Operator: Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q1 FY27 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prince Tiwari, Head of Investor Relations. Thank you and over to you, Mr. Tiwari.

Prince Tiwari – Management: Thank you, Ranju. Good afternoon everyone and welcome to AU Small Finance Bank's earnings call for the first quarter of the financial year 2026-27. We thank you all for joining the call this afternoon. On today's call from the management side, we have our founder MD and CEO, Mr. Sanjay Agarwal; Executive Director and Chief Credit Officer, Mr. Vivek Tripathi; Deputy CEOs, Mr. Uttam Tribhuvan and Mr. Yogesh Jain; CFO, Mr. Gaurav Jain; Chief Digital and AI Officer, Mr. Ankur Tripathi; and the IR team.

As we made the announcement today, Mr. Yogesh Jain has been elevated as the Deputy CEO of the bank and I take this opportunity to congratulate Yogesh ji on his appointment. We will start today's call with 15 to 20 minutes of opening remarks from Gaurav, highlighting the bank's performance, positioning, and outlook. We will follow the opening remarks with 40 to 45 minutes of Q&A from all the participating analysts and investors. For the benefit of all participants, so that we can take everyone's questions, we would humbly request everyone to keep the number of questions restricted to two per participant and join back in the queue in case you have any further questions. For any data-keeping questions, you can kindly reach out to the IR team anytime post this call.

With that, I now request Gaurav to share his opening remarks.

Management: I would now request Gaurav to share his opening remarks. Thank you, Prince.

Gaurav Jain – Management: Good afternoon everyone and thank you for joining us for our Q1 earnings call. As we step into the tenth financial year of our banking journey, we do so from a position of strength. Our franchise today is more diversified, resilient, and scalable, reflecting years of disciplined execution and clear strategic focus. Over this period, we have strengthened our balance sheet, built multiple durable growth engines, and continued to invest in technology and talent, while maintaining a sharp and consistent focus on risk management and governance. These foundational strengths have enabled us to navigate evolving operating conditions with confidence and deliver strong, high-quality performance.

Let me now take you through the key highlights of the quarter. Q1 was marked by heightened geopolitical uncertainty arising from the ongoing West Asia crisis. The Indian economy and the banking sector, however, continued to demonstrate resilience with healthy credit growth across segments. Liquidity conditions remained relatively tight with heightened competition for deposits and elevated interest rates. While we remain watchful of evolving external risks, these developments have not had any material impact on our business momentum and our operating performance continues to be strong across key metrics.

Deposits growth remained robust at 24% year-on-year, significantly ahead of the estimated private sector banking deposit growth of 14%. Loan portfolio grew by 23% year-on-year versus private sector banking growth of 17%, with secured assets growing by 25% year-on-year. Growth in unsecured businesses improved with 11% year-on-year growth and 5% quarter-on-quarter growth led by microfinance and personal loans. Disbursements for the quarter were up 42% year-on-year, driven by continued strength in our core retail secured and commercial banking businesses.

Asset quality remained robust with slippages declining by 22% year-on-year to 798 crores, driven by improvement in the unsecured portfolio. Slippages in secured assets portfolio remained stable. Profit for the quarter grew by 37% year-on-year to 796 crores, driven by core PPOP growth of 41%. Net interest margin increased by 47 basis points year-on-year to 5.9%. Core fee income grew by 33% year-on-year driven by higher business volumes. Cost to assets ratio, excluding CGFMU premium, was 4%, up marginally from 3.9% last year, driven by strong disbursement growth and investments made in distribution, manpower, and technology over the last 12 months. Operating leverage continues to play out on an underlying basis and we expect the cost to assets ratio to improve on a full-year basis. Credit cost, including CGFMU, declined by 54 basis points year-on-year to 0.8% compared with 1.4% a year ago. ROA for the quarter was 1.7% versus 1.5% in Q1 last year and ROE was 15.6% versus 13.3% in Q1 last year. PAT for the quarter included an additional one-time provision of 23 crores from further strengthening of NPA provisioning norms in selected products.

