May 08, 2023

BSE Limited
Corporate Relationship Department,
2nd Floor, New Trading Wing,
Rotunda Building, P.J. Towers,
Dalal Street, Mumbai- 400 001
(Scrip Code: 543386)

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

Dear Sir/ Madam,

Sub: Transcript of the earnings call with the investor and analysts held on May 03, 2023 - Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Ref: Earnings call with Investors and Analysts on May 03, 2023

In continuation to our letters dated April 26, 2023 and May 03, 2023; enclosed herewith the transcript of the earnings call with the investors and analysts held on May 03, 2023.

Only information available in public domain was given to the investors/analysts.

This information is also available on the Bank's website i.e. www.finobank.com

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Fino Payments Bank Limited

Basavraj Loni
Company Secretary & Compliance Officer
Place: Navi Mumbai

Encl: a/a

"Fino Payments Bank Limited
Q4 FY '23 Earnings Conference Call"
May 03, 2023

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

MODERATOR: **MR. RAJAT GUPTA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Fino Payments Bank Q4 FY '23 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode. 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 Mr. Rajat Gupta from Go India Advisors. Thank you, and over to you, sir.

Rajat Gupta: Yes. Thank you, Darwin. Good afternoon, everyone, and welcome to Fino Payments Bank earnings call to discuss the Q4 and FY '23 results. We have on the call with us today, Mr. Rishi Gupta, Managing Director and Chief Executive Officer; Mr. Ketan Merchant, Chief Financial Officer; and Mr. Anup Agarwal, Financial Controller.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risk that the company faces. I now request the MD Mr. Rishi Gupta to take us through the company's business outlook and financial highlights, subsequent to which we'll open the floor for Q&A. Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. Good afternoon, ladies and gentlemen, and thank you for joining us today. As you all know, Fino has come a long way since its inception as a payments technology company in 2006. We became the first profitable payments bank in 2020 and since then have worked diligently to build a niche for ourselves in this space with profitability being our core. While Ketan Merchant, CFO will take you through the financial performance for the quarter for FY '23 and FY '23 in detail.

I would like to highlight that our revenue has grown 22% year-on-year for FY '23 and 13% year-on-year on quarter 4 FY '23. PAT margins have improved in FY '23 significantly to 5.3% at INR65.1 crores against 4.2%, whereas for quarter 4 FY '23, it stands at 6.8%. Our business journey, as we have discussed earlier, is based on the TAM strategy, which is Transaction, Acquisition and Monetization.

The first phase, which we call the Transaction phase is focused on building a base. It is a phase wherein our remittance and cash withdrawal products act as a hook to bring in customers to a Fino ecosystem. In this phase, we have set up our distribution network and happy to report that we have so far added 13.7 lakhs merchants to Fino ecosystem and build customer trust by providing them with innovative, timely solutions for their banking needs.

We offer simple and convenient solutions like domestic money transfers, micro-ATM AEPS as neighborhood banking. And I'm also happy to state that we are one of the leaders in all the 3 segments of business. The transaction phase requires strong execution skills and feet on ground and is the foundation for our next phase of growth. While Phase 1 continues to have its own growth strategy, we are now whole heartedly focused in building up the Phase II and Phase III of our business journey. Phase 2 of our business is focused on customer acquisition and maintaining the ownership. This phase is well underway, and we are seeing great results, as you can see from the numbers yourself.

Customers ownership is gaining momentum, and there is a strong trust equity build. This is also the phase where we lay the foundation for our customers' digital journey. And at the same time, open avenues for monetization through cross-sells and building a liability franchise, which has been challenged for most of the universal small finance banks. Our deposits have grown significantly by 66% to INR1,200 crores in FY '23 over last year which reassures that we are on the right track and that our customers believe in the Fino model and business partners -- banking partners.

The success of our second phase is evident from the strong CASA growth, which has shown a CAGR of 74% since FY '20. We have built great momentum in this segment and are opening an account almost every 10 seconds. We have added 3 million new CASA accounts in FY '23, 50% more than what we added in FY '22. Our endeavor is to convert the walk-in transacting customers, I'll repeat, our endeavor is to convert the walk-in transacting customer off us to CASA customer on us, and we have been able to do it successfully.

This also results in the shift of the revenue pie from transaction business to higher-margin ownership business. This is important so I'll repeat it once again. This also results in a shift of our revenue pie from transaction business to higher-margin ownership business. While we are going wider, we are also able to maintain customer stickiness. There has been a massive increase in the renewal income, which has grown almost 10x in the last 3 years.

Our debit card spends have shown a CAGR growth of 66% since FY '20. Digital throughput has grown its share of total throughput from 16% in quarter 1 FY '23 to 23% in quarter 4 FY '23. On an average, we have been at 20% growth on UPI Digital compared to last year. The customer activeness and physical or digital platform is increasing, thereby showing higher annuity income in the form of subscription renewals.

So UPI Digital now constitutes 20% of our total throughput vis-a-vis 10%, which was there last year. UPI is actually beneficial to our business. And a lot of times, people actually think that UPI is a cost center, and you don't make money, but UPI has incidental benefits and that is why we say UPI is actually beneficial to our business and we have observed that our customer renewal rate is higher for transaction UPI customers versus non-UPI customers.

