AU SMALL FINANCE BANK
A SCHEDULED COMMERCIAL BANK

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To,

National Stock Exchange of India Ltd.	**BSE Limited**
Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400051, Maharashtra. **NSE Symbol: AUBANK**	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001, Maharashtra. **Scrip Code: 540611, 974093, 974094, 974095, 974914, 974963, 975017, 975038 & 976580**

Dear Sir/Madam,

Sub: Transcript of Conference Call for Financial Result for the Quarter and Half Year ended on September 30, 2025

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

We submit herewith the transcript of the conference call held on October 17, 2025 for the Financial Results of AU Small Finance Bank Limited ("the Bank") for the Quarter and Half Year ended on September 30, 2025.

In compliance of Regulation 46 of the Listing Regulations, the transcript is also made available on the Bank's website at https://www.aubank.in/investors/quarterly-reports.

This is for your information and records.

Thanking You,

Yours faithfully,
For AU SMALL FINANCE BANK LIMITED

Manmohan Parnami

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"AU Small Finance Bank Limited
Q2'FY26 Earnings Conference Call"
October 17, 2025

MANAGEMENT: **MR. SANJAY AGARWAL – FOUNDER, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. UTTAM TIBREWAL – EXECUTIVE DIRECTOR AND DEPUTY CHIEF EXECUTIVE OFFICER
MR. VIVEK TRIPATHI – CHIEF CREDIT OFFICER
MR. GAURAV JAIN – INTERIM CHIEF FINANCIAL OFFICER
MR. PRINCE TIWARI – HEAD OF INVESTOR RELATIONS & FIG

Moderator: Ladies and gentlemen, good day, and welcome to the AU Small Finance Bank Q2 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone.

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

Prince Tiwari: Thank you, Rutuja, and good evening, everyone. And welcome to AU Small Finance Bank's earnings call for the second quarter of financial year 2025/26. Thank you all for joining the call this evening.

On today's call, from management side, we have Founder, MD, and CEO, Mr. Sanjay Agarwal; Executive Director and Deputy CEO, Mr. Uttam Tibrewal; Interim CFO, Mr. Gaurav Jain; Chief Credit Officer, Mr. Vivek Tripathi; and the IR team.

We will start today's call with 20, 25 minutes opening remarks by Mr. Gaurav Jain, highlighting the bank's performance, positioning and outlook. We'll follow the opening remarks with another 40 to 45 minutes of Q&A from investors and analysts.

For the benefit of all participants and so that we can take everyone's questions, we would humbly request everyone to keep the number of questions restricted to 2 to per participant and join back in the queue in case you have further questions. For any data keeping questions, you may kindly reach out to the IR team at any time post this call.

With that, I'll now request Mr. Gaurav Jain, Interim CFO of the bank, to share his opening remarks. Gaurav, over to you.

Gaurav Jain: Thank you, Prince. Good evening, everyone, and thank you for joining the call. It's a pleasure to welcome you all to AU Small Finance Bank's earnings call for the second quarter.

We begin by expressing our deepest condolence on the untimely demise of Mr. Vimal Jain, CFO of the bank. Over the last 15 years, Vimal ji had become one of the strongest pillars of our institution. His vision, leadership and unwavering commitment played a pivotal role in shaping AU's growth and values. He brought deep financial expertise, clarity of thought and unwavering integrity to every responsibility he undertook.

Humble, approachable and generous with his time, he had an ability to connect with people, and to many of us, more than a leader, he was a mentor, a guide and a friend. He has built a strong team of motivated leaders, each one of them being proficient in their field.

His loss is deeply felt across the organization. And on behalf of the entire AU family, we offer our sincere prayers and condolence to his family and relatives, and hope to honor his legacy by continuing to move forward and complete his AU Forever mission.

Q2 marks completion of 34 quarters of our banking journey and 30 years as a financial franchise. We have often said, it takes a decade to lay the foundation of a well-run bank. And with 6 quarters to go, we are on track. Our journey has been marked with resilience and steady progress, overcoming challenges from macroeconomic cycles, industry crisis, asset quality cycles to once-in-a-century event like pandemic.

Over the last 8.5 years, we have built a pan-India liabilities franchise, scaled core asset businesses, maintained strong asset quality, expanded distribution, launched newer products and focused on talent and succession planning. Strategic moves like relocating to Mumbai and acquiring another bank have strengthened our presence, especially in South India.

We have learned from our mistakes and acted quickly, positioning AU to deliver a sustainable and predictable growth beyond 2027. Notably, on August 7, we received an in-principle approval from the Reserve Bank of India to become a universal bank with an 18-month transition time. This is a strong endorsement of AU's business model, sound governance and commitment to financial inclusion. We extend our heartfelt gratitude to all stakeholders for their trust and support throughout our 30 plus year journey.

In recent months, global economy has remained volatile with shifting trade flows and a more complex multipolar environment. Domestically, the banking system credit growth has slowed to 10% versus 16% in FY '24. However, the policy environment is turning more supportive with CRR cut, LCR changes, draft circular on reduction in RWAs and a well-staggered ECL implementation plan.

These announcements supplement the earlier announced cuts in policy rates by RBI as well as income tax and GST cuts by the government. Looking ahead, we expect the broader economic environment to improve in the second half of the year, supported by revival in consumer demand led by GST cuts, above-average monsoon supporting rural growth, and government's continued thrust on capex.

In this evolving environment, AU continues to deliver resilient performance with H1 profit after tax growth of 6% on Y-o-Y basis. Our deposit book grew by 21% year-on-year, which was nearly 2x of the system growth rate. Our loan portfolio, excluding unsecured businesses, grew by 22% Y-o-Y.

Including unsecured, loan growth was at 17%, which is 1.7x of the system credit growth. Margins have started to grow with NIM expanding by 5 bps quarter-on-quarter to 5.5% compared to 5.4% in Q1, led by a sharp decline in cost of funds. Credit cost has also started to decline and is expected to normalize in second half.

In many ways, Q2 marks the bottoming out of the current cycle with growth staying strong in core businesses, unsecured book beginning to stabilize, uptick in margins and commencement of reduction in credit costs. We expect to see tailwinds in second half from the onset of festive season, boost from GST cuts and expected economic recovery. And over the next 2 to 3 years, expansion of distribution in Andhra, Karnataka, Tamil Nadu, Telangana, UP and West Bengal will start contributing to our growth in a meaningful manner.

Moreover, the central and various state governments have instituted a range of credit guarantee schemes and interest subsidy programs to lower the risk exposure of lenders and reduce borrowing costs for targeted groups. The bank has been actively participating in these schemes, ensuring credit delivery and channelization of resources to the end beneficiaries. This, combined with recent reduction in PSL requirements from 75% to 60% for SFBs, would further help in ease of business for our retail and MSME segments.

