

November 04, 2025

BSE Limited

P.J. Towers,
Dalal Street,
Mumbai- 400 001

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor, Plot No. C/1, G
Block, Bandra - Kurla Complex, Bandra (E),
Mumbai - 400 051

Scrip Code: 543386

Symbol: FINOPB

Dear Sir/Madam,

Sub: Transcript of the earnings call with the investors and analysts held on October 30, 2025 - Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: Earnings call with Investors and Analysts on October 30, 2025

In continuation to our letter dated October 18, 2025 and October 30, 2025, please find enclosed herewith the transcript of the earnings call with the investors and analysts held on October 30, 2025.

This disclosure is also available on the Bank's website i.e. www.fino.bank.in

Kindly take the same on your record.

Thanking You,

Yours faithfully,
For Fino Payments Bank Limited

Basavraj Loni
Company Secretary & Compliance Officer

Place: Navi Mumbai

Encl: As above



“Fino Payments Bank Limited
Q2 FY '26 Earnings Conference Call”
October 30, 2025



MANAGEMENT: **MR. RISHI GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FINO PAYMENTS BANK LIMITED**
MR. KETAN MERCHANT – CHIEF FINANCIAL OFFICER – FINO PAYMENTS BANK LIMITED
MR. ANUP AGARWAL – HEAD, FINANCE AND INVESTOR RELATIONS – FINO PAYMENTS BANK LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the Fino Payments Bank Limited Q2 FY '26 Earnings Conference Call, hosted by Go India Advisors LLP. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note, this conference is being recorded.

I now hand over the conference over to Mr. Rajat Gupta. Thank you, and over to you, sir.

Rajat Gupta: Yes. Thank you, Mark. Good afternoon, everyone, and welcome to Fino Payments Bank Earnings Call to discuss the Q2 FY '26 results. We have on the call with us today, Mr. Rishi Gupta, Managing Director and Chief Executive Officer; Mr. Ketan Merchant, Chief Financial Officer; and Mr. Anup Agarwal, Head, Finance and Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces.

I now request Mr. Rishi Gupta to take us through the company's business outlook and financial highlights, subsequent to which we'll open the floor for Q&A. Thank you, and over to you, sir.

Rishi Gupta: Thank you, Rajat. A warm welcome to all of you joining us today for our Quarter 2 FY '26 earnings call. Quarter 2 FY '26 was shaped by a rapidly evolving external environment as the payments industry continued to adjust to regulatory reforms and the new operating norms. Building on the groundwork we laid in quarter 1 FY '26, we continued our focus on stabilizing our core business, strengthening customer relations, and maintaining profitability in evolving ecosystem.

While the digital payments industry faced short-term moderation due to regulatory tightening and ecosystem challenges, similar to what we have said in the last 2 quarterly earnings calls, the long-term opportunity continues to remain unprecedented.

What gives us confidence is the larger landscape in India's digital payment journey is only gaining momentum. It continues to expand at an exceptional pace from 35 billion transactions in FY '21 to over 200 billion transactions in FY '25, to an estimated 500 billion transactions by FY '29. That means 1.5 billion transactions per day.

We consciously focus on merchant quality and compliance over pure volume growth, ensuring we are well positioned to benefit as the environment normalizes. During the quarter, our digital payments business saw a moderation in throughput, mainly because of enhanced regulatory scrutiny across the ecosystem.

The recalibration of merchant onboarding and transaction policies implemented last quarter ensured a smooth transition through the supervisory phase. We view this as a temporary adjustment, and we expect a gradual pickup by end of quarter 3 FY '26 and follow through in quarter 4 FY '26.

Challenges aside, digital transactions accounted to 55% of the total throughput for Fino and UPI transactions contributed to 1.45% of the overall UPI ecosystem in quarter 2. In our customer ownership business, which is CASA, the disciplined actions we initiated in early quarters are beginning to show early signs of traction with over 9 lakh CASA accounts opened during this quarter. Our deposits grew 36% year-on-year to INR2,306 crores. This growth reflects the depth of customer trust and our focused drive to strengthen our granular low-cost deposit base, key driver of our sustained profitability.

CASA continues to be the cornerstone of our profitability story with revenue growing 21% year-on-year to INR159 crores in quarter 2. This steady performance underscores the increasing strength of our granular low-cost deposit base, which now contributes to around 40% of total revenues.

With the cost of fund at just 1.9% in quarter 2 FY '26, we continue to maintain one of the most efficient liability structures in the industry and is going to immensely benefit us in our SFB journey. CASA remains our highest-margin product, delivering 54% margin in this quarter.