The average is about 83%, 84% versus 60% otherwise. As a bank, our endeavor is always to be there with our customers. So our aim is to become preferred in everyday banking customer, and that is where we have put a slogan called HarDinFino. So we want to become a transacting bank for our customers, and that's why we call ourselves an everyday bank.

We started working with our customers to build their digital journey, which will be the key driver for our future growth. We are actually adding physical and digital together so becoming a true digital company. We are building new digital products and targeting new customer segments. We are also strengthening our digital partnerships and doing tires with technology and Fintech companies with specific use cases to help them open CASA relationships and expand our base as well as their base. In FY '23, this was around December of '22 when we launched our digital savings account and we have opened nearly 40,000 accounts since then in the last quarter.

We also started to focus a lot more on our FinoPay and our digital journey. So roughly about 5.7 lakh monthly active unique customers are there on the FinoPay app, which has seen a growth of about 3.5x over FY '22. Nearly 35% to 40% of our customers are actually transacting on the UPI platform as we speak. UPI and mobile banking continued to be an integral part of the digital offering by the bank, and we are focusing on building new capabilities on our UPI and mobile banking offering so as to tap the Tier 1 and Tier 2 and also grow digital in Tier 3 cities.

You will be happy to note that your company has actually moved away from a third-party UPI switch and build their own switch in-house. And we are already starting to see the benefit of moving the switch internally rather than with a third party. And it's a big change. I must say we are one of the very few companies or banks who have internal UPI switch. CMS being our second high-margin product is also a key growth driver for us in FY '23. And we continue to remain a growth driver in FY '24 as well.

From a model 39 partners in FY '20, we have come a long way. And now we have 186 partners. And as you can see in the presentation, it talks about the variety of partnerships from NBFC to online to CRA to banks to e-commerce companies. So we have definitely come a long way in our CMS business. CMS throughput has grown by 10x from INR4,300 crores in FY '20 to nearly INR46,000 crores in FY '23. That's a 10x growth in a matter of 4 years. We have been able to achieve and deliver primarily on account of our foundation of distribution network covering the length and breadth of our country.

Our priorities for FY '22 will be to continue the customer acquisition momentum, strengthen the customer ownership, enhance merchant network and increased digital footprint through fintech and B2B partnerships. While these are the key management priorities. In fact, in our presentation, we have included our goals also for 2026. While this is our key management priorities, our driving principle will be to create a sustainable and creditable bank, something which we have been speaking about and talking in the last 2, 3 events as well. With this, I would like to hand over to Ketan Merchant, CFO, to walk us through the financial results. Over to you, Ketan.

Ketan Merchant: Thank you, Rishi. Good afternoon, ladies and gentlemen, and thank you for joining us once again. As Rishi mentioned, we have come a long way since 2006, and this is our 13th consecutive quarter of strong profitability, and I can say that's highest profitable quarter till date and also the highest year-end closure in terms of profitability.

Let me start with some distinct statistics. Our margins have improved by 240 basis points, 2.4% to 32.7% in quarter 4 '23, which was at 13.3% in quarter 1 '23. EBITDA has increased from 8.4% in FY '22 to 11.1% in FY '23 and the exit run rate in quarter 4 '23 13.3%. Our FY '23 PAT is up 52% in stands at INR65 crores, 25% up from quarter 4 as compared to the previous -- on a year-on-year basis.

Our asset-light model and strong focus on high-margin products, as Rishi said, are the key levers for driving our growth. Throughput has increased by 36% to a whopping number of INR2.55 lakh crores. This number for the previous year was INR1.87 lakh crores. As Rishi mentioned, we've been working diligently to bring a strong merchant base and investment we have made in Phase 1 of the business, which he alluded to as transaction focus is now delivering results. I would like to bring to your attention to one key aspect of our performance.

The fact that operating leverage is kicking in as we scale up, and this is evident from cost-income ratio, which has come down by 11% over the 3-year period. We were at 37% of cost income 3 years back and now this is 25.9% or 26%. On the related note, just to note that our operating expenses year-on-year has grown by 3.4%, whereas revenue has grown by 22%. I will now quickly touch upon product-wise performance. Part of it, Rishi, in his headlines and in a trend over a strategic aspect is given.

CASA. - As you would have seen from our presentation, we are currently focused on acquisition phase and the key driver for growth here is CASA. We are delivering robust performance here and opening a new CASA account every 10 seconds. We have a CASA base of around 75 lakhs, which is an increase of 64% on a Y-o-Y basis.

Revenue has gone up by 87% primarily driven by CASA acquisition, which I just mentioned, and annuity income as well. Our total deposit has also shown a significant growth and have grown by 66% from INR724 crores to INR1,200 crores on a year-on-year basis. Average cost of funds for us stands at 1.9%. Low-cost deposits without acquisition cost of acquiring the liabilities account is a real differentiated aspect for us.

Continuing the ownership strategy, while we are increasing our CASA base, we are also working hard to ensure a customer engagement and stickiness. The best way to see that is to improving customer loyalty is through CASA's renewal income, as I call it annuity income. This has grown for us by 167% on a Y-o-Y basis. This, for us, is an annuity income and mix base for Fino 2.0.

