue to grow our merchant base as I said as well. Rishi you may want to add any other strategy.

Rishi Gupta: No, I think you have covered it well.

Susmit Patodia: The other aspect on merchant is if you can tell us the Pareto in this would be top 20% of the merchant accounts for 80% of the business or is it more widespread or skewed?

Ketan Merchant: That is a very difficult business definitely 80-20 ratio is essentially working out for us as well. 80% of the business essentially comes from the top 20% of the merchants I would also like to actually add one more thing we started a very differential meeting and if I am not mistaken I have mentioned in the earlier calls as well we call a Fino Hamesha merchant wherein the registration itself is in the range of under 100,000 and these guys end up generating the income is high in the range of odd 50,000 in the buffer themselves. So, we have categorized our merchant into platinum, gold, silver and bronze and so on and so forth, but current business mix is in the range of it is 80-20 it is applying with us it is more like 77-23 if I am not mistaken that is how the business is essentially coming up today.

- Rishi Gupta:** One point which I would like to add to Ketan is that while on an overall revenue it would be probably ranges around 23, but what is important trend which you are seeing and which is something which we are now even pushing more with some of our merchants may not be on an overall basis, may not be a selling all products, but they have kind of picked up a few products like some of our merchants that really take the CMS quite well. So, they are focusing more on the CMS somebody has picked up CASA as one of their flagship product. So, while on an overall basis it could be 77-23, but from a product point of view we would see a more diversified merchant doing different kinds of product. So, largely merchants who are doing higher domestic remittances as well as Micro ATMs and AePS they contribute a higher revenue share to the kitty, but I would say CMS and CASA merchant number are also growing up quite substantially and they are kind of niche merchants who are focusing on couple of these new products.
- Susmit Patodia:** My last question is this the operating cost has fallen quarter-on-quarter while we continue to do investments in the business, so wanted to understand have we reached the peak of operating cost or it is just it will start increasing again?
- Ketan Merchant:** Operating cost is marginally gone down from Quarter 2 to Quarter 3. Quarter 2 we have done some like marketing activities as well. I think the important aspect as you mentioned is that we continue to invest into the business from here on as well. So, I would not say it is essential peak. We will continue investing into digital as well as feet on street in some of the geography specifically in East and South. Having said that, I think operating leverage we started we will keep on increasing as well. So, the additional cost from here on would be driven by the business period which we want to do the blending which we essentially want to do the marketing which we want to take through and additional people which we want to deploy off and as we go into more technology and digital investment there will be amortization of cost also which will happen. So, I would not say it is peaked, but the operating leverage we will continue to come what we are seeing out here.
- Moderator:** Thank you. Our next question is from the line of Hiten Jain from Invesco. Please go ahead.
- Hiten Jain:** Can you give some color in your BC banking business where the revenue seems to have declined on year-on-year basis?
- Ketan Merchant:** So, Hiten in BC banking if we recollect in our earlier projection as well this is B2B business it is subject to some of the contracts which we are essentially doing it off. We have couple of banking contracts. So, this is on an ongoing basis is expected is not going to be a growth driver. Currently, we have seen in one particular bank some sort of a slowdown which is happening which is not a strategic slowdown, but a more fundamental slowdown in terms of they are revisiting a particular regional strategies. So, that is where the B2B business was a BC banking business is sort of flattened now.

Hiten Jain: So, how should we expect this business going forward in terms of growth rate quite obviously it will grow slower than the other products, but should we expect growth in this business going forward or what should be our expectation about this business?

Ketan Merchant: The way we are seeing it off is this would be largely the growth would definitely come through, but it will be largely in a single digit growth and substantially lower in terms of couple of other business like CMS or CASA growing which are exponential growth. It may even be more moderated as compared to growth in terms of Micro ATM and AePS as well that is how we have strategized the entire business. On absolute basis it will go to on a percentage basis is expected to be a on a single digit number.

Hiten Jain: The second question was if you can while you spoke about new products, but if you can give some more color about it in terms of what should be the timeline and which products so which is your next one or two new products that you intend to drive and what would be the timeframe that one should expect what is your strategy around that?

Rishi Gupta: See on two products which we have recently started Aadhaar Pay and AePS cash deposits. This we have started in Quarter 3 of this year. We should see ramping up of this happening from Quarter 1 or Quarter 4 of FY22 onwards. So, this two products as the products I would say awareness becomes bigger we should start seeing this. But we are also doing on the CASA side we are increasing our product by adding passbook also in this quarter. So, with passbook we are expecting a large section of population to also look at CASA of Fino Payments Bank. So, these are couple of things which we are doing on the existing products. On international remittance as I mentioned earlier we plan to go live in Quarter 1. Credit on customer as well as merchant we are still piloting, we want to understand the collection behavior better before rolling it out Pan India. We are also trying up with couple of more NBFC and Fintech companies on the lending side which will take another quarter or so. So, we should start seeing more traction on the lending in Quarter 1 and Quarter 2 of FY23. Apart from that digital gold is something which we have received approval from the regulator that also we will be probably launching in Quarter 1 of FY23. Mutual funds, FD and RD, we are getting approval from regulator once we receive the approval from them I think if we take a quarter after that to launch those products there are conversations going on with their regulator right now and it should happen anytime or may take a few more months to happen. Ketan you want to add anything if I missed out.