Now let me give some color on each of our businesses. First, on the deposits business. Our deposit base crossed INR1,32,000 crores, growing by 21% year-on-year and 3.8% quarter-on-quarter, reflecting the growing strength of our branch banking franchise. CASA deposits grew by 9.7% year-on-year and CASA ratio remained stable at 29.4%.

Within CASA, current account deposits grew strongly at 26% and savings deposits grew by 6% Y-o-Y. As highlighted earlier, cost of funds reduced by 25 bps during the quarter to 6.83% from 7.08% in Q1. We have started to deprioritize high interest rate led deposits and focus is on increasing granular SA on the strength of our full suite of products, services, distribution and client relationships, with interest rate not being the only major differentiating factor.

With effect from 3rd of October, we have cut peak SA rate by another 25 bps, taking the total SA rate cut in highest bucket to 75 bps in this financial year. The highest SA rate on offer now is 6.5% versus 7.25% in March '25. And for INR10 lakhs and lower balances, our peak SA rate is now down to 3.5% Newer acquisition of SA accounts continues to grow at robust pace with 35% year-on-year increase in number of accounts opened and 17% increase in value for new SA accounts acquired in first half.

Universal banking license will significantly enhance trust and brand acceptance among depositors, enabling the bank to optimize its cost of funds over time. Cross-selling our full suite of products across cards, payments, insurance, wealth, trade and FX remains a key priority for the bank with a dedicated cross-sell department leading this initiative.

In one of the newer initiatives around cross- selling savings accounts to our retail asset customers, we saw promising results with 95,000 SA accounts opened in the last 6 months, contributing around INR180 crores in value. Our insurance penetration is increasing, and we have now added LIC and SBI Life as our bancassurance partners this year to take total bancassurance partners to more than 15.

Wealth and forex services are also seeing a gradual pickup. In Wealth Solutions, we are now serving 2.4 lakh customers with around INR1,600 crores of AUM. On our AD-1 business, we are seeing pickup in transaction banking, BG/LCs and remittances with forex income growing 50% year-on-year.

We have also launched a multicurrency forex card in partnership with Mastercard at Global FinTech Festival 2025 to cross-sell forex services to our customers traveling abroad. Enhanced acceptance among prime customers like salaried individuals, senior citizens, NRIs and EXIM clients on the universal banking platform will further help the cross-sell initiative and reduce our customer acquisition costs over time.

Now moving on to our assets franchise. Loan growth was led by core secured segments, which include Retail Secured Assets and Commercial Banking assets. The loan portfolio, excluding unsecured businesses, grew by 22% year-on-year. Unsecured portfolio degrew by 23%. Total loan portfolio grew by 17% Y-o-Y and 4.5% quarter-on-quarter to reach around INR1.23 lakh crores. We remain positive on our overall loan growth and continue to target a full year growth in our guided range of 2x to 2.5x of nominal GDP.

Retail Secured Assets is our flagship business, which includes wheels, mortgages and gold loan and has a legacy of more than 2 decades. This book stands at around INR83,000 crores and forms 67% of our total loan portfolio. This segment continues to deliver strong performance with growth of 20% Y-o-Y and 5% quarter-on-quarter.

Our wheels book forms 33% of our total GLP at around INR40,000 crores with 14% plus yield. Wheels grew by 26% year-on-year, which is market-leading in its segment. Credit cost remains in line with our expectations. We have a large runway for growth and expect to gain market share in this business with 20% to 25% annual growth over the medium term, led by our expansion in newer geographies and doubling of distribution from 550 branches in March '24 to around 1,000 branches by March '26.

The second key product is mortgages, which stands at around INR40,000 crores and forms 32% of the total GLP. It includes micro business loan or MBL and home loans. Total mortgage portfolio grew by 14% year-on-year and 3% quarter-on-quarter. Credit costs and slippages improved sequentially in Q2.

As highlighted previously, competitive intensity in MBL has significantly increased over the last few years with small localized and niche players competing in every micro market across regions. We have been cautious in our growth in this segment with growth at mid-teens in the last 3 years. Our endeavor is to increase this growth rate to around 20% by taking advantage of the expanded pan-India distribution post merger.

The third product within Retail Secured Assets is gold loans, which has a GLP of around INR2,300 crores and forms 2% of the total loan portfolio. There is no risk weight for gold loans and portfolio yields around 16% with ROA being north of 3%. We have an opportunity to grow this business multifold and are scaling distribution, sales and operations team. In Q2, the book grew by 19% quarter-on-quarter.

The second key business asset line is Commercial Banking, which is 21% of the total loan portfolio and includes 5 businesses: business banking, agri banking, emerging enterprises and financial institution, real estate and transaction banking.

Commercial Banking has established a good track record with 30% plus CAGR growth in last 5 years, stable asset quality and ROA of about 2%. A significant portion of this book is self-funded, as this book contributes 8% of overall deposit book and 6% of overall CASA book. Total Commercial Banking GLP grew 22% year-on-year and 4% quarter-on-quarter. Asset quality remains in line with expectations.

We have a strong understanding of MSME space, NBFC lending and construction finance, along with a full product suite backed by tech capability, including the AD-1 business, which we started last year. We are working on creating sector specialization and expect this book to further benefit from transition to universal banking platform.

So far, we have discussed the secured asset portfolios. Now let me walk you through the unsecured segments, which degrew by 23% year-on-year and 2% quarter-on-quarter and form 8% of the total loan portfolio. MFI is the biggest product in this segment with bank having comprehensive micro banking relationship with customers, including micro savings account, insurance, payment solutions and DBT linkages.

It's an important business line for the bank as it contributes substantially to fulfilling a 10% PSL requirement of lending to small and marginal farmers. MFI book is around INR6,200 crores, which is around 5% of our total GLP. Book has started to stabilize with quarter-on-quarter degrowth moderating to 1%. We expect the portfolio to start growing gradually from this quarter onwards.

On asset quality front, ex bucket collection efficiency improved to 98.95% this quarter, the highest in last 5 quarters, with September collection efficiency being 99.05%. The SMA book reduced from 4.3% in Q1 to 2.9% in Q2. Most of the incremental disbursements are getting covered under the CGFMU guarantee program and the coverage at portfolio level has reached to 69% by the end of Q2.

The other unsecured book is from our Credit Card and Personal Loan business. Total GLP is around INR2,900 crores, which is 2.4% of the total loan portfolio. Of this, credit card book is around INR2,200 crores, which saw a degrowth of 31% year-on-year and 3% quarter-on-quarter. Credit cost has started to normalize with Q2 marking the first quarter of decline in provisions and slippages in credit book in the last 1 year.

We expect the book to start reflecting normalized credit costs by the end of this financial year. Incremental sourcing in credit cards is currently at a controlled pace, and it will take 1 or 2 more quarters for the impact of this new sourcing strategy to reflect in the overall book. Post evaluating the new book, we will accelerate growth in this segment.