A strong renewal income also reflects a healthy bottom line because the margin for renewal income is 75%. Currently, renewal income is at INR74 crores. This is for FY '23 and constitutes 1/3 of CASA income, which we anticipate and working towards making it 50% over next couple of years. 50% of the CASA income should be through renewal. CMS, Rishi also mentioned it off. It's our second high-margin product, and we continue to enjoy a leadership position in this space.

Our revenue has grown by 79% in FY '23 with diversified clientele and constitute 8% of our revenue pie. We are now hitting volume of INR4,500 crores per month. Our throughput has increased by 93% in FY '23 and which is at INR46,000 crores plus over FY '22. We continue to add new partners here, which diversify our client base.

Over the last two years, our client mix has moved from 97% in NBFC MFI in FY '21 to 51% in FY '23, along with double throughput on a year-on-year basis. This is the growth which we have seen in CMS largely. As at 31st March '23, we have 186 CMS clients across sectors, whether it's banks, NBFCs, e-comm, cab aggregators and all. We are now covering 14 states with average monthly throughput of over INR100 crores in Q4 '23. This number in Q3 '23 was 8 states.

Again, the advantage of widespread distribution network enables us to cater in this product. So new client addition and expanding reach is our key priority year. AEPS, this is the part of the transaction income, which Rishi alluded to. Our AEPS revenue has grown by 25% Y-o-Y, while the AEPS industry growth was around -- was more or less flat at or growing by 0.3%, the throughput for Fino grew at a healthy 8.8% Y-o-Y. AEPS momentum or the growth has helped us to partially compensate the challenges or the industry by challenges which we are facing across MATM. Very quickly on Fino 2.0, Rishi has already covered some statistics just to reiterate it off.

Our FinoPay digital accounts, which we have opened. We have -- in 3 months' time, we opened more than 40,000 accounts, and FinoPay users have grown by 3.6x. Our digital throughput is now close to 20% of the total throughput for FY '23 and 23% in quarter 4 '23. Fintech and B2B partnership would be our prime focus for revenue generation.

We now have a full UPI open banking stack as Rishi explained and are looking at a very holistic partnership approach here. We are continuously focusing on building new capabilities on UPI ecosystem and mobile banking offering. Based on renewal trends, and this is very important to allude to a point which Rishi said, what are the incidental benefits which UPI is giving to us.

Based on the renewal trend, we noticed that the probability of renewal of customers doing UPI transactions. This is the current account renewal is as high as 83% as compared to a normal customer, which is 60%. This is the benefit of the ecosystem, and this is why we are investing into digital as well. I will now sum up by saying that we are on high growth trajectory with inherent asset-light model and cost control, our profitability growth percentage in times to come will continue to grow by 2.5x of the revenue growth percentage.

With this, I would like to open the floor for questions.

Moderator: The first question is from the line of Ashish Kumar from Infinity Alternatives.

Ashish Kumar: My question was in relation to a couple of your business lines, which have actually seen a degrowth this year. One was your micro-ATM as well as on the business correspondent side, where we've seen a degrowth this year. Can you kind of let us know what is happening on the industry? And what's your outlook going forward on those 2?

Rishi Gupta: So, on the micro ATM side, two things, one is on the cash withdrawal business and remittance business in general, one thing which I also mentioned in my opening remarks was the shift from off us to on us. So partly the revenue of micro ATM remittances as well as AEPS has moved from that line of business to our CASA income category as an account holder. So one part is that apart from that, on an overall basis, the micro ATM market, which we saw a big surge happened during the post-COVID during the COVID period, is now kind of stabilized.

So we are not seeing a substantial growth or growth in the industry per se as far as micro ATM is concerned. There was a surge of competition, which came around '21, '22, which has also eaten up into markets for everybody. So we believe micro ATM will move sideways only for some time before we can see a trust coming in that segment.

As far as the BC business is concerned, in the BC business, there are 2 things which are there. One is that getting new business on the BC side has become more challenging post the payments bank license and then the SFB conversation. So that getting new mandates have become more difficult on account of that. And secondly, also, the focus of the ground team is more in terms of building up their own revenue rather than a BC revenue because the margins in BC revenue is lower than our own business revenue margins.

So to some extent, that gets sidetracked to some extent, while there are internal conversations in terms of how do we bring that back. And so some actions we have taken this year to segregate the teams completely so that we can focus on both the businesses separately other than each business eating into each other. But just on both the sides, we, in our projections also the growth projections you're talking about. We are not expecting a very high growth in either of the 2 lines of businesses that you just mentioned.

Ashish Kumar: Sure. And the second question was on growth per se on Rishi. So while we look at the full year, 22% is a very commendable growth in the payments business. For the quarter 4, if I look at it, the growth rate is at 13%. Do you think which is more sustainable? Can we go back to your historical growth rates of 20%? Or do you think it will be more in terms of the meetings to kind of budget ends?