We continue to further strengthen our leadership with the elevation of Mr. Yogesh Jain as Deputy CEO and the appointment of a Chief Risk Officer designate and Head of Technology. These additions add to our domain expertise and reinforce our focus on enhancing risk management, strengthening technology capabilities, and building a high-quality, future-ready institution.

I will now talk about our tech initiatives. We have aligned our technology agenda around three priorities: run, build, and transform, with a focus on protecting and scaling the core franchise, accelerating digital adoption, and building a future-ready institution powered by data and AI. During the quarter, we made meaningful progress in embedding AI and automation into core business processes. We successfully rolled out our AI-enabled gold loan origination platform in a controlled environment. A mobile-native version is now live and we will start extending this to branches in a calibrated manner. On the same agency AI platform, the build-out of the loan origination journey for mortgages will also be undertaken. AI-led transformation initiatives are underway across vehicle finance, personal loans, and credit cards on the existing platforms, whereas the commercial banking journey is being built on a new platform with a focus on improving turnaround times, customer experience, and productivity. We also launched a unified lead management platform for facilitating lead aggregation, filtering, and dissemination of leads. This platform is integrated seamlessly with AU's native lead management system and is expected to facilitate greater customer acquisition, and increase cross-sell and upsell by improving lead conversion and channel efficiency.

Our digital platforms continue to scale well. With more than 90% of the bank's transaction and service requests now being processed through AU 0101, we also rolled out an enhanced UPI payment interface on this platform during the quarter. On the customer service side, we are leveraging AI voice bots to deliver a faster and more consistent experience across 11 languages while enhancing workforce productivity. We continue to deepen the use of data and analytics to drive growth and efficiency. Key initiatives include the deployment of analytics-led scorecards across secured and unsecured portfolios, scaling of propensity-based models that have increased pre-approved PL offers by more than 3 times, and leveraging AI-driven risk assessment tools that now automatically resolve 70% of AML alerts. We are also live with our Customer 360 initiative, building a single enterprise view of customers to enable more personalized engagement and better business outcomes. Overall, our technology investments remain focused on delivering measurable business outcomes today while creating a scalable foundation for sustainable growth and long-term differentiation.

Now let me give some color on each of our businesses. First on deposits. Our deposit base now stands at 1.58 lakh crores, growing 24% year-on-year and 3.3% sequentially. CASA deposits grew 22% year-on-year and 4.7% quarter-on-quarter. The CASA ratio improved marginally on a quarter-on-quarter basis to 29%. As mentioned last quarter, we have organized our liability franchise into four verticals: Branch Banking, which accounts for 60% of deposits; Government and Interbank Deposits team, which accounts for 21%; Commercial Banking and Wholesale Deposits, which contribute 7%; and the Financial Institutions Group, which accounts for 8% of total deposits. The Branch Banking focus is on garnering granular retail deposits, while the other three verticals are deriving solution-led deposit growth leveraging our capabilities in CMS, transaction banking, and FX. During the quarter, we added 16 new deposit branches and remain on track to add another 100 plus branches this year. New CASA account acquisition was strong with 80% year-on-year growth in premium accounts. We further expanded our remittance offerings keeping in mind the convenience of our customers with international banking needs. Retail customers can now send and receive money internationally at transparent exchange rates with zero forex margin and zero bank charges, a first-of-its-kind offering among private sector banks in India.

Within bulk deposits, our focus remains on non-callable deposits to enhance the stability of our deposit book. Total stable deposits, which include CASA, retail TDs, and non-callable bulk TDs, remain strong at 79% of total deposits. Overall, we remain highly focused on further strengthening our liability franchise with ongoing investments in products, distribution, and branding.