The traction here reflects both customer confidence and bank's disciplined approach to building an annuity-driven income stream. This growth is key to our transition towards a more stable and margin-accretive franchise.

Renewal income continues to be a strong indicator of customer stickiness, contributing to INR62 crores this quarter, growing at 36% year-on-year. The renewed trend shows the underlying loyalty and engagement of our customer base. This recurring grows from a stable, predictable revenue stream and reaffirm the strength of our franchise economics.

The CMS business, which is the Cash Management Services business, continues to evolve in response to structural changes in the operating environment. Digitization, sectoral headwinds in the MFI industry and competitive pricing continue to reshape the industry. However, revival of activity within the MFI sector shows encouraging signs.

The bank continues to realign its CMS business in line with the evolving client needs and industry demand dynamics by strengthening relationships, optimizing operations and protecting margins.

On the referral of loans, our endeavor is to create railroads for our future avatar and this seems to be working well with around INR200 crores of quarterly disbursal. As I have advised earlier, this referral program rather than for revenue accretion is more keen to pilot our network for loan disbursal potential.

We will continue to explore and experiment this referral program to do pivots in a manner that by the time we are in our SFB avatar, we have all processes, railcars and channels tested for unleashing the potential of SFB disbursement on a differentiated channel.

In continuation to this, we have also put a small team in four, five states to test sourcing of secured lending products in a differentiated way, leveraging our network. This, again, is precursor to test and explore geographical and market potential.

Within transaction banking, the transition away from traditional rails like remittance, micro ATM and AEPS due to changes in regulations last year and rapid adoption of UPI, continues to reshape the industry.

While this near-term migration has compressed volumes and revenue, it structurally improves our margin profile by reducing dependence on low-yield products. This rebalancing of portfolio has helped strengthen our margin profile and maintain operational stability despite short-term revenue moderation.

As a result, the share of low-margin transaction revenue business has now come down to 20%, while higher-margin products like CASA now contributes to 40%, driving a 365-bps improvement in net revenue margin compared to previous quarter.

Overall, quarter 2 was about consolidation and disciplined execution of our transaction, acquisition and monetization, which we formally call TAM strategy. While revenue softened due to calibrated actions and regulatory reforms in certain businesses, the underlying EBITDA margins improved to 15.4%, nearly by 284 points year-on-year and 180 points quarter-on-quarter on account of the better mix and disciplined cost control. I think we are sitting at the highest EBITDA margin as a life in the bank.

We maintained operating efficiency and profitability, reinforcing the resilience of our business model as we prepare for recovery-led growth in the second half. Our core banking system migration is in its final stages, and we are keen to migrate within this calendar year, as mentioned in the last quarterly earnings call.

Once the new core platform is ready with multiple all of the core projects sit along with it, we expect significant benefits to accrue on account of new product features, launches, better control over delivery and much faster system. Our first phase of AI product is also expected to go live in this quarter.

At the same time, we remain strategically aligned to the long-term roadmap towards a Small Finance Bank structure, which will further enhance our ability to serve customers with a wider and more inclusive suite of financial solutions. While the regulatory process takes a natural course, we are using this time to strengthen our systems, people and processes to ensure we are operationally ready when the opportunity arises.

With the recalibration phase now largely behind us, we enter the second half of FY '26 with renewed confidence, stronger fundamentals, a more focused portfolio and a clear direction. The new quarter -- sorry, the next few quarters will be about building momentum and converting stability into sustainable growth while continuing to serve our customers with trust, agility and purpose that defines our franchise.

With this, I hand over to Ketan, who will take us through the financial performance in detail.

Ketan Merchant:

Thank you, Rishi. Very good evening to everyone, and thank you for taking time to join us today. I'll take you through the highlights of our Q2 FY '26 and H1 FY '26 performance. The quarter reflected the industry's continued adjustment to regulatory changes, especially in

traditional transaction business as well as the digital payment segment. To begin, I would like to share an overview of our quarterly and half yearly financial performance.

Despite a challenging environment, the bank continued to strengthen its core franchise with healthy traction in high-margin business. This is something which Rishi was alluding in his earlier commentary. The business mix has structurally evolved from low-margin transaction lines to a more relationship-driven annuity-based financial ecosystem, led by CASA segment.