Rishi Gupta: Our target is to be at 20% growth for the year. Some quarters may see higher growth, some may see a lower growth. But on an average, we should maintain and that's the target which we are working on to maintain a 20% growth rate as such. This quarter, particularly, it has been a little low. You are right, 13%. We are also expecting a little higher partly because of the micro ATM and some cash withdrawal businesses not growing or degrowing at a faster rate than what we expected. But on an average basis, we should be growing at 20%. That's the target, and that's the plans which we have in place.

Ashish Kumar: Nothing to read into this thing?

Rishi Gupta: No, not really. Plus also that we are focusing, as you see, our own business rather than API business. So from a 62% owned business, we have moved to 67% on owned business. So that also improves our margins. Our net margin, which was 30.2%, has now become 32.8%, something like that, 32.7%. So those are substantially higher numbers jump out to 250 basis points in 1 year. On the net margin, I think, is a good jump.

Ashish Kumar: Sure. And lastly, which is a data-keeping question for you Ketan. How long do you think our tax structure will continue 1 more or 2 more years?

Ketan Merchant: Good one, Ashish, we have our tax losses, which will be able to cover us for FY '24.

Ashish Kumar: Okay. So '25 will get to a full tax rate?

Ketan Merchant: It looks like.

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

Harsh Shah: So I wanted to understand one thing that we have close to 75 lakh accounts. So how much of these accounts would be inactive?

Rishi Gupta: Okay. So only one question, you have something more to add to it.

Harsh Shah: No, I'll come back to other questions later on.

Rishi Gupta: So roughly 60% of them are active when we look at from our activity level and about 35%, 40% of them are active on the UPI alone. So as the new acquisitions are using more UPI, we believe our activity levels will continue to grow. And that is why Ketan has also said that in the year to come, our renewal income and our new acquisition income should be more or less equal.

Harsh Shah: Okay. So what will be our strategy to get the remaining 40% accounts to be more active?

Ketan Merchant: So Harsh, the model which we are essentially running and the base effect, if you've seen in last year, we have opened around 30 lakhs account. We are doing some things to get those remaining 40% also this thing. But however, for any such kind of a subscription business, if you do an industry analysis, a 60% plus renewal rate is something which is good.

I'll come back to the statistics, which I earlier said it off in the entire UPI ecosystem, which we had mentioned, people who are using our UPI, which is growing tremendously and now constitutes 23% of our total throughput, the renewal rate is around 83%. So if we continue the momentum and if our hypothesis, which has been built over the last 12, 18 months, works out, we can see a natural progression happening. However, I will again say that off with an increasing base as well. Our annuity income, even at 60% on an overall basis should be a good point to reckon in terms of sustainability.

Rishi Gupta: Having just to add to this, we are also running on multiple campaigns on digital as well as marketing campaigns to see how we can bring the inactive customers into active levels. So that is an ongoing thing which we keep on doing.

Harsh Shah: Okay. Got it. And secondly, what will be our digital expenses for FY '24 investment intake?

Ketan Merchant: So on an overall basis, Harsh, we have -- we typically look at -- this is for FY '23, right?

Harsh Shah: No, no, '24. What is the planned...

Ketan Merchant: So I'm not making a pointed forward-looking statement out here. But however, I can say that we are looking at anywhere in the range of INR10 crores to INR12 crores plus kind of a digital for which I'm looking at in terms of the new partnerships and the new products which we are doing.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have three questions actually over here. First is on the micro ATM book. So for FY '23, if I see the gross yield of micro ATM revenue by throughput, that's about 67 basis points, which is significantly higher than FY '22. So I want to understand whether it's because you were charging more on the micro ATMs you sell more micro ATMs or did you start -- I mean, some color on this would be helpful.

Also, while we are on the micro ATM topic, the RBI data shows that your market share in the past 3, 4 months has been stable at around 23%, 24%. So is this an indication of the competition coming down? Any color on this, that will be helpful.

Second is on your AEPS. It's a data piecing question. Last year, you had given us that how much market share you hold in the AEPS industry. If you could help, that was at 11%. If you can give that number for FY '23, that will be useful?

And third question is on the cost of funds and the yield. So the yields were quite high for FY '23, we came in at 5.6% and the cost of funds from we came in at 4.5% interest expense divided by borrowing the deposit. So how should I build this up for the next three years because this moves our revenues quite a bit now. So if you can help me with the questions?

Rishi Gupta: So, Ketan will talk about the cost of fund and borrowing. Let me just concentrate on the first micro ATM and AEPS question. So micro ATM as I mentioned earlier also that part of the movement of customers from off us to on us is eating up into the off us market share for Fino, but we are making more money and better margins by having the customer ownership rather than as an off us customer.

And you are absolutely right. Our market share has been stable. So at least in the last 2, 3 months, we have not shown a degrowth on that number. We have been stabilizing on that. Competition is more or less the same. It has not gone better or worse from Fino's point of view. So micro ATM market is right now in a very stable phase, so to say. Coming to your second question on the AEPS.

We continue to maintain among the top 4 banks in the country on AEPS. Our market share is now about 12.5% as such. I think in December, it was 11-odd percentage. Yes, something in that range Ketan, do you want to take the borrowing cost question?