In terms of profitability, we delivered profit after tax of INR561 crores for the quarter and INR1,142 crores for the half year, with ROA and ROE, respectively, at 1.4% and 12.4% for Q2, and 1.4% and 12.9% for H1, respectively. Net interest income increased by 5% sequentially on the back of growth in loan portfolio and NIM improvement. NIM increased by 5 bps quarter-on-quarter to 5.5% from 5.4% in Q1.

This uptick was earlier than expected and is primarily driven by decline in cost of funds of 25 bps through targeted actions on high-cost deposits and repricing of FABU and reversal of excess liquidity seen in Q1. This 25 bps decline more than offset the drop in advances yield of 19 bps from 14.1% to 13.9%. In the absence of any further rate cut, NIM should continue to expand over the next couple of quarters as deposit book continues to reprice.

Core other income saw a healthy growth sequentially as disbursements increased 20% quarter-on-quarter, and we witnessed increased traction in distribution of third-party products. Operating expense saw 11% Y-o-Y and 7% quarter-on-quarter increase due to growth in disbursement and investment in manpower as we expand our distribution to pan-India.

Additionally, as part of our ongoing talent management and succession planning, we increased our ESOP program this year, with ESOP awards increasing by 75% on a year-on-year basis. However, we continue to target disciplined control over operating expenses with opex by total assets falling to 4% in H1 as compared to 4.6% in H1 FY '25.

Cost-income ratio was 56% in H1, which benefited from higher treasury gains. Credit cost declined to INR481 crores in Q2 versus INR533 crores in Q1. With this, credit cost for first half was at 1.28% on an annualized basis.

Lower credit costs was driven by 12% reduction in slippages during the quarter with lower slippages seen in cards, mortgages and commercial banking. We expect to see continued recovery in unsecured and seasonal recovery in secured assets in the second half and expect full year credit cost to be within our guidance of 1% of average total assets.

To sum up, Q2 was a milestone quarter for us as we received an in-principle approval for universal bank license. As we stand at this pivotal juncture, all dominos are aligning for the next phase of our journey. Supportive regulatory policies, accommodative monetary measures, aggressive government reforms are creating a fertile environment for growth. Our transition to universal banking is a once- in-a-lifetime opportunity and will provide us wider acceptance and strengthen our brand, which we are expanding across India.

Our margins have started to improve. Credit cost is on a declining trend and our unsecured portfolio is stabilizing. With robust growth engines in deposits and assets, we are well positioned for sustainable growth and our investment in distribution expansion will continue to provide momentum to gain market share. Backed by a stable and experienced team, strong execution culture and no legacy systems in our technology stack, we are fully prepared to capture emerging opportunities and deliver consistent value to all stakeholders.

With that, I will now hand over to Prince for Q&A. Wish you all a very happy and safe Diwali.

Prince Tiwari: Thank you, Gaurav. Rutuja, we can now open the call for questions.

Moderator: Thank you very much. The first question is from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania: I just had a couple of questions. Firstly, in fees, usually in the second quarter and even in the fourth quarter, there's a lot of seasonality. So even in the past if you see, you see a big jump on a sequential basis in second and fourth quarters. Last year, there was no festival either, but we still saw that. So what's the seasonality in these quarters? I'd like to better understand that. And then, are immediate green shoots already visible in October for a significant recovery in credit cost in the second half? That's my second question.

Prince Tiwari: Thanks, Mahrukh. This is Prince here. So I mean, while I'll take the other income, I'll let Vivek answer on the credit cost. So as far as other income is concerned, you're right. I mean, typically, Q1 is generally a relatively slower quarter, immediately after the Q4 buoyancy. But historically, I think in the retail banking industry, if you see the half yearly closing and the annual closing, it has always been great, both in terms of business disbursements as well as the third-party product distribution.

So even this quarter, we saw 20% growth in our disbursement numbers on a quarter-on-quarter basis. And that does help in the overall other income as well, because you get a lot of fee income from the processing fees as well as the higher accounts that we have opened.

So even on the banking fee, if you see, and I think Gaurav articulated in his call that we have started opening accounts for our asset customers, and we have opened some 95,000 accounts in the last 6 months. So that's an added delta that has come up over and above the branch banking. And to some extent, that also helps with the entire branch banking fees, right? So I think there's no one- offs there. It's just seasonal, and hopefully, it should continue. Vivek, do you want to...

Vivek Tripathi: Yes. So Mahrukh, on the credit cost, though our unsecured book contributes about less than 10% of the book, but there is a significant portion of the credit cost was coming from MFI and credit card. Now having said that, in the last quarter, where we called out that our credit cost has peaked in credit card, you would have observed there is a significant reduction in that.

And going by the current performance of microfinance book, where we see that it has peaked in this quarter and would come down substantially in Q3 and Q4. So we are very confident, and there is a seasonality attached to our secured asset as well, where we see a strong pullback in H2. And that has been always a trend for so many years.

And so considering both the factors where we see the significant drop in the unsecured part on the credit cost as well as the pullback in secured asset in H2, we are confident that our credit cost for the full year will be on the guidance of 1%.

Moderator: The next question is from the line of Jayant Kharote from Axis Capital.

Jayant Kharote: Congrats on a good set of numbers. The first question is on opex. For the first half, opex control has been pretty strong, even despite this 20% uptick in disbursement. So how should we now think about opex? So you're averaging around 4% of assets versus your usual past few years run rate of 4.3%, 4.4%. So heading into second half, how should we think of opex?

And broader question, I see in your PPT, you outlined that even after a transition to the universal bank, you don't expect opex to jump in a meaningful way. So if you could help us understand what has changed in the thought process around opex? That is my first question. I'll follow up with the second one.

Gaurav Jain: Yes. So on opex, last year, I think we were at around 4.3% of average assets for the full year, right? This year, we expect to do better than that. And where we exactly land up, we will know more sort of as we progress during the year. But in Q3 and Q4, you will see some increase, which is accompanied or as a result of increase in disbursement during the stronger quarters of the year, right? But in terms of how to think about the opex line over the medium term, there are 2 aspects. One is we will continue to invest in growing the franchise. And you saw some of those investments in increase in headcount as we increase distribution of our retail secured assets in the newer states. So that's one.

Second point is, for our overall overhead, we are continuing to be very, very disciplined on where we spend money and how we sort of control that line. So it will be a twin-pronged approach of being very disciplined generally, but not shying away from the investments that are sort of crucial for our growth over the medium to long term, right? Overall, our guidance has been that we will be below 60% in terms of cost-income ratio, and we will be below sort of, say, 4.3% in terms of cost-to-opex.

Jayant Kharote: Great, sir. Sir, second question is around the loan mix. I see the commercial mix -- I mean, commercial loan growth has come off even ex EEFI, sorry, if I see real estate is of course pushing hard, but I see business banking also has not moved meaningfully. So what is the thought process? Is this one-off this quarter? How should we think now? Would you be using commercial book to calibrate your growth and margin mix going ahead? How should we think about this?