Now moving on to our assets franchise. Q1 saw continued strong growth in our asset franchise in a seasonally softer quarter. We are seeing a steady increase in business contribution from the newer geographies where we have made significant investments in building capabilities over the last 1 to 2 years. Retail secured assets, which include VL, mortgages, and gold loans, form 67% of our portfolio and grew 23% year-on-year and 4% quarter-on-quarter. Within retail, our VL book grew by 28% year-on-year and 5% quarter-on-quarter to reach 48,600 crores, driven by strong demand in the new vehicle segment and increasing traction across newer geographies. The gold loan business grew by 130% year-on-year and 15% quarter-on-quarter to reach 4,500 crores. We initiated the gold loan product across 400 plus existing branches during the quarter, taking total gold loan distribution to over 1,300 branches. Our mortgage business comprising micro business loans and affordable housing grew by 12% year-on-year and 2% quarter-on-quarter. Disbursements in mortgages picked up with 28% growth year-on-year in this quarter.

Moving on to commercial banking. The commercial banking business grew 34% year-on-year and 6% quarter-on-quarter to reach 32,800 crores with broad-based growth across our verticals. Our focus continues to be on making the commercial banking business progressively more self-funded through current accounts and increased penetration of transaction banking, CMS, trade, and other relationship-led offerings. The transaction banking and forex business has started to gain momentum with income growing 46% year-on-year and 8% quarter-on-quarter.

Now moving on to unsecured businesses. Our inclusive banking franchise, which primarily includes MFI, grew by 15% year-on-year and 5% quarter-on-quarter. Collection efficiencies continued to hold up well at 99.5% and 94% of the book is now covered under the CGFMU guarantee scheme, which provides an additional layer of comfort. Our digital unsecured portfolio grew by 3% year-on-year and 7% quarter-on-quarter. This was led by the personal loan business which grew 24% year-on-year and 19% quarter-on-quarter from a low base, driven by an increased focus on cross-sell. The credit card business also saw marginal growth with new card issuances crossing the 1 lakh mark in Q1.

Now moving on to the P&L. As mentioned earlier, our profit after tax for Q1 grew by 37% year-on-year to 796 crores. Net interest income increased by 32% year-on-year on the back of strong growth in the loan portfolio and a 47 bps year-on-year improvement in margins. Sequentially, margins declined by 7 basis points to 5.9% due to the reversal of certain seasonal benefits which aided margins in the last quarter. Cost of funds remained broadly stable at 6.48%. Increased cost on savings accounts and wholesale funding was offset by residual repricing of retail term deposits. Core other income grew 33% year-on-year, driven by strong business volumes and higher credit card issuance. Forex and trade-related income continued to scale up from a low base. Operating expenses for Q1 increased by 26% year-on-year, driven by strong disbursement growth and investments made in distribution, manpower, and technology over the last 12 months. On a quarter-on-quarter basis, operating expenses declined by 1%. Our focus continues to be on driving tech-led operating efficiencies and overall overhead control. Provisions decreased by 13% year-on-year on account of normalization in unsecured businesses. On a quarter-on-quarter basis, provisions increased by 38% due to seasonal trends. Provisions for the quarter included an additional one-time impact of 23 crores from further tightening of provisioning norms in selected products.

To conclude, despite the volatile external environment, momentum across our deposit and loan businesses remains strong, underpinned by the strength of our diversified franchise, distribution, and underwriting discipline. As we progress on our growth journey, our priorities remain clear: accelerating deposit franchise extension, strengthening core lending businesses, improving operating efficiency by leveraging technology and AI, and maintaining disciplined risk management. While we remain watchful of the macro environment, the investments we have made over the last few years in our people, processes, product, technology, and distribution provide a strong foundation to sustainably compound at 2 to 2.5 times India's nominal GDP growth rate, delivering consistent, predictable, and long-term value to our shareholders.

I thank our team for their dedication and all our stakeholders for their continued trust. With that, I will now hand over to Prince for Q&A.