Ketan Merchant: Yes. So, just a couple of points if I've understood your borrowing related aspects. Firstly, 1.9% is the cost which we are looking at in terms of our deposits. So on a 1,200 basis deposit, which we have, our weighted average cost is 1.9. To that, obviously, there will be some borrowings which are at a market rate. These are our INR1,200 crores are the low-cost deposits, which we were essentially focusing on. Your reading is right that last year, we've seen around 220 basis points kind of a move happening. We have positively benefited out of that as well. In terms of our spread, which has been in the range of 3.5% to 4%, we intend -- our structuring is such that without any kind of ALM risk, we are looking at any spread up in the range of 3.5% still.

Point to note, and I think Rishi also mentioned and it is there in one of the slides as well, where we've put our strategic kind of an outlook as well. This INR1,200 crores of deposits, which we have put, we are eventually we are not focused on building the balances as much in the past. If I go to Slide number 18, the kind of margins and the kind of balance sheet which we are looking at is we are definitely giving an impetus to this with the 66% growth in the previous year, we are definitely looking at a INR3,500 crores kind of low-cost liability over the next couple of years, as mentioned in our Slide #18.

Shreya Shivani: Got it. So for my stats, I should -- for the next years, I should take it at about 3.5% to 4%.

Ketan Merchant: Yes, in that range.

Shreya Shivani: In that range?

Ketan Merchant: Yes, please.

Shreya Shivani: Okay. Thanks.

Moderator: The next question is from the line of Vishal Singh from ICICI Securities Limited.

Vishal Singh: I had just one question. While our throughput in CMS has grown quite strongly year-on-year, but it is a flat Q-on-Q despite adding kind of same number of partners during the quarter that we've been adding for the past few quarters. So just wanted to understand, is there a one-off? And how should we look about see it, I mean, going forward as well?

Rishi Gupta: Good observation, Vishal, I was expecting this question. So you are absolutely right. On the CMS side, that quarter 4 versus quarter 3 of financial year '23 has more or less at just a few -- maybe a few hundred crore difference on that. I would take you to quarter 3 number. Quarter 3 number, we saw an exceptional jump in our CMS business, somewhere around 27% 28% growth was there in 1 quarter is vis-a-vis quarter 2. And that was the quarter where we saw the festival season also. And because, as I mentioned earlier, we are now doing a lot of business in e-commerce, logistics, CRA companies, banks over and above the NBFC MFI. So all of them saw a big jump in that business in that quarter. So our target for this quarter 4 was to maintain that number. So when you see a 28% jump in 1 quarter, obviously, you are -- you have preponed growth of nearly 2, 3 quarters in 1 quarter. So that is where we have our numbers in quarter 1 -- quarter 4 of financial year FY '23 is more or less flat. But hopefully, in the coming quarters to see, we should see -- continue to see a growth in our CMS business. So this is one-off because of a substantial jump, which happened in quarter 3. And our target was to maintain that growth and to sustain that level.

Moderator: The next question is from the line of Deepak Agarwal, an individual investor.

Deepak Agarwal: In the cash flow statement, there is a fixed asset increase of INR94 crores during the year, so if you can briefly explain what are the major investments here? And the second question is regarding the subscription income and the CASA total income is around INR67 crores. So out of this, how much is the subscription income?

Ketan Merchant : Let me just take the first point first. I know our increase which has happened on account of the INR95 crores, which you essentially said largely or mostly it is on account of technology. From first call onwards, I have been saying it of that we keep on investing into technology and service. And one more point to note is in all my factorings or in my projections, also, we are factoring that our operating leverage will essentially come after this investment, whether in technology or digital.

So just to give a perspective, and this is something which has come up in quarter 1 as well, that we will invest and we have put -- we have increased our capacity. We have done sophistication. We've had some RBI kind of a thing. We've also invested into digital aspect as well. So with all of this is the investment which we've essentially done. So that's the point of the first question. I'm so sorry, second question, I did hear you, but you may have to repeat it out.

Deepak Agarwal: Second question was regarding the subscription income.

Ketan Merchant: So if you've seen our total growth in CASA is seen 87%. Our renewal is essentially grown by 167% is what we have seen in renewal growth and for the reasons which I explained. We've opened around 30-odd lakh accounts in terms of the whole year. So on 30 lakh accounts, we have a revenue coming of 380% per account, and that's the income which we have seen in subscription.

Moderator: The next question is from the line of Ashish Kumar from Infinity Alternatives.

Ashish Kumar: Thank you for giving me an opportunity again. I think Rishi and Ketan, you've done a phenomenal job in terms of keeping your fixed cost growth at 6% last year. How do you see it over the next 12 months for the coming fiscal year? Because a large percentage of your cost is employ related. So how do you see that over the next 12 months?

Ketan Merchant: Ashish. Good point, and thanks for this question. I go back to my reference to quarter 1 as well. This year has been quite lower in terms of cost. I would answer this in 2 manners, the way the model which we have essentially built up, okay, is something which Rishi earlier alluded to that if we are growing at a rate of 20%, and I made it in my opening comments as well, typically, the profit will grow in the range of -- if this goes at 20% profit typically will have a 2.5 that as kind of a growth of the growth which is coming in the revenue. How will that essentially happen and which are the line items which we will grow?