While the contraction in legacy products such as remittances, micro ATM and AEPS, what we call as transaction business; impacted the top line, it also drove a sustained improvement in margin profile, with EBITDA margin expanding by 2.8% year-on-year basis to 15.4% for the quarter. Revenue for the quarter stood at INR400 crores, down 12% Y-o-Y, largely due to the systemic shift in payment behavior and ecosystem challenges and transactional headwinds.

For H1 FY '26, total revenue was INR853.5 crores vis-a-vis INR892.3 crores last year, a decline of 4%. Profitability remained resilient. Net revenue for Q2 rose 4% Y-o-Y to INR148.6 crores with a margin expansion of 5.75%. This quarter, our revenue margin after the product cost margin was 37%, which essentially is the highest what we've achieved.

EBITDA for quarter 2 was INR61.6 crores, up 8% Y-o-Y, while H1 EBITDA increased 12% to INR123.3 crores. In H1, EBITDA margin improved 2% from 12.4% to 14.4%, reflecting stronger mix and a cost discipline approach. Cash profit stood at INR46.8 crores, up 4% Y-o-Y, underscoring the quality of earnings and structural improvement in operating leverage.

Profit before tax for the quarter was INR21.2 crores, lower by 18% Y-o-Y, impacted by higher depreciation, while H1 PBT stood at INR45.9 crores, lower by 9% on a Y-o-Y basis. PAT for quarter 2 stood at INR15.4 crores, lower by 27% on a Y-o-Y basis. This was due to higher tax provisioning attributable for this year. While H1 FY '26 PAT was INR33.1 crores, again lower by 27% on a Y-o-Y basis.

Cost-income ratio for the half year was 29.8% compared to 25.6% in H1 FY '25, reflecting an impact of depreciation for the last year's capacity expansion as well as reduction in transaction income.

The bank has continued to invest in technology with a capex of around INR70 crores in H1 FY '26. This is aimed at strengthening core platforms, expand transaction capacity and improve digital interferences to support scale, efficiency and customer experience.

The bank's merchant network expanded steadily to 2 million with around 56,000 new merchants onboarded during the quarter, reflecting consistent momentum in franchise build-out and focus on quality acquisition. Average deposit increased 36% Y-o-Y to INR2,306 crores, underscoring the sustained strength of bank's granular low-cost liability franchise.

Our cost of funds of around 2% or to be precise, 1.9% is our distinct advantage. The introduction of new variants and emphasis on targeted marketing supported steady onboarding with customer base expanding to 1.59 crores, i.e., 1.59 crores liability accounts is what we have; this was on the back of 9.1 lakh new accounts added during the quarter.

Let me now turn to financial performance across major business segments. CASA revenue rose to INR159.4 crores, up 21% on a Y-o-Y basis and now contributing 40% of the total revenue vis-a-vis 34% in quarter 1 FY '26 and 29% in quarter 2 FY '25. The renewal component alone contributed INR62.1 crores, a growth of 36% Y-o-Y, underscoring sustained customer stickiness and repeat activation.

Margins on this business remains healthy. And as Rishi alluded, CASA is drawing a margin of 54%, which is helping us to offset the pressure from the transaction business moderation. For the half year, CASA revenue was INR313.4 crores, up by 25% on a Y-o-Y basis, with segment margin steady at 53%, reflecting the quality of deposits and recurring renewal base.

The continued improvement in CASA mix has not only provided stable funding base, but also directly contributed to margin expansion during the quarter. The rise in float balance, coupled with high renewal income, is translating into consistent fee and interest accrual.

Revenue from Digital Payment Services stood at INR63.4 crores, down 20% on a Y-o-Y basis, impacted by some regulatory tightening. For H1, the Digital revenue was INR169.8 crores, up 16% on a Y-o-Y basis, with a margin of 20%, largely which was range bound. Throughput recovery is expected in a couple of quarters as regulatory clarity improves and new categories scale up.

CMS business reported a revenue of INR30.9 crores, declining 24% on a Y-o-Y basis, driven by 16% decline in throughput volumes and coupled by a compression of around 2 basis points in our take rate due to competition. For the half year, CMS revenue stood at INR65.3 crores, lower 19% on a Y-o-Y basis with 34% margin maintained, supported by cost control and client retention.

Remittance, micro-ATM and AEPS, our legacy transactions; recorded combined revenue of INR78.6 crores. Remittance revenue stood at INR39.5 crores, lower by 61% on a Y-o-Y basis as industry continues to adjust the post regulatory shift away from cash-based remittance and DMT flows.