Prince Tiwari - Management: Thank you, Gaurav. Operator, we can open for Q&A.

Operator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press star one on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star two. Participants are requested to use headsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Jain Karotia with Axis Capital. Please go ahead.

Jain Karotia – Axis Capital: Thank you for the opportunity and congratulations on a great set of numbers. So the first question is on the slippages. If you could give some color on this quarter's slippages. Now I see a slight inch up in commercial banking NPAs quarter-on-quarter. So if you can call out what is the nature of the product over here? That is the first question. I will follow up with the second one.

Vivek Tripathi – Management: Hi Jain, this is Vivek. Q4 is always a seasonal, very strong quarter for us. So I think the right comparison would not be quarter-on-quarter. The right comparison would be year-on-year—Q1 last year versus Q1 this year. In all asset classes, be it secured retail assets, be it our credit card PL, or be it microfinance, obviously we had a great recovery in both the unsecured products. But even on the commercial banking side, if you compare on a year-on-year basis, it is lesser. At a bank level, there is almost an improvement of 150 bps.

Jain Karotia – Axis Capital: Understood. But if you could tell what was the product that seasonally moved quarter-on-quarter in commercial banking?

Vivek Tripathi – Management: So it is typically the SME book, which is a business banking book, which will have some bit of an uptick in Q1 and then it slows down.

Jain Karotia – Axis Capital: Understood. Thank you, sir. Sir, the second question is on the ECL framework. I believe our timeline on the application for a universal license is around February or March, which means we will enter the next year on the new ECL framework or we will have to transition there. We are seeing an increase of around 12-20 basis points on steady-state credit costs for banks. Given we have had some books or some products having some cycles in recent years, can we see a higher impact on our steady-state credit cost under the new framework?

Management: It is difficult to quantify at this moment. We are refining our LGD and PD models. We are working with external agencies and given the kind of provisioning we carry in Stage 3 assets, it gives us enough comfort. However, the final output will depend on what kind of policies we adopt for accelerated provisioning or for write-off policies because the moment we implement ECL, all those parameters change. It will be a board-approved policy. But as we speak at this moment, there is a greater comfort from Stage 3, which should cover up Stage 1 and Stage 2 incremental provisioning.

Jain Karotia – Axis Capital: So that will be one-time?

Management: Even on an ongoing basis, Jayant here. Our provisioning policy right now is much tighter than what the regulatory requirement is. To that extent, we feel comfortable given the current policy. In case there is a change in the policy, then obviously we will come back and update you.

Vivek Tripathi – Management: Jayant, our retail secured assets and even on the commercial side, it is largely secured. Our LGDs are pretty low compared to what the industry would look like. So we are very, very comfortable with that.

Jain Karotia – Axis Capital: Definitely, so the secured book will definitely be helpful over here. Sir, this 23 crores—is it regarding any product tightening or a general buffering up of provisions?

Management: It was just more of an alignment of all unsecured products, be it credit cards, MFI, and PL, on the same lines. There was a differentiation, so we just aligned them all. That is it.

Jain Karotia – Axis Capital: Great. Thank you and congratulations on a great quarter, especially on the margins.

Management: Thank you, Jayant.

Operator: Thank you. Next question comes from the line of Renish Patel with ICICI Securities. Please go ahead.

Renish Patel – ICICI Securities: Yeah, hi sir. Congratulations on a good set of numbers. Sir, just two things. First, I am referring to slide number 30. In the digital unsecured book, it appears that our risk-adjusted yields are actually lower than retail secured assets. I just wanted to understand how the pricing policy works specifically for this product. If you could also share the trends in profitability for this specific book, it would be helpful.