I earlier mentioned about the investment, which we're doing in digital and technology that will continue. However, our operating leverage, which has been playing, if that is your question, operating leverage has been playing good in terms of the fixed cost. So that intends to continue it off. So we will continue to have operating leverage coming for next couple of years as well. So is there any abnormal kind of a growth in cost for last year was an exception? The answer is no. Our model, which I explained, the equation between revenue and the profit percentage growth will remain and continue.

Rishi Gupta: I just want to add to what Ketan is saying, Ashish is that the model which we have built in a very asset-light scalable model. So there is hardly any fixed cost except for the land power and some of the offices which we have. On large investments, which we are doing during the last year and the year to come will be largely on the technology and the digital side.

So we are internally working on a full stack revamp of our entire technology stack, which we started last year. So that's where you see a large jump in fixed cost, fixed assets. and that will continue in the next 2, 3 years to come because we are building up a completely new stack, which will make us future ready for the next 7 to 10 years.

Ashish Kumar: Sure. So would it be fair to say that your operating costs might continue to grow in single digits. Is that a fair thing to pencil in from a modeling perspective?

Ketan Merchant: You're putting it so pointed -- the answer is yes.

Ashish Kumar: Okay. And secondly, on the depreciation, we're seeing the depreciation grow much faster than the revenue. And I understand fully that you are kind of building it in building in a full stack and the digital cost, the infrastructure is what you are investing in. So -- but that would kind of continue to grow at a much faster rate, I would presume in the next 12, 18 months?

Ketan Merchant: Yes, I think that's what Rishi was alluding towards and the question which Deep has asked as well that the investment which we essentially done in the past and will continue on technology and digital as well in the next couple of years as well.

Rishi Gupta: You can see that from the volume growth, which we are doing on our business, both on the physical as well as the digital side, I think the growth has been phenomenal, and we continue to see that growth in the years to come. So it is important for us that we keep us a future ideas as technology is...

Ashish Kumar: No, no, absolutely, that's a must-have requirement. So, these are more of modeling and questions just to kind of make sure...

Moderator: We have the next question from the line of Rahil Shah from Crown Capital.

Rahil Shah: So sir, considering everything you just said about scaling up in digital as well as any necessary means. So at this moment, are you able to share any outlook for FY '24 in terms of revenue and the margins? So what can one expect -- are these sustainable numbers?

Ketan Merchant: Rahil, I'm sorry, I am not sharing a perspective appointed number in terms of FY '24. However, I think we should take some view. We've given the strategic growth, which we have given in Slide #18, wherein we've shown how we're going to essentially grow over the next couple of years as well. So there is a queue out there.

As regards to the growth momentum sustainable, I think between Rishi and myself, we've said what kind of top line growth which we are looking at, what kind of product growth which we are looking at in CASA and CMS. And if all of us we do that way and with the kind of cost which we Ashish just asked in the past, in the previous question, the kind of bottom line growth, which we should anticipate given our asset-light model. So while it's no number, but from a sustainability perspective, from a long-term perspective, the momentum is good, and this is what we mentioned later.

Moderator: The next question is from the line of Parimal Mithani from Credential Investments.

Parimal Mithani: Thanks for the opportunity and congratulations on good numbers. I just wanted to understand in terms of notes to account, for other expense, you mentioned INR640 crores paid to business correspondence for funding and your operating expense for the year is some INR915 crores. So is this figure going to be increasing or how it is you extreme...

Ketan Merchant: Yes. So Parimal, the way schedule 16 of the financial statements and notes to accounts REITs is, our business, this is common to the entire banking sector. Our business, we do not have an NII NFI split. So, all direct costs or what we call as product cost, which we essentially stage are part of this other expenses cost. This is a very unique thing for a payment bank where our fee-based income is -- the commission is largely 95% of revenue and the cost as well.

So this is nothing but what we call as a direct or the product cost. As we've said, if we are looking at a high-margin product, net margin, which we get for CASA CMS, which is 60 or 40, the product cost mean not as increase as much as the revenue kind of a cost. For other thing, if the question is related to what will be the margins which we are looking at, with the kind of growth which we are looking at, we are looking at a range bound and with a slightly upward bias in terms of margin. So what you picked up is the commission cost, which is a larger part of the cost which we call as product or direct cost for simplicity.

Parimal Mithani: Okay. So since what I understand from your previous calls also, I think you're going to move towards your own channel partners compared to a business part of this cost to be increasing or a downward trend?

Ketan Merchant: Yes. I think if you are looking at it, it is a fair point and Rishi also alluded to it. Since the beginning, we have been increasing on a quarter-by-quarter on a steady basis between our own channel and open banking channel. We are now at 67% and 33%. This is how it's essentially shaping up. We want to operate in the levers where we are range-bound in the extent of 67% to 70% of our income coming from own and the remaining coming from API or open banking, sorry.

Parimal Mithani: Okay. And secondly, just wondered to know, what is the regulatory requirement of cash that you will keep with RBI in terms of your cost accounting.