Vivek Tripathi: See, the growth in commercial banking book and when we talk about working capital book, business banking growth is largely driven by the underlying economic activity. I think Q1 and, to the extent, the larger part of Q2 was a little muted. Now we see, because of the GST reforms and the consumption picking up, the activity has picked up on the ground.

And we see that the strong demand should continue in Q3 and Q4. So typically, the disbursement in any business, even in retail asset is more skewed towards the H2. So we expect that the momentum will build up from here on.

Jayant Kharote: And the EFI piece, sir, is it the NBFC loans that you have pulled back on right now? NBFC MFI loans, sorry?

Vivek Tripathi: So NBFC MFI loan, that's a function, you do on-lending to MFIs, and if there is a muted credit demand -- the whole credit industry has grown by 10%, right? So you have to understand that if there is no lesser demand, the demand pickup for on- lending will also be lesser. But we are seeing a traction in the festive season where typically all the vehicle financiers, the MSME lending institutions, there is a greater disbursement traction. And we expect that Q3, Q4 should be much better.

Plus, apart from the loan book, there is some part of the lending happens in the form of substitute credit, which is more like NCDs, which sits in the investment book. So it's always the structure which suits the customer and that kind of need which decides. So sometimes it does not reflect here on the advances, but it's a part of credit substitute in the investment book.

Sanjay Agarwal: I'm Sanjay this side. The agenda is not to degrow or grow some book on some basis, right? We are having a very clear agenda that growth has to come back. And the retail asset has done well in the last 2 quarters. So we have grown that book. Of course, commercial banking has their own challenge because of yield pressure. So we haven't gone and underwritten the lower yield assets. We are working on our micro finance book. We are working on our credit card book.

So the growth agenda is back, but we will take the whole thing in place, so that our yield versus returns also get protected, right? So we are not taking only one dimension kind of strategy. It's a wholesome strategy where we'll see our yields and the asset quality, the growth number, and then we'll decide our course.

But we have so many books, honestly, right from retail asset, wheels, MBL, affordable housing, then we have business banking, agri banking, NBFC, REG, microfinance, PL/BL, credit card, right? So it's a combination of entire product mix now we want to focus on. Nothing being left out, nothing being focused more. We want to build every aspect basis the practicality and, of course, the reality of the market.

Moderator: The next question is from the line of Param Subramanian from Investec.

Param Subramanian: Congratulations on the quarter. Firstly, the question is on the -- so last time, you had called out issues in the South-based LAP segment in terms of asset quality. So how is that portfolio behaving as of now? I can't see that in the presentation.

Vivek Tripathi: Yes, Param, this is Vivek. So when I highlighted -- called out in the last quarter, I would say, it was for 1 state, we said south, it was just 1 state, which is Andhra. Second, as mentioned in the last call that we were building out the collection and legal infra. And that has started playing out.

So we saw good recoveries in terms of slippage have reduced and in terms of good recoveries from NPA pool. So the process has already started, right? But it's typically a 6- to 9-month cycle when you start doing it because the repossession of assets or the SARFAESI instrument takes some time. And once you have a field collection in place, your slippage automatically get reduced, right?

Param Subramanian: Okay. So it is not a problem anymore as such. Or it is normalized already?

Sanjay Agarwal: Param, it was not a problem last time also. Sanjay, this side. Of course, Vivek was generous enough to very transparently telling everybody that we -- because we as a team has took over the southern market recently in the first quarter itself, right? So 1 market, 1 book were giving us a different color. So we were honest enough to call out and tell you all your people, but nothing to worry.

The entire force is there. And we've been known as the good collection -- we've been known as a good team around our collection or recovery side. So that character and that culture has come back, and we are hopeful that southern markets will not -- will come back to our own numbers and our own standard and will also give us next phase of growth.

Param Subramanian: Sure, sir. That's really helpful. Sir, but if you could call out what was the size of this portfolio? And basically, there has been some corrective action from a collection perspective, right, that is now helping us, right? So what was the size of this Andhra portfolio?

Sanjay Agarwal: INR1,000 crores.

Param Subramanian: Okay. Okay. Okay. Fair enough. That's really helpful. Secondly, Sanjay sir and team, if you could help us with how you're seeing demand. So we are now 3 weeks into this post GST cut and festive season. So if you could talk about demand across your portfolios, especially wheels or across products, how it's shaping up and how third quarter and fourth quarter are broadly looking?

Sanjay Agarwal: Param, we are not concerned, honestly, our size is so small, and our franchise is being built entire -- full country, right? So it's very early days because GST cut happened last week of September, and we are just 2 weeks in October, right? So it's difficult for us to comment because sometimes it's just one-off. So we can't give you some direction that if something happening now, maybe reason of GST, maybe the reason of festivity, right?

So we want to take maybe a little bit more conservative view here that we don't want to comment large there, but the growth is back. I can only say you that because our franchise has gone from a north market or west market, even to east and now in southern markets. So we have enough market to us.

So our growth will happen through market share rather than market growth, right? So -- and that is the way we are focusing ourselves. So our focus is more on that let's reduce our cost of money. We have enough diversified asset classes, pick your asset class depending on the state requirement and then build on. So we are in 21 states, 4 union territory. And so I believe that AU you will see in a different avatar from here onwards because our approach has changed from the growth to capturing the market share in that way, right? Yes.

Param Subramanian: Sure. I really appreciate that, Sanjay, sir. I was just trying to understand. I appreciate you are a market share gaining entity. But broadly, if demand is, say, better than what you would have expected post the GST cuts or in line or some sort of directional comment, if you would think...

Sanjay Agarwal: Difficult honestly, because this...

Sanjay Agarwal: Param, difficult as of now because last year also at the time of festivity, there was a growth. So I don't want to color the market because for me, if the growth demand remains same level in November and December, that would be the right kind of direction, right? Because October is full of festivity, right? So the vehicle demand is there, home loan demand is there. Business banking is picking up. So NBFC demand is there. Credit card demand is there, personal loan demand is there. But I don't know that whether it will sustain after the festival, right? So that's why -- but in our case, it's not about demand. It's about our market share in the existing pie, right? So that's why I'm saying that we will grow.

Param Subramanian: Sure. Sure. Really appreciate it, Sanjay, sir. And one last question, if I may. Margins, how to think about margins going into the second half and next year because of what is happening with the mix along with what you're doing on the funding cost? Yes, that's it from me.

Prince Tiwari: Yes, Param. So again, as we said -- as Gaurav said in his commentary earlier that the margin uptick kind of began a bit earlier than what we would have initially envisaged. And again, the deposit repricing, especially on the entire SA piece that we have taken. I think that has been one of the biggest beneficiaries. Also lower slippages has helped, right, given that last quarter, there was a relatively larger slippage.