Management: Hi Renish, Prince here. Both these businesses—credit cards as well as PL—are relatively newer businesses for us and are still coming up the curve. So I do not think it is the right metric right now to look at risk-adjusted yields because credit cards went through a cycle, and we have just started to regrow the PL business as well as the credit card business. I believe right now it is probably not a true reflection. Let these businesses get built out because they are currently loss-making. PL is obviously at break-even, but give us some time for these businesses to evolve before we can actually talk about the product-level ROA or the profitability in terms of risk-adjusted yields.

Renish Patel – ICICI Securities: Got it, Prince.

Management: These are strong cross-sell businesses for us. The entire liability franchise—just to add, PL is obviously profitable with good yields. Specifically on credit cards, because of the tightening of underwriting norms that we have taken roughly 18 months back, the percentage of the revolver book has come down. That is why the yield on the credit card book is a bit subdued and that is why you see the weighted average yields at those levels.

Renish Patel – ICICI Securities: Because I was just looking at the broader yields. In retail secured assets, we are having 14%. In digital unsecured also, we are having 14%, but the gross NPA in this book is obviously unsecured in nature with higher gross NPA and higher LGDs. I was just thinking that on a risk-adjusted basis, the yields are definitely lower than the secured book.

Management: Renish, these businesses, as you know, are works in progress for us. We have taken a lot of actions over the last 12-18 months. Give us some time and you will see the underlying profit pools emerging in our unsecured businesses over time.

Renish Patel – ICICI Securities: Got it. My next question is on the margin trajectory. Obviously, this quarter has been somewhat muted and in line with what we guided in Q4. How should one think about the margin trajectory over the next 2-3 quarters?

Management: As we have mentioned in previous quarters as well, it is always difficult to predict margins because of multiple moving parts. I do not want to give you any directional guidance on that. But what we know is that the cost of funds has effectively bottomed out, as we mentioned last quarter. We have taken some increases in both savings account and deposit rates, so you will see that line being stable to maybe increasing a little bit depending on how the rate environment evolves from here. On the asset side, our yield will continue to reflect the mix of assets as we go forward.

Renish Patel – ICICI Securities: Got it. Okay, that is it from my side. Thank you, team.

Operator: Thank you. Next question comes from the line of Nitin Agarwal with Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Thanks for the opportunity and congratulations on a good set of numbers. I have two questions. One is on the unsecured business growth where you have started to see some recovery now, with MFI growth of almost 5% quarter-on-quarter. How are we looking at this sustaining over the year? It looks like a strong start. Also, could you comment on the vehicle business, mainly around CV, and how the credit environment is shaping up on that side?

Vivek Tripathi – Management: Hi Nitin, this is Vivek here. The microfinance business had a lot of subdued quarters industry-wide. After the MFIN guidelines, the industry has reached a stage where a lot of discipline has come into the field and that is why you will see more players falling in line and positive traction. In fact, MFIN has also projected about 17-18% growth. We are just following that and it is visible on the field. As far as asset quality is concerned, the numbers are holding up. In fact, Q1 collection efficiency, which typically has a seasonal dip, sustained at 99.5%. The difference is about 20 basis points from Q4, but if we look at last year, Q1 was very different. On top of it, 94% of the book is secured under the guarantee. It gives us a lot of comfort that even if there is an event, you have CGFMU coverage.

On the vehicle side, we now have strong distribution in the South, in UP, and in states in the East. That is now giving us additional volume and we are very confident that in the customer segment we operate and understand, there is a good trajectory. For us, on the asset quality side, it more or less remained what it typically is in Q1. There is no abnormality or indication suggest that in any part of these books there is high stress or slippages abnormal to our normal sequential quarter trends. Nothing unusual is in the book. It gives us a lot of confidence to accelerate growth.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Got it. Regarding the CGFMU part where 94% is under that, do we plan to lodge any claim or is something under process for the losses taken last year?

Vivek Tripathi – Management: It is an annual process and a pool-based coverage. The FY25 book was covered in FY26 and will be covered this year as well. The FY26 coverage for last year can be claimed. There is a 6-month seasoning post-NPA after which you can lodge your claim. So by the end of Q2, whatever NPAs are crystallized for the FY26 pool, we will lodge the claim. That would typically be realized by the middle or end of December.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Right. Any color on how much this number can be?