Micro ATM and APS revenue stood at INR39.1 crores, down by 12% Y-o-Y, reflecting the continued transition from assisted cash withdrawal services to digital product. Though its share in total revenue in Q2 has reduced from around 32% a year ago to 20%, thereby materially improving the margin profile as we alluded earlier, overall, the revenue composition continues to shift towards high-margin annuity business.

The expansion of CASA customer base, our sustained momentum of renewal income, along with disciplined cost management supported EBITDA of INR123.3 crores in H1 FY '26, up by 12% Y-o-Y and margin expansion of 208 basis points or 2.1 percentage on a year-on-year basis.

Operating expenses remained stable at INR87 crores for the quarter and at INR177.3 crores for H1 FY '26, up by this 5% Y-o-Y, reflecting the cost efficiency despite some compliance and inflationary measures.

To conclude, while the top line reflected transient regulatory and micro shifts, our business fundamentals remain robust. The structural mix improvement led by CASA and renewal income continues to strengthen the earnings sustainability and margin expansion.

With digital throughput expected to recover in H2, CASA momentum intact and coupled by the implementation of certain cost optimization measures, we expect H2 profitability better than H1.

With this, I'll just take a pause and hand it over to the moderator for any further questions. Thank you.

Moderator: The first question is from the line of Vilina Jain from Perpetuity Ventures.

Vilina Jain: Firstly, on the Digital business, sir, we see that you have given the FinoPay user numbers. So, could you elaborate on the FinoPay business? Is this a new product launch, which is there in your pipeline? And secondly, how has the festive season demand been for the B2B volumes for Digital?

Rishi Gupta: So on -- the FinoPay is our mobile app, which is being used for our customers. And we have seen the highest usage of FinoPay in this quarter as such. So it's not a product, it is an app just like any other app which is there. So anybody -- any customer of Fino can go into that app and do basic banking services through that app, bill payments, QR payments, fund transfer. All of that can be facilitated, loans can be facilitated through that app. So that is the first.

On the second part, I think the -- we have seen some growth in the second half of October from the B2B digital payments because of the festive season. But as you know, we are not into a consumer space as such, so still, we saw higher volumes coming up in the second half of October.

Vilina Jain: Okay. And sir, on the CASA account additions, so we had great additions this quarter of around 9.1 lakh. Could you just elaborate on the mix of this? Is this more towards these Gati accounts which are at a higher subscription fee of INR500 or towards the accounts which are without debit cards?

Rishi Gupta: So out of that 9 lakh accounts, I would say 30%, 35% of them are opened through the normal Shubh- higher subscription account. Another 25% is opened through the Gati. Gati is a very unique product, which we have launched. While the upfront fee is less, but you have to pay a subscription fee every quarter as such. So -- plus, you don't get a debit card in this product.

If we achieve a higher renewal percentage in this, then the margins are better than the Shubh also product also in case of Gati. But the success of this Gati will be from the balances and the renewals which we are able to bring in. so 30% is Shubh and around 25% is Gati. Balance is your different other accounts which are there, in which there is subscription, but not as high as Shubh.

Vilina Jain: Sir, what would be the margin difference between the Gati account and the Shubh account?

Ketan Merchant: So just to elaborate on what Rishi said, our weighted average margin, as we said, is 54%. In Shubh account, we have some cost, which is also coming across like debit card, etcetera. And the income also comes upfront, the Shubh account, which is 30%, 35%.

In Gati, we do not give -- we charge upfront INR100. And thereafter, there is a quarter renewal, which comes across. So, the margin increase between Gati and Shubh, Gati would be higher by around 20% more than the Shubh margin, which we get.

Rishi Gupta: As a percentage.

Ketan Merchant: As a percentage, 20% of the 54%.

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

Ashish Kumar: A couple of things. One is in terms of our SFB license, what are we hearing, where are we? And how do you think that can change from a 2-3-year perspective? What do you think is the potential of that?

Rishi Gupta: So, the first -- you have some more questions? You said a couple of questions...

Ashish Kumar: I have one other question. So -- but maybe we can talk about SFB first and then maybe go to the second one.

Rishi Gupta: So, SFB right now, from our point of view, we have all representations questions which they had, we have already answered to RBI. What we believe is it is in the final stages of approval, and we should hear it in the next couple of months, something should come forward from RBI on that.

And for us, the way we are looking at SFB is a very differentiated model where we plan to use our existing network of merchants and offices all across the country. Also, we have a good strength of people on the corporate functions. We will be looking at adding more people on the asset side per se.