This time, we had a lesser slippage, 12% reduction. So that has also helped in terms of reversals of some of the incomes. But having said that, to answer your question, I think the impact of repo rate cut on the yields is done, right? We don't think that any more residual impact is left over, which is material or meaningful to call out.

So assuming no more rate cuts, right, assuming no more rate cuts, you would see deposit price continuing to fall for a couple of quarters because we had said earlier as well that it takes about 12 to 15 months for the entire rate transmission to happen. And we are just about 4 to 6 months into the cycle depending on where you start from, right? So we do expect some amount of deposit repricing.

But at the same time, as you rightly said, the asset mix is also shifting, right? The unsecured, while they will stop degrowing from this quarter onwards, but still the growth will not be more than enough to take care of the asset mix change. So because on the core assets also, we are growing pretty well, right?

As you saw, 22% we grew year-on-year in our core assets. So I think some bit of adjustment for asset mix and some positive benefit on the cost of fund side should help the NIM to continue improving for next couple of quarters, at least.

Param Subramanian: Fair enough. And come back to more or less Q4 of last year or somewhere close to that?

Prince Tiwari: I mean we'll see, right? We don't want to call it out right now. We don't really know because as Sanjay said, there are too many variables. But let's just wait it out and watch it.

Moderator: The next question is from the line of Renish from ICICI.

Renish: Congrats on a good set of numbers. Just 2 pieces. One on the strategy side. So once we get the universal banking license, we have got a few things…

Prince Tiwari: Renish, sorry, the voice is not very clear.

Renish: Yes. So the first thing on the AU mix side. So obviously, once we convert into universal banking and the minimum ticket size gap of 25 lac goes away, the inclination will be more towards a growing commercial banking fees, from a branch banking perspective. And once that happens, given this book is yielding 11 % much lower than the retail asset book.

So how do you see the AUM mix changing over the next 2 to 3 years? So I get it the next 2 quarters NIM expansion will continue. But getting into '27, '28 and once you start getting more businesses from your branch, which will be more from a commercial banking part, how do you see NIM settling in medium term?

Sanjay Agarwal: So Renish, Sanjay, this side. So there is no plan to go above a level in commercial banking. Our comfort zone where we feel comfortable is more around retail asset. Our wheel book is only around INR40,000 crores. I don't think that AU should even look any other book than that because we can still build that book around INR2 lakh crores, honestly.

You can see our competition level, right? They're around INR1.5 lakh to INR2 lakh crores book. Our mortgage book is just INR40,000 crores. We can take it up to INR1 lakh crores. Our gold loan book is just INR4,000 crores (Correction: Gold loan book is INR 2,300+ Crores) and you know how that book is shaping up. So I don't think that there is any kind of strategy in place where if we get to universal license, which we will, we want to change our mix or we want to have a different strategy on a Universal Bank. We love this space so much. We like this -- we are working in this space for the last 30 years, and we are the market leaders, right?

So the idea is to become universal to lower the cost, not to change the asset mix. Our business banking also gives a yield of around 10% plus. We are not at 8%, 9% as of now also, right? Our NBFC is also 10-plus. Agri banking is around 9 plus. So we don't play to the galleries, right? We have built our own niche, our own market.

And we play on our product innovations, on our tech, on our speed, execution, our distribution, right? And we believe that in next 5 to 10 years, once AU will become pan-India franchise in terms of distribution placement, you will see our growth in a very different level, right, because we know that what made us till now will take it us forward also, right? So there is no plan to become a wholesale lender or be into a corporate finance unless until we have a low cost of money.

Renish: Got it. No, sir, because also in PPT, you did mention about getting into renewable energy infrastructure and all. So I thought are we thinking expanding commercial banking or something like that? But thanks for the clarification.

Vivek Tripathi: Yes. So Renish, Vivek, here. Just to clarify, what we are saying that the focused approach helps us to grow more sustainably and it also is better to manage risk because we are a very focused team. So when we started commercial banking, we started focusing on segment, right? That is why we created a different book for NBFC, we created a different book for real estate.

Similarly, within the businesses, we have a sectoral approach, people who understand that sector can manage it better and can also grow it better, right? That's a reason we want to focus sectorally, right? So renewal energy is one area where we've already started, but others, we will slowly build. We'll see that how we get the sectoral insights and how we get the expertise to underwrite and to source those kind of customers.

Sanjay Agarwal: And if you become the subject expert in terms of lending, then your TAT improves. And if your TAT improves, you are in better position to bargain. So like we are the leader in NBFC, right? People give us 100 basis more than the other people, right? Because once our name is on the lender list, people value it, right? So I think we are playing on our strength. So sectoral focus will make us more strengthen in our whole positioning in terms of borrower side, right?

Renish: Got it. Got it.

Vivek Tripathi: And also we are not saying that we will change our ticket size. So that focus will remain on the same small and medium enterprise. That is what is our core area.

Renish: Yes. Got it. And just the last thing on this ECL framework, which is sort of likely to be implemented. So any cost order if I can really say, would you like to share? Once that gets implemented?

Prince Tiwari: On the tariff?

Renish: No, no, ECL framework on the universal bank

Prince Tiwari: ECL, Renish, honestly, it's too early to comment, right? It's on draft basis. And there are so many nuances. But we do prepare proforma. I think historically, we have done it. And we have -- I mean, in our view, it should be neutral to positive, right? But I mean, it's too early to give you any kind of directional comment right now, but definitely neutral to positive.

Moderator: The next question is from the line of Kunal Shah from Citi Group.

Kunal Shah: So again, just harping on the growth part. So when we say like 2x, 2.5x of the nominal GDP average, today, if you look at it, like we are closer to like 17% AUM growth. So maybe how quickly can we get towards that? Are we good enough in terms of the asset quality stabilization, NIM stabilization to get it quicker?

And second is on the overall on balance sheet. So I think overall AUM growth has been lower. So I believe the reliance on downsell is not so high. But as we get to the growth part, again, we would get to the downselling or maybe the overall on-balance sheet growth will still continue to be higher than the AUM growth. So what would be the stance on the downsell after we reach that 2x, 2.5x GDP growth?

Prince Tiwari: So, thanks for that, Kunal. And so see, even if you see today, our growth has been 22% Y-o-Y, right, on the secured side. The 8% book, which is unsecured, which is MFI and credit card has been going through its own reset cycle. And as we said on the early opening remarks that, that is also coming to an end now, right?

We should start seeing microfinance growing from this quarter onwards as well as credit card will start growing probably in a couple of quarters, right? So on secured assets, we are already doing 22% plus, right? We don't really see -- Honestly, when we track, we track AUM growth of GLP, right? Because from our perspective, whether the asset is sitting outside the balance sheet or in the balance sheet, it's the same thing, right?