Vivek Tripathi – Management: It will be part of the overall NPL recovery, Nitin. As mentioned, 94% is covered, and a similar percentage of SMA is covered. But some of our NPAs are coming from a more vintage pool that was pre-CGFMU coverage. So the coverage on the GNPA portfolio would be slightly lower.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Okay, got it. One small question around the CD ratio. We have been giving two CD ratios for a long time. Which internal metric do you look at to ensure the balance sheet is fairly optimized?

Management: We are very comfortable with our numbers. The CD ratio excluding refinance is below 80% and 88% including it. We do not look at this number to optimize anything specifically; it is just a number we monitor for our sustenance—how much we should raise in deposits and how much we can lend. We are very comfortable with these levels for the last 3-4 years, so there is not much to read into it.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Okay, sure sir. Thanks and wish you all the best.

Operator: Thank you. Next question comes from the line of Akshay Jain with Autonomous. Please go ahead.

Akshay Jain – Autonomous: Hi sir, thank you for the opportunity. My first question is on the 1.8% ROA target. If I understand your comments, you are practically guiding for stable NIMs. Is it fair to think that incremental ROA improvement will come only from OpEx, given that credit costs also seem to have bottomed out?

Management: On NIMs, we have not specifically guided for a stable number. What we are saying is we see scope for improvement on both the OpEx and credit cost lines vis-a-vis the full year FY26, and those two line items will take us to our guided range.

Sanjay Agarwal – Management: Also, in this quarter, I believe other income was not completely up to the mark. That should also normalize in the next 6-9 months. Largely, we are at 1.7% and are not far from our desired target. It could be that everything contributes—maybe 2 bps from credit cards, a few bps from other income, and so on. We are not that far away from our desired performance numbers.

Akshay Jain – Autonomous: Understood. Coming back to the ECL question, most banks are providing some estimate of the one-time transition impact and the steady-state credit cost impact. It would be helpful if you could provide something around those to build into our numbers.

Vivek Tripathi – Management: I am sure other banks are providing estimates, but for us, the working is at an early stage. What I can tell you confidently is that the historical trends of our LGDs, especially on our core asset classes, are very low. That gives us enough comfort to say that the impact would be neutral; we do not expect a significant additional hit on the balance sheet. Closer to the end of Q3, we will be in a better position to tell you because by then we will have more working models with our dedicated team and the external agency helping us.

Akshay Jain – Autonomous: Understood, sir. One more thing. I read that disbursements have partially benefited from new geographies. Could you shed some light on how new geographies are contributing to incremental business, which segments they are contributing to, and what we should expect incrementally?

Sanjay Agarwal – Management: On design principles, we were more of a North and West franchise until a year or two ago. Because of the Fincare acquisition and expanding further into the East and states like UP and Bihar, we are now a pan-India franchise. We are focusing on our next 10 years of growth coming from all parts of the country. We are building up Southern, Western, Northern, Eastern, and Central zones. The idea is to build more distribution across the country for every product—retail assets, VL, mortgages, gold loans, MFI, and commercial banking. We also have personal loans, consumer finance, and credit cards. There is a huge opportunity to grow at least 2 to 2.5 times nominal GDP for the next 10 years as we become a full-fledged India franchise. Every state is now contributing. For example, vehicle finance is showing up in the Southern market now that we have been there for 3 years, and also from UP. Microfinance is also widely held across the country. It is a mix of product and geography, and we are seeing a lot of traction from our newer geographies.

Akshay Jain – Autonomous: Thank you, sir. Last question on NSFR. Looking at the history pre-2024, it used to be in the range of 115% to 120% plus. However, for the past few quarters, it has dropped to the 108-109% level. What is driving this?