Ketan Merchant: I think you fairly covered everything.

Hiten Jain: And the last question from my side is on CASA so you said that there is some 50% kind of renewal rate and if I just think about the Pradhan Mantri Jan Dhan Yojana so that covered a large part of section of the customers for CASA, so if you can give some color in terms of your customers is it a second account for them or largely a majority of them it is the first account and what is the potential for increasing this over say next 7 years, 8 years?

Rishi Gupta: So, I believe the CASA strategy of Fino specifically is where we are differentiated from other public and private banks; I will take you through this entire journey. See what happens when we open one account under Pradhan Mantri Jan Dhan Yojana it is a zero balance account, but it has its own complications and limitations. So, we have to go to the branch, you have to go to the branch and their ATM and withdraw money and it takes lot of time as well as cost to do that travel as well as time which goes into going to a branch and withdrawing money. So, people while through the camps and through the melas the public sector banks have opened up millions of accounts under Jan Dhan Yojana, but large part of them continues to be maybe non active or very limited value transaction and this was opened in the last 5 years, 6 years. So, what Fino's proposition is it brings in the convenience and the servicing at the local neighborhood level only and for that the customers have to pay about Rs. 449 including GST. So, that money they pay, but then they get the convenience of being serviced at a local level and that is something which we are valuing it even more. So, our proposition and that is why we believe the accounts continue to grow is because the value prop which we are able to bring to our customers both in terms of convenience of opening an account as well as getting service as a local neighborhood at their convenience. So, this will continue to lead to growth in a CASA numbers.

Moderator: Thank you. Our next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: So, just one thing on the transactional revenue so let us say if you look at the RBI data on the device deployment our incremental market share is sort of around 35% to 36% versus outstanding market share of close to 50% and we have seen couple of other banks like Yes Bank, State Bank of Mauritius etcetera tapping this Micro ATM pretty aggressively over last 4 months to 6 months, so that is the reason why a transactional volume is being shifted to competition and hence it is impacting our revenue or is there something which we are not able to figure it out yet?

Rishi Gupta: The reason is when we entered the market we were the pioneers of the product especially on a micro ATM side, AePS we entered the market maybe about a year or so later then other banks have entered and we have about 11% odd market share on the AePS platform, so those in terms of being the pioneers and now we have more people entering; our market share is definitely expected to go down because more and more players will keep on entering into the market and I think the market itself is growing. Moreover, as Ketan mentioned earlier these are full products for us and it is a good momentum which has got built up around that. So, while our market share may come down it will come down because of more and more players coming in and aggressively answer the question earlier, aggressively under cutting and reducing the margins whereas we have been holding to our numbers and in fact we went up by 10% this quarter and margins have also marginally gone up. So, we do not want to play that strategy of unnecessary reducing the margins and gaining a market share. We rather continue to play the game of getting a good momentum on the product as well as converting those customers into our own customers on CASA. So, some of our numbers which also may not get reflected here and difficult to figure out because some of the customer growth would be

coming to us from Micro ATM and AePS now would have become Fino customers and now once they became a Fino customer, any transaction they do it does not get reflected on the Micro ATM and AePS at all that goes into Fino own transaction volumes. So, that could also be one of the reason where it would be the marginal shift in terms of the transaction from Off-us customer to on-us customers, but we will continue to focus our strategy of converting Off-us customers to on-us and that strategy as we can see from the numbers is working out very well.

RenishBhuva: So, I mean is it fair to assume Off-us to on-us convergence ratio will be improving quarter-on-quarter and any ballpark numbers you would want to highlight, what could be that ratio currently?

Rishi Gupta: We added about 2 lakh customers in the month of December if around 2 crore people visit our platform every month maybe we can say 1% convergence we saw in the month of December and the same number would be around 0.75% to 0.85% about 6 months back.

Moderator: Thank you. Ladies and gentlemen that was the last question. I hand over the call back to the management for closing comments. Over to you, Sir.

Rishi Gupta: Thank you everyone for joining us on the earnings call for Fino Payments Bank. We will continue to grow our businesses. So, we see good momentum in our transaction business and we continue to see the growth on our transaction business. This is resulting in a good tool for our platforms and which results in higher acquisitions of CASA as well as we see higher footfalls on CMS products. CMS business continues to grow both in terms of the new customers and the kind of customer additions which we are doing specifically if I look at the logistics income and companies on CRA. So, diversifying of client base on CMS as well as higher throughput our initial journey of converting customers from off-us to on-us has been bought out quite well, converting them into digital and UPI volumes growing as you can see more than Rs.5,000 crores in one quarter which was very small number about 6 quarters, 7 quarters back is very exciting for us. The momentum has been good in this festive quarter and we hope to continue on this good momentum and show good results in the future quarters as well. With this I hand it over back to Inba.

Moderator: Thank you very much Sir. Ladies and gentlemen thank you for attending the conference call today. If you have any further queries please send an email to at sayantana.mitra@finobank.com or gaurav.g@conceptpr.com. Thank you for your participation you may now disconnect your lines.