But having said that, we used to securitize in a period when the growth was really, really strong. I don't think that at 2 to 2.5x, we are really looking to do an off-book built out, right? So you should look at a GLP level, which is the gross loan portfolio, we should continue to grow between 2x to 2.5x, and we are reasonably confident because second half is always stronger as compared to first half, right, both for secured assets. And of course, as I said, unsecured assets will now start contributing positively rather than negatively.

Kunal Shah: Got it. So sequential momentum will definitely accelerate given the unsecured is now almost done.

Prince Tiwari: Absolutely.

Kunal Shah: Got it. And maybe with respect to ECL, so what would be the positive like it's maybe neutral, I could still understand, but you confidently have even indicated in the presentation that ECL impact could be positive as well. So what are the positive levers which are coming from the ECL and not much of the provisioning risk, maybe even, like say, on the vehicles and all, you would have a relatively higher Stage 2, but it is good enough to even offset that. So I just wanted to understand that, yes.

Prince Tiwari: So Kunal, I mean, as I said, it's too early to actually comment on how it will play out on the exact numbers. But the reason why we say neutral to positive is we do prepare pro forma, which we submit to regulators and whatever we did last basis that I was talking about it. And the primary reason is that our LGDs has always been lower, right?

So if you go back and see our NBFC days and you compare our credit cost, right, on each of the books independently, you'll realize that the loss given default for us has been historically very, very low. I mean in vehicle, I think we have publicly called out in the previous occasion, it has been anything between 35 to 40 basis points, right, whereas our coverage ratios would be much higher. Plus there also will be an interest impact that will flow back to us. So I'm saying there are nuances to that, and we need to figure that out. But on an overall basis, we are not really worried.

Kunal Shah: Got it. And one last question in terms of the data point. So what is the cost of SA? And how much of it has already got repriced? And in the coming quarters, would it be only another 25 basis points, which is left now?

Prince Tiwari: So I think with the latest rate cut, we are looking at going below 5.

Kunal Shah: Going below 5 in terms of cost of SA.

Prince Tiwari: Cost of SA, right? We were at ~5.1ish if I remember correctly. And we should hopefully try and see if we can reach there.

Moderator: The next question is from the line of Akshay Jain from Autonomous.

Akshay Jain: Yes, sir, I have a question on capital. So can you please help quantify the impact on your capital ratios post conversion to the Universal Bank? Because now you don't consider a market and operational RWAs in your base. And second, on the draft credit risk circular, have you done any estimates on how it will impact the capital ratios for the bank?

Gaurav Jain: Yes. So 2 things, right, on the capital structure. The first one is you're right that we will need to take into account operational risk RWAs and market risk RWAs. Of these 2 market risk RWAs are not meaningful, right? So it's the operational risk RWAs, which will increase. But on the flip side, the capital requirements would come down from 15%, right, minimum capital requirement to eventually 11.5%.

So this will be sort of -- broadly, it should be neutral to positive for the bank. The Board will decide what capital ratios we want to run on the Universal Banking platform, and we'll come back to you on that. But overall, I think on the capital as a whole, it will be neutral to positive for the bank. So that's one.

Second thing, on your questions around RWAs on the draft guidelines, -- so you will see a benefit coming from the collateral -- from the loans which are collateralized by residential properties, right, where the risk weights would probably come down by 40 to 50 percentage, and that will give us a significant benefit on some of our loan books there. Other than that, there are some benefits and some negatives which broadly cancel out, right?

So the biggest in the ultimate analysis is residential mortgage collateral, it will give us the most uptick. In the rest of the stuff, there are some positives in credit cards, some positives in the MSME, some positives in the ratings-based investment book, etc., which gets offset by increase in the risk weight of the unutilized sanction limits.

Akshay Jain: So what will be the proportion of this collateralized -- that is collateral against residential property? Any indicative number? Like your MBL book is close to 25% of your overall loans. So like is it safe to assume that 25%?

Gaurav Jain: So we have -- so you can just look at our loan mix, right? So INR40,000 crores is the mortgage book. And then you have another INR25,000 crores of commercial banking book, which is a mix of MSME, NBFC and real estate, right? So that will give you an indication of a portion of that would be backed by this collateral.

Prince Tiwari: Yes. And on the mortgage book, most of it will be residential housing, majority of it.

Akshay Jain: Okay. Is it safe to assume that because the 40% -- INR40,000 crores of your book is mortgages. And if I just do some reverse calculate, like 40%, if I assume on that book, it comes to INR16,000 odd crores and your total loan portfolio is around INR115 crores, INR120 crores. So should it be safe to assume that a double-digit reduction in RWAs is what we should see for AU Bank?

Gaurav Jain: I don't want to give out specific numbers. But what I would say is you also need to take into account the business banking and the agri banking books, some of that will be back, right? So your starting point is not INR40,000 crores, it's probably higher.

Akshay Jain: So that increases the benefit?

Gaurav Jain: Yes.

Moderator: The next question is from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: Sanjay ji and team, congrats on a good quarter. A few questions like first on the credit cost, now that we have reported a 64 basis points in the 1H based on total assets and maintaining 100 basis point guidance. So is this credit cost that you see in 2H will be a reflection of the trends in FY '27? And do you think that will improve further or is this 2H number slightly boosted by the recoveries that may be they are from the NPAs that we had in 1H? So can we expect an improvement further continuing FY '27 on the second half number?

Sanjay Agarwal: So Nitin, we are confident about this year, right, because we can visualize the entire ecosystem we can see quarter 3, quarter 4, right? So we believe that 100 basis point credit cost, we all are working hard to be in that number, right? And we strongly believe that we should get that number. 64 basis points H1 is a great set of numbers because H2 generally helps us to reduce the overall credit cost for the year. So we are absolutely on track for this year. But next year, again, too many variables, too many things, which comes from nowhere, right?

So if you ask me that if things remain in a similar kind of zone, which we are seeing as of now, the credit cost still can come down because I don't think that credit card or microfinance business, which is giving us the 50% of credit cost, i.e. 50% credit cost is coming from that book, right, which should not give us that kind of challenge next year.

So our idea is to be around 85 to 90 bps kind of benchmark. but I don't want to give you any number there because it's difficult to predict for entire next year. But I think this year is one of the best years for us from last maybe 18 months or maybe 2 years. So we are quite hopeful that from here onwards, the credit cost should remain in one zone or in one number..

Nitin Aggarwal: Right. And second question, Sanjay ji, is on the Universal Bank transition. While we know that the discussions and like this is still underway, but by when do you like tentatively think that the transition to Universal Bank should get completed? And do you see a material rise in opex towards branding and advertising as you undertake this transition?

Sanjay Agarwal: So we actually have already commented that our idea is to start our 11th year as Universal Bank. So still we have 6 quarters to complete that. RBI has given us 18-month period, and we believe that we should become in that time line. But I would say, the advantage of getting in principle license has already been now on our balance sheet. People have recognized us very credible or a very forward-looking kind of institution.