Management: That is the range we operate in. Our LCR range is around 115% to 120%, and our NSFR typically ranges from 105% to 115%.

Akshay Jain – Autonomous: Understood. Thank you.

Operator: Thank you. Next question comes from the line of Ashlesh Sonji with Kotak Securities. Please go ahead.

Ashlesh Sonji – Kotak Securities: Hi team. Good evening. First question is on the renewable energy book that has grown quite well at over 120% year-on-year. Who are you lending to—is it project developers or component manufacturers in the supply chain?

Vivek Tripathi – Management: Hi Ashlesh, the renewable energy book is largely concentrated around developers. It is specifically PM-KUSUM Component C and Component A. Typical project sizes are between 2 megawatts to 5 megawatts. We started focusing on Rajasthan 3 years back, then expanded to Gujarat, Maharashtra, and a bit of MP. It is a government-supported initiative with incentives for both developer and discoms. We found the yields in this segment to be attractive, and capital subsidies to developers make the viability of projects stronger.

Ashlesh Sonji – Kotak Securities: Understood, sir. A follow-up on PL—the growth in that business is also a record. Can you shed some light on the customer profile in terms of NTC versus salaried, the ticket size, and how much sourcing is cross-sell to existing customers versus the open market?

Vivek Tripathi – Management: This book is 100% focused on our existing bank customers as of now. The majority are liability customers, and some are asset customers. It is based on the existing relationship and we run transaction scorecards to derive a pre-eligible pool for pre-approved offers. Incrementally, we do want to source new-to-bank customers, but that share is currently very small and will grow gradually. For the existing book, 99% are existing customers.

Ashlesh Sonji – Kotak Securities: Understood, sir. Third is on the appointment of Yogesh sir as Deputy CEO. How do you expect to share responsibilities at the senior leadership level going forward?

Sanjay Agarwal – Management: The whole idea is to build a very sustainable bank. It is required to create leadership at the top. I have been leading this bank for 10 years now and I know I will not be here for an infinite amount of time. That process has started to create leadership across different zones. Vivek, Uttam, and Yogesh are on the call, and all three gentlemen hold ED or Deputy CEO positions. We will keep building up leadership because the bank's functions are very wide and complex. There have to be leaders who can handle those challenges and drive the bank through whole cycles. I am very happy that the team has so many committed owners who have been with the institution for a long time—Yogesh for 17 years, Vivek for 13 years, and Uttam for 20 years. You will see many more names coming up in the next 5 years so that the bank is run by professional leadership and remains a long-term institution. For now, Yogesh will be taking care of tech and other functions assigned by the board.

Ashlesh Sonji – Kotak Securities: Understood, sir. If I can squeeze in a small one: what is the average cost of SA deposits and the average cost of term deposits?

Management: On the savings account side, it is about 5.45%. For term deposits, it is largely about 7.25%.

Ashlesh Sonji – Kotak Securities: Okay, sir. Thank you.

Operator: Thank you. Next question comes from the line of Anuj Singla with JP Morgan. Please go ahead.

Anuj Singla – JP Morgan: Good evening, team. Thank you for the opportunity. First is on unsecured growth. After a long time, we are starting to see a revival and a strong sequential pickup. Are there any targets for where this portfolio can ramp up over the next 1 to 2 years?

Management: On the MFI side, it is difficult to give specific guidance because the industry has just started to revive after almost 6 to 8 quarters of degrowth. We will see how this sustains, but we expect to continue growing this book as it is important from a PSL perspective. Overall, we expect it to be around 10% of our book. We have publicly announced it could go as high as 10% because our requirement for SME is also 10% and we do not have a large independent Agri book. We do our marginal farmer obligations through this book. The shape of the book has changed completely with the guarantee coming in. The team from Fincare is very experienced and we are comfortable as of now, but we are not viewing this book solely as a way to increase ROA; it is more about meeting obligations and having a decent inclusion piece in place.