So a lot of work in the last couple of months has happened on that. We have identified the key roles, the kind of model we want to build. Some testing, as I mentioned in my opening remarks, is already underway. The model per se will give us a good bottom line from moving from payments to SFB because some of our investments and other things, which we can't put it in the bank, we can now start generating some income on account of that.

With the reduction in the yields coming from G-Secs from 7.25 to 5.5, which is nearly 1.5% to 1.75% and which has led to compression of our margins, with SFB coming, we should be able to generate a higher yield on our deposits. As I mentioned earlier, our cost of deposits is at 1.9%. So you can see a substantial margins. I would say, 2x of what is currently in our NIM can be easily looked at from an SFB point of view.

We -- both me and Ketan and some of our team members in the company are spending roughly about 2 days per week on the planning of SFB, so to say. And we are hopeful that something

will come up from RBI, and we can then start putting our thoughts into -- more into execution as such.

Ashish Kumar: Sure. And in terms of the core banking that we were planning to implement, I think end of this calendar is when we were planning to get it done. Are we on track to get it done by the end of this calendar year?

Rishi Gupta: So, you are right, the core banking platform, I mentioned also in my this. Core banking platform, we were expecting to go live in the month of September, October month. There are some pendencies, which we are working with FIS to deliver. Once FIS delivers those data and what are required for migration, our teams are ready, and we'll be able to complete it in the next 1 month.

So as of now, we expect that all the pendencies from FIS will get cleared within this coming month. And hopefully, before -- by end of December, we should be able to migrate. The plan is to do it much earlier. But repeatedly, we have seen that we have had challenges with FIS on deliveries of some of those items.

Ashish Kumar: No, it's always a difficult task. But going forward from the next year, do you expect any material or any change in margins because of the migration to an in-house solution or...

Ketan Merchant: So Ashish, Ketan here. Eventually, I think why have we shifted from sort of an external SaaS model to our own is for capacity utilization and enhancement of efficiency. After -- once we shift across, there will be a lot more flexibility, which will come through. But is this shifting happening with the intent of having an leverage or operating leverage or the cost leverage coming? The answer is no. But definitely, flexibility in terms of implementation of our digital initiatives at a rapidly faster pace is more of our thought process on this.

Moderator: The next question is from the line of Kunaal from Emkay Global.

Kunaal: Can you please elaborate...

Ketan Merchant: Kunaal, you may be required to be slightly louder, if you can.

Kunaal: Yes. Is this okay?

Ketan Merchant: Yes, this is far better.

Kunaal: Sir, my first question is, can you elaborate a bit on why your Digital Payment Services revenue had declined so much during the quarter? I mean I can recollect that you were calibrating the onboarding of new merchants because of some fraudulent or money laundering related activities in the first quarter.

So -- but what happened? Like why is the revenues from the existing merchants declined so much? Was there an exit of any large merchant or something like that? And can we see that the revenues and the throughput of this segment recover from Q3 onwards, like at least at the same levels of Q1?

Moderator: Sorry to interrupt. Mr. Kunaal, could you please get closer to the mic?

Ketan Merchant: But Rajat, I could hear the question. So I can answer if that is a point. So Kunaal, let's just take one at a time. Digital Payment reduction happening, I think if you just go back to our last earnings call as well, and you rightly said we have taken a risk-calibrated approach. Your pointed question, is it driven by a particular merchant or an extra concentration, which is a risk which has been hit us? The answer is no.

It is not only us, it's about the industry as a whole. If we just analyze or if we just classify the digital payment, which is revenue accreting, it is largely B2B. If we look at that kind of an industry, whether it was the regulatory changes coming on account of RMG, the overall fraudulent activities, which was increasing, made us to have an extra risk calibrated approach.

So in certain cases, based on the control checks as well, we ourselves had restricted activities for some time for some merchants until the regulatory clarifications kept on coming. So it is not pertaining to any specific big business which was lost through. It was attributable to the industry-wide challenges which are there. And that is what we are expanding with the new merchants coming on.

Coming to your second point in terms of the recovery, I think both me and Rishi essentially said, and Rishi further alluded to one of the questions as well that the momentum has started building up. But any such aspect which is industry-wide, the recovery is gradual. As we speak, and we mentioned in our narrative as well, we are expecting an H2 which is better than H1 on the Digital Payment Services as well.

Now how it all phases out, it could be on a monthly basis. But typically, we are expecting in H2, based on the current momentum, based on the changes which we've done or the changes which the industry has also gone through; expected H2 is better than H1.