So from 7th August, we are getting enough, I would say, acceptance in the market as a whole, which is great for any financial institution that people are actually treating us like Universal Bank only nowadays. So that positive impact already started coming in. I would say that there will be some time before we really become Universal, but we are working with RBI, with regulator to achieve that.

And what was the other question? But there won't be any opex or anything which may cost us on our balance sheet. Rather this whole staggered transitioning from SFB to Universal in the next 18 months will allow us to do really a market expense also, the marketing expense also on a long-term basis than a one-off kind of basis, right? So as of now, Nitin, difficult to comment on one-off on a marketing expense. But other than that, everything is business as usual.

Nitin Aggarwal: Right. And the last question is on the number of employees, and there is a sharp rise at around 4,500-odd employees that we have added this quarter. So how are we looking at that? I mean this is a very, very like sharp number to look at the increase that we have had in the last 2 quarters, in fact. And so how do you see the opex? Any implications of this on the cost ratios? Will it again start to grow at a faster clip? How do you see that?

Sanjay Agarwal: Nitin, the agenda of growth is back. We are seeing a lot much business opportunity in our newer geographies, like southern markets, East markets. The entire growth, which you are seeing in workforce, is our largely in sales force or largely in underwriting space. We haven't added much more force in back end.

So idea is to make them productive in coming time and bring the growth back. So we are now focusing ourselves more and more on the -- taking the market share from the newer geographies. So there will be some little bit higher opex, but it will eventually will help us to bring back growth on our business numbers.

Nitin Aggarwal: Right. And Sanjay ji, one last question, if I may squeeze in, is also on the credit card portfolio because that is giving us quite an addition to the total credit cost, irrespective of the size of the portfolio, which has come down meaningfully. But it still contributes meaningfully in respect to the total credit cost. So what is the like outstanding revolver and the transactor mix now that we have in this digital portfolio?

Sanjay Agarwal: Sorry, vivek...

Prince Tiwari: That's given on Slide Number 36, Nitin, the revolver to transactor mix. So transactors are 48%, revolvers are 26%, and 27% is EMI or loan. And as we had highlighted earlier that the entire credit card book, I mean, we had taken a lot of corrective actions over the last 8 to 12 months. And we had identified a certain book where most of the risk basis our analytical tools, where the risk could emanate from.

And that's the book which is now slowly winding down. And that's why you see this quarter, there's a substantial reduction, I mean, almost 50% in terms of the credit cost that's coming from that book. And that's why Vivek was saying that we'll continue to see positive benefits in the coming quarters.

Vivek Tripathi: The credit cost would eventually come from the slippages, right? So slippages are a leading indicator that -- so in this book, my slippages has come down substantially from Q1 to Q2, and we would continue to see that momentum going forward. Maybe in the stand-alone basis, Q4 should be more similar to what industry benchmarks are, right? That's what we think.

Nitin Aggarwal: And how much would this revolver would have been at the peak now that it has come down to 25%?

Gaurav Jain: So this would be around 35, 36.

Moderator: Next question is from the line of Pranuj from 3P Investment Managers.

Pranuj: So just a couple of questions, both on the deposit front. So you have been pretty active in trimming your SA and TD rates. So from here on, what would be the key hope that you would have to gain share amongst the -- gain SA share amongst the customers? Previously, I think credit card and PL used to be one of the propositions which you used to cross-sell, but now what would be that hope?

Second is you mentioned on your retail asset base, you are cross-selling SA. So if you could give some color, what is the self-funding ratio on your retail asset base? And what would be the pitch to move customers or to cross-sell the SA accounts to the customers?

Prince Tiwari: Yes. So Pranuj, thanks for that question. See, I think the entire focus on build-out of SA has been to build granular SA, right? So that has to be on the basis of the engagement with the customer and the various products that we can try and cross-sell to the customer so that the engagement and the hook kind of increases.

And that's why over the last 3 or 4 years or 5 years rather, we have been investing heavily in building out various hooks, which we can try and cross-sell. So you mentioned credit cards and PL. These are 2.

And as we said in the earlier comment as well that we are looking to grow these businesses back. It's not that we are going to wind down these businesses, right? There has been some underwriting tweaks that we were doing. And having got some confidence, as I said, in a couple of quarters, we'll start growing that back, right?

So that obviously remains one of the biggest hook. But apart from that, we have now got the insurance penetrations. We have now built out insurance partnership with more than 15 insurers, right, including LICs and SBI Life, right?

Then we also have the entire wealth management that we have built out, right? And that is showing a good traction, right? Of course, SFB brand doesn't really help from a wealth perspective. But as we migrate to Universal, the team is ready. And incrementally, we are seeing traction, and we published those numbers.

As I said, currently, the AUM is about INR1,600 crores, right? Then there is the entire AD1 license where the FX and remittances piece is coming through. And I think in Gaurav's earlier commentary, he highlighted that the FX income is now growing almost 50%, of course, from a low base, right? But that also tells you that there is a lot of adoption in terms of remittances and in terms of customer forex requirements.

We just launched the FX travel card as well. So I think the idea will be to try and reach out to a customer with a full basket of products, not necessarily only talk about interest rates. Of course, interest rates is important. But as we build the brand, probably we start putting interest rate in the rearview mirror and talk more about the bank, the products, the services, right?

And maybe at some point in time, probably near future, I can also offer a very, let's say, a specialized rate on the saving -- on the car loans and housing loans to my liability customers. If somebody is maintaining good balances with me, I'm not going to incur a cost of acquisition, right? And there's bound to be lower credit cost on that business.

So I don't really mind going to a customer with a complete bouquet of products rather than only talking about interest rates, right? So that's going to be the strategy and the team will need to work on.

Distribution is definitely helping, right? Universal is definitely helping. As Sanjay ji said, just by getting the license itself, the number of conversations that we are now having with customers or the quality of customer conversations we are having with customers is very different than when we were probably SFB or early stages of our SFB life cycle.

Just last point, I think to your question, most of our asset customers are self-employed. I mean I know probably more than 90% plus maybe, but at least on the retail side, they're all self-employed. So as of yet, because our cost of funds don't really allow us to reach out to a salaried customers like yourself, right?

And that is where I need to bring you in with a liability and product and services and then try and cross-sell you on the asset with a specialized teaser rate. Hope that answers your question.

Pranuj: Right. So is it fair to say the self-funding ratio would be quite low amongst the retail asset customers as of now?

Prince Tiwari: Sorry, what was the question?

Gaurav Jain: Yes, yes. So that's correct, right? Self-funding in the retail secured assets would be low.

Sanjay Agarwal: But that is with every bank because the retail asset we are building on is with the customer who lives in semi-urban and rural areas, right? That's why you get a yield of around 14% to 15%, right? You can't expect those customers having enough money to keep in the bank account, right? But our commercial banking self-funding as Vivek is around what 40%.