Anuj Singla – JP Morgan: Got it. Second, on the FCNR side, we understand that leverage is becoming a constraint for many players. What targets are you looking for in the FCNR side and how does the cost compare with wholesale borrowing in the Indian market?

Sanjay Agarwal – Management: You are spot on that we are not able to get the same leverage for our customers. We have increased our FCNR rates to 7.5% from 7.4%. We believe that because of our brand and acceptance, we will raise some money, but we are not targeting a specific large number because without leverage, it is difficult to convince the customer. Overall, it is good for the banking industry if Indian banks get several billion dollars in this bucket as liquidity should improve. If liquidity improves, the cost of money will come down. We might not be directly benefited by a huge amount, but the overall industry benefit will help us.

Anuj Singla – JP Morgan: Got it. One last data-keeping question: what is technology expenditure as a percentage of total OpEx?

Management: It is close to 1,000 crores, which is around 12-13%.

Anuj Singla – JP Morgan: Okay, great. Thank you.

Operator: Thank you. Next question comes from the line of Pitesh Pump with Dam Capital Advisors. Please go ahead.

Pitesh Pump – Dam Capital Advisors: Hi sir, good evening. Congratulations on a great set of numbers. First, the employee base has declined after a long time. Is that an outcome of efficiency from AI, or is capacity building now paused after the Fincare reorientation?

Sanjay Agarwal – Management: You are absolutely right. In May, for the first month, we actually decreased our manpower compared to April. This is partly because we are not growing the back-end headcount at all. We believe operations, accounts, and finance functions are being handled by AI. As we expand in new markets and products, we might hire for front-end roles, but there is a clear benefit from AI in terms of the number of people. It also helps manage risk and build scale. It is an amazing development where AI helps with adopting and managing scale, and it even allows for more flexible work-from-home options in banking. I am very happy with how we are using AI.

Pitesh Pump – Dam Capital Advisors: Second, on the MFI side, a few years back the thesis was that the MFI business would structurally have a 3% credit cost. Has there been any change to that thought, or are we still building a 3% credit cost despite the guarantee support?

Sanjay Agarwal – Management: That 3% was mentioned 3 years back when we acquired Fincare. Since the guarantee came in, the entire business model has changed. We are now building costs around the guarantee premium every year. So 3% might not be the right metric now; it is more about the cost of the guarantee and whatever provisions we put out. The credit cost is in a similar range, but the form and shape have changed.

Pitesh Pump – Dam Capital Advisors: So instead of building up buffers, you are securing protection on that book?

Sanjay Agarwal – Management: It is a similar thing; you just pay the guarantee cost now.

Pitesh Pump – Dam Capital Advisors: Last question on the gold loan business. Can you give some data points like LTV and yield? We have seen the market is not adding that many fresh customers, so how has been the customer acquisition for us?

Vivek Tripathi – Management: Apart from the microfinance business we acquired with Fincare, the gold loan business also came with their expertise. What we did was scale that across the North-West region where AU has strong distribution. For us, it is scaling up from a low base, which is why the percentage growth looks attractive. The distribution ecosystem is already in place with valuers, operations teams, and origination teams. It is a very simple business where you mainly have to manage fraud risk; the product itself manages the credit risk. It is not a high-ticket business; more than 80% of the book is less than 5 lakhs. The average ticket size is around 2.5 lakhs. Most of it is a rural book, and the portfolio yield is about 15.5%. It is a very granular book.

Pitesh Pump – Dam Capital Advisors: Thank you so much and all the best.

Operator: Thank you. Ladies and gentlemen, as there are no further questions, we have reached the end of the question and answer session. I now hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari – Management: Thank you, Ranju, and thank you everyone for joining the call and for asking your questions and for all your support. In case anyone has any further questions, you can kindly reach out to the IR team. This is Prince Tiwari on behalf of AU management signing off. Thank you so much.

Sanjay Agarwal – Management: Thank you.

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