Ketan Merchant: Yes. Parimal, that is also interesting for all of us who have been tracking banks. It is different for us to wait for is whatever deposits we generate, that we have to maintain something called DDB with the regulator or the banks. So whatever deposits essentially comes 75% of that has to be in G-secs and 25% can be deployed up to 25% can be deployed in bank deposits. Over and above that, whatever CRR cash reserve ratio, which applies to us as well. So whatever deposit comes, it has to fully go either into G-secs or bank deposits and 4% of that has to be kept with Reserve Bank of India as CRR.

Parimal Mithani: Okay. Okay. And my last question is in terms of any policy in terms of dividend since you're coming to a profitable side and you go to fund normal taxes from next few onwards. Is there any way to ever do your shareholders or?

Ketan Merchant: Sorry, Parimal, your question was on leverage or?

Parimal Mithani: In terms of dividend distribution policy? What is the -- I think you're coming to positive side and you...

Ketan Merchant: We are -- our entity is a converted entity from this thing and earlier also, there was some question we are into the accumulated losses, which is why we're getting tax benefit as well. As and when we cover up our accumulated losses, we will be progressing or we will be exploring the dividend distribution policy.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Just one question that I have is what is the thought process in terms of exploring the possibility of conversion to -- or a transition to a small finance bank?

Rishi Gupta: So Umang this is something which we have been discussing. We are inclined. -- let me put it that way, to convert ourselves to a small finance bank. -- is obviously a process which has to be followed. You can say we are in that day 1 of the process as far as getting our internal documents ready for application, getting the internal approvals, getting the entire understanding, which is required for an SFB. So all that work is happening. It will anyway we are 18 months to 24 months process from the time we apply to RBI. And that is the stage at which we are. But if you look at some of the matrices, which we have specified, especially if you look at Page #18, which talks about the total deposits, the INR2 crores customers, the 20 lakh merchants, the kind of balances which will be there, it goes to show that the foundation is already underway to build up a very differentiated digital bank, which will have an SFB license. It will not be an SFB, the way the kind of SFBs you see currently. It will be a very differentiated digital data-driven bank, which will have an SFB license, so to say.

Umang Shah: Sure. So just to understand this correctly, you mentioned that it's still 18 to 24 months before we apply and assuming if we get all the approvals and if the transition has to happen, obviously, it's going to be 24 months out. I mean, not before that. Is that understanding correct?

Rishi Gupta: No, no, no, that 18 to 24 months is from the time of the application, not 18 to 24 months to apply, application will happen in this calendar year. But the conversion will take 18 to 24 months for even on to you in terms of approvals, technology, getting everything in place. One big requirement is on the capital side, which is there in many. But in our case, we have enough capital to start the SFB. So it is more of technology and getting the team together once we get the approval.

Moderator: We have the next question from the line of Bhaskar Chaudhry from Entrust Family Office Investment Advisers.

Bhaskar Chaudhry: Sorry, this might be a little bit of a basic question. But when I look at your target for FY '26 on Slide 19, it looks like that you have assumed that the effective take rate, which is the conversion of your total throughput to revenue will remain the same between FY '23 and FY '26 on a percentage basis. However, if you look at the past 3, 4 years, it has been consistently coming down. So what are you going to like move the needle here so that it remains the same or approximately the same?

Rishi Gupta: So good observation. In terms of leverages throughput of INR2.5 lakh crores between digital and physical. Our digital throughput, which is INR50,000 crores in FY '23, we are expecting a forex growth on that piece, which could be -- which is a combination of both the number of customers using digital as well as the digital throughput per customer going up. So that is one observation. So that 50,000 to INR2 lakh. The other is that physical throughput is roughly about INR2 lakh crores write-down. We are expecting it to go to INR3 lakh crores over the next 3 years. That means about 25% -- 25% to 30% growth, we expect to happen it over the next 3 years, which is a combination again of remittances, cash withdrawal, largely AEPS and CMS business.

So all of that put together, and we also started our work on a new LOB on the payment side, which is just in the first month of implementation, so we'll talk about it in the next quarter earnings call. And that also will add up to this total throughput, which we expect to happen in the next -- and some of it will happen this year, but substantially will start from next year onwards.

Bhaskar Chaudhry: And these would be at higher take rate, so to speak?

Rishi Gupta: Yes, take rates, more or less, these take rates will be definitely better than the API take rates.

Moderator: The next question is from the line of Kosthav Gomna from BMSPL Capital.

Kosthav Gomna: Just a basic question. On your total treasury income -- on your total treasury investments that you made because of your CASA business. What is your M2M MTM gain for FY '23?

Ketan Merchant: Yes. Thanks. -- latest put again set it off. We are not doing any kind of a trading and we do not have any trading portfolio essentially coming neither anything is in HFT. There is no distinct. So it's an AFS kind of a portfolio which we essentially run through. Our average tenure is largely 6 months kind of a scenario.

We are allowed just by the virtue of our regulations also, we have essentially allowed investment up to 1 year, and that's the regulation of the payment bank. So whilst I understand your question, which is coming that given the kind of the yields which have increased, is there any hit which has come on account of HFT book or on account of an HTM kind of a book, -- the answer is no. We are holding in AFS and there is not material MTM, which is its or which is benefited us in any manner in FY '23.