Prince Tiwari: Which (commercial banking) contributes to 6% of the (CASA) and in fact, even on the retail side, we have made a beginning. As you said, I think we have opened 95,000 accounts from (retail)

Sanjay Agarwal: That is close to 10% only, right? So if you have INR80,000 crores of book of retail assets, and it's just INR8,000, INR10,000 kind of deposit, right? So -- and we don't expect, honestly, to get a deposit from our retail customers. Rather, we want to cross-sell them insurance, we want to cross-sell them maybe the PL or BL in case they need it, right? So we earn decent ROA from our asset customer. That's our business model.

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Just firstly, 1 clarification. Prince, you mentioned LGD in vehicle is -- I didn't hear it correctly, but did you say 35% to 40%?

Prince Tiwari: Bps. I mean, 35-40 bps.

Sanjay Agarwal: We have PCR of around 70% on wheel book, then 50% is only the real LGD, right? So he meant that.

Vivek Tripathi: Yes. So basically, when loss given default is very different than the accounting entry in terms of the provisioning, right? So when we repossess the asset and sell it, eventually, what is my principal loss, right? That is what Prince has mentioned, somewhere around 40 bps, right, 35 to 40 bps. That's the actual number.

Sanjay Agarwal: Overall basis. Of course, some book would be giving you more, some be giving you less. But overall, it's not more than 50% of our provisioning.

Piran Engineer: Okay. Understood. Fair enough. Okay. Just coming from my questions. Firstly, given that your mix of loans has changed in the last 1.5, 2 years, first, you got the MFI book, now you've run it down, and we've seen this whole cycle play out. At what level would your gross slippage ratio sort of stabilize? Because obviously, currently also while it's improved, I don't think this is a steady- state number, INR900 crores a quarter. So what should we assume as a steady-state number?

Vivek Tripathi: It's not something which we are targeting something. But yes, obviously, as these 2 assets, right, credit card and microfinance would stabilize, eventually, it's about 2.5% kind of a slippage ratio we would have, right?

Prince Tiwari: Yes.

Piran Engineer: Okay. 2.5%.

Prince Tiwari: Yes, 2.5% to 3%. I mean, that will be the range that we'll work with or historically, we have worked with because even on the retail businesses, typically, there is a tendency of the customers slipping into NPA and then recovering back, right? So I think anything around 2.5% to 3% annualized slippage rate is where we should stabilize finally. But that's just a ballpark. I mean it's not a number that we target or we have a defined target around that number. We track credit costs more importantly.

Piran Engineer: Okay. Fair enough. Fair enough. And just secondly, now I know you're not explicitly calling out how much NIMs will finally recover to over the next 3, 4, 5 quarters. But would you be still targeting erstwhile NIMs of 6%, 6.1% as in -- okay, or my question really is, let's say, your TDs reprice downwards, but you still hit a NIM of only 5.7%, 5.8%. Will you resort to, say, further SA rate cuts or actions on the asset side to get back to that 6% NIM?

Gaurav Jain: So look, we don't want to guide specifically on NIM. I think we have talked about all the components of NIM, right? So the deposit rates will continue to come down. We are through almost all of the repricing from the repo rate cuts. Prince has spoken about asset mix changes, right?

So effectively, your NIM would be a function of asset mix, right? And your current yields on the other books, which may be subject to competitive or market pressures, right, and would depend on your cost of funds and reversal of excess liquidity, right, especially in the lower quarter, right?.

Prince Tiwari: when it came to 6, the Leverage was low

Gaurav Jain: Yes. And then there are 2 components to look out for is you have very high slippages in your unsecured assets, which have been detracting from NIM through interest income reversals, right? So once my credit quality sort of stabilizes in those 2 books, that will not be detracting and they will be adding to the positive asset mix as well, right?

So there are a lot of moving parts. And then the other thing is sort of the capital structure that the Board decides to run on the Universal Banking platform, right? So a lot of moving points. What I can tell you is we will get better from here.

Moderator: The next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Just one question from my side. If I look at your mortgages business, including both LAP -- including both housing loans and MBL, if you look at some of your core states, let's say, if you pick up Rajasthan and MP, do you see any elevation in the delinquency level, let's say, over the last 1, 1.5 years?

Vivek Tripathi: Ashlesh, Vivek here. See, both markets are different impact. When you're clubbing them, both behave differently. Rajasthan has a very different credit culture. MP has a very different -- it's more of an agri economy. So agriculture cycles will impact. Having said that, there is no significant difference in what it was there last year and what we are seeing this year.

Moderator: The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life Asset Management.

Himanshu Taluja: Congratulations on a good set of the numbers. Just a few small questions as most of the questions have been answered. Sir, given your opex, you have partly -- on the opex strategy, partly you already answered in the Nitin question that you don't want any opex to be on a front-loaded and will be on a more long-term basis.

But anything from a -- given you wanted to transition in the next 5 quarters as a Universal Bank, any further investments which may be required towards the operational or on the digital journeys before you wanted to transition this?

Second is, are you working towards an internal strategy where you wanted to keep the opex as a threshold -- cost-to-income ratio around the 60% level? And lastly, any gaps which have you identified before you wanted to successfully move this transition? Yes, that's it.

Gaurav Jain: So on your first question, right, around expenses for transition, there is nothing specifically that we need to invest. As we have spoken multiple times, we have invested in the platform ahead of the time, right, in each of its aspects, whether it's product development, whether it's tech, whether it's team, whether it's governance, right?

So the bank is fully ready to transition to a universal platform without having to incur any additional expense, right? So any expense that we choose to incur is discretionary, and that will be around the marketing expense that Sanjay ji spoke about, right? So that's the first point.

The second point on expenses -- on your cost-income ratios, right? I think the way to think about it is we have guided to a 60% cost income as sort of as the maximum, and we want to stay below that. Now 2 things, right? So we think we can grow our balance sheet sustainably at between 20% to 25% on a multiyear basis, right? And my growth in opex would be lower than that because of operating leverage and because of tech-driven efficiencies, right?

Now as a result of these efficiencies, we will have capacity to invest for our growth as well, right? And that's a calibration that we do sort of on an annual basis, on a semiannual basis, depending on the trajectory of the business. So net-net, we would be better -- we would try and target sort of a cost-income ratio, which is better than 60%, and we would be better than 4.3% on an opex to asset basis.

Himanshu Taluja: Sure.

Gaurav Jain: Okay. Did you have a third question as well? Or was that it?

Himanshu Taluja: Yes, that's it. Broadly, I think you have already answered on the third question.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari: Thank you, Rutuja, and thank you, everyone, for joining the call and for your questions and for all your support. In case you have any further questions, kindly reach out to the IR team. Good evening and good night. Happy Diwali to all of you.

Sanjay Agarwal: Thank you. Happy Diwali.

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