Kosthav Gomna: Okay. So the question was stemming out of -- do you have any -- so out of this -- I mean, based on regulation presentation, you obviously break down everything in as revenue, product revenue. But based on regulation that you give your financial results, it comes under other income, right? So the point is, is that in this other income? Is there anything notional or it's all realized value?

Rishi Gupta: No, it's all realized value. There's nothing which is essentially notional, which comes from -- which can typically come for any other bank given the in banking regulation.

Moderator: The next question is from the line of Parimal Mithani from Credential Investments.

Parimal Mithani: I just wanted to understand, you mentioned in your opening remarks, and you moved from a third-party UPI to your own UPI for, how does it benefit us? And what are the -- can you explain that?

Rishi Gupta: So there are 2, 3 benefits by moving the switch UPI switch to our own in-house switch. One is that we have full control over the switch the development on the UPI platform is faster. That is one. The secondly is the fact that UPI switch capable of handling larger volumes of transactions, and we are able to -- as you can see, the growth has been substantial on the digital side. So one is from a speed to execution is faster.

The second is that it captures the growth aspect. Third is the quality of the switch is there. So in terms of the faster turnaround time on transactions, the technical declines, the ability to handle large volume of transactions. Currently, the IPL season is on. And we see a surge of nearly 2.5x from 6:55 p.m. to 7:25 p.m. every day.

And that surge we are able to handle with our new UPI switch. And the fourth is that because of the movement of which from a third party to our own, we definitely will get some cost advantage also. So it kind of -- it is a model booster for our team as well, both the technology and the digital because we are able to be one of the very few banks who is actually running on their own UPI platform.

Ketan Merchant: Parimal, on the last point, while Rishi explained the quality kind of a thing on the financial kind of a thing which we are looking at anywhere in the range of INR70 lakhs per month saving, which comes on account of this UPI.

Parimal Mithani: Yes. In terms of your related party transaction between the holding company and you, there is a service charge for infrastructure. So what is the stats to explain that?

Ketan Merchant: What essentially happens is we have some premises which are being inter used. So we have taken an arm's length kind of a situation out there, and that's what we are essentially having intercompany charges between the holdco and the bank.

Parimal Mithani: But in terms of the software part in the -- what do you call the technical in the minister entity.

Ketan Merchant: That is everything essentially is in the listed entity.

Moderator: The next question is from the line of Vishrut Bubna an individual investor.

Vishrut Bubna: Just a quick question on this period. I'm not sure if this was mentioned in the last call, but are all cross-selling any sort of lending or insurance products to the current customer base?

Rishi Gupta: So, we have been working on that and some mixed progress, which is there are jewel loan which is gold loan has gone up in the quarter 4 number. Our individual lines of credit for customers as well as for merchants has also gone up. But having said that, does it meet our expectation? Not really. We are still falling short of our expectation.

I think we need to work a little bit more in terms of getting the right partners onto the platform. Is there a demand for the customer? Definitely, the demand is there. But I think we have been working with largely the fintech players and fintech players have been facing some challenges lately, post the tightness on the regulation. So we are working on building up some more lending partnerships, which should see a more consistent flow of loan coming into our customers' accounts.

Second is on the insurance side. Insurance, we are reasonably maintaining our run rate on the health insurance per se. We are in the process of rolling out our investments, which is on the mutual fund aggregator platform that we have received the approval from the Reserve Bank of India. We are in the process right now in the process of integrating that platform, it has taken longer than what we had actually planned for. But that is something which should go live in this financial year.

Vishrut Bubna: And are there any sort of numbers on like the cross-sell rate or what percentage of the base is sort of gravitating towards being cross-sell one or more for these traditional products?

Rishi Gupta: So when we look at the cross-sell largely, I would say, roughly 2% to 3% of the customer segment is currently which we are focusing on as -- so first, we have to get the supply side in place. So right now, we have a supply side issue on the credit side. Once we have that thing in place that is when we are going to actively and look at a deeper kind of products with our customers as well as our merchants so to see.

Vishrut Bubna: Great. And just one quick clarification. I just wondered on the accounting side. The top line revenue that you report, I just wanted to clarify that, that consists of the net interest income and the revenue generated from the business correspondent activities, right?

Ketan Merchant: Yes, indeed, 1230 is the total revenue which we look at.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rishi Gupta: Thank you very much. Thank you, everyone, for joining the quarter 4 FY '23 call of Fino Payments Bank. As we started with, we are continuing with our TAM strategy of transaction to account to monetization. As you can see, our Phase 1 has gone quite well. acquisition, which is past Phase 2 is also going quite well both in terms of new customers, renewals, our liability franchise as well as the income which we are generating on digital transactions.

Monetization is an area where we need to strengthen ourselves on the credit partnerships. And as we go into the next year or this financial year, we will build some more LOBs, which we'll be talking about in our quarter 1 or quarter 2 presentations, which are largely around the payments ecosystem. Let me assure you that the customers are moving to the digital platform, and Fino is already ready and getting more ready, both on the technology and the digital side. As we move our customers from physical to digital journey as well as from off us to on us. And thank you for your support in this journey of Fino till now. Thank you very much.

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