Kunaal: Okay, sir. Got it. Sir, the bank was also planning to unveil a suite of new digital offerings in the second half of this financial year. So can you please elaborate on that? Like what is the progress on that? And what kind of products can we expect in the second half? And how much will it be contributing to the revenues?

Rishi Gupta: So there were 2 large, big products apart from the routine new extensions, which we keep on doing on the existing ones. One was the prepaid instrument, the other was the payout product. The prepaid instrument product got launched in the month of August this year, and we expect INR1 crores to INR2 crores revenue coming from that product on a monthly basis when we reach a steady state.

The other product is the payout product, where we expected INR3 crores to INR5 crores of revenue coming in the -- on a steady-state basis. That product is still waiting compliance, RBI clearance. So once we have the clearance from RBI on that is when we are going to launch.

The third is the Soundbox QR thing, where we started to put Soundbox in our merchant network to start with because then we have an SFB plan on account of that. So that has also got launched in the month of August, September. But that's not revenue accretive as such, but

that's more getting to know the merchant better, which can then lead us to more lending in that ecosystem.

Kunaal: All right. Sir, regarding CASA, can you please tell what is the subscription revenue in this quarter?

Ketan Merchant: Yes. The subscription revenue for the quarter is INR23.3 crores as compared to INR21.9 crores, which was there in the subsequently previous quarter. New accounts.

Kunaal: Got it. Okay. But despite healthy CASA additions during this quarter, the CASA income was not -- we didn't -- there was only some 4% quarter-on-quarter growth. I think that was majorly because the miscellaneous CASA income didn't grow much. So what kind of trajectory can we expect in the coming quarters?

Ketan Merchant: No, there are two things. I think on this particular aspect, as we said, around 2 lakh 40 -- 2.4 lakh-odd accounts are Gati account. The new variant, which we have introduced of, in that case, the upfront fee is around INR100. And this is where we explained how the margin of Gati eventually on an annualized basis may be better than Shubh.

So this is the first quarter of the Gati launch where you initially only get 100 of upfront fees and the remaining keeps on coming on a quarterly basis as well. So that is one of the essential reasons of this as well.

Our renewal income at INR62 crores has grown decent by around 37-odd percentage. And on account of this product mix as well, we expect that momentum further to continue in terms of the revenue or the impact of the new opening of accounts coming in subsequent quarters in revenue.

Moderator: The next question is from the line of Bhavik Shah from Invexa Capital.

Bhavik Shah: So in the Digital business, we see our B2B throughput has decreased significantly, and we are saying we are going like -- taking a risk calibrated approach. So around -- we have lost around 50 merchants there. So what was actually the issue there? Like the merchants weren't compliant or there were some -- like what kind of fraudulent activities were being reported or like are the previous numbers then correct or like what is your sense? Is it a system error or system challenge which we are facing or anything else?

Rishi Gupta: So there is no system challenge or any error, so to say. The droppage in merchants is a normal course, which is there in every quarter, every month, we do that. And it's been going on from the time the Digital Payments business has started. You onboard the merchant, and then you start some transactions, then there are issues which might come up with LEA or there could be some chargeback issues.

On account of that, you keep on relooking at the basket of merchants you have, and you block them or you close them. So this is part of the ongoing business conversation as such. There is nothing in terms of onboarding or anything.

Obviously, we have done a much stricter onboarding. We are asking for a lot of other documents and verifications, which we are doing physically, which we probably feel that from an industry point of view, we are more stringent. So those things have resulted in slower onboarding of new merchants.

And blocking is part of the normal process. It could also be because an LEA highlights it because of digital fraud or something, money may have routed through them. So all this is part of the normal business.

That's where -- the Digital business itself, we have seen that the -- with the growth and the volume, we have seen such kind of unwanted activities, which keeps on coming here and there. But for us, blocking a merchant is a normal course of activity, and we do it every month.

Bhavik Shah:

Right, sir. And sir, in the CMS and BC banking business, like is it now getting stabilized? Or will we see some more erosion or pressure there? And like when we say our MFI collections have improved, so like what kind of direct relation we have there?

Ketan Merchant:

So, on the CMS piece, yes, we do categorize them under the stable business line. We are having a twofold kind of an aspect. One is increased competition coming from the nonbanking players as well. This is nothing new, but was anticipated as well. That has resulted in take rates marginally moderated, and this is something which I perhaps mentioned it at the beginning of the year as well.

Second aspect, the industry or the lending aspect, which has gone through, now that the MFIs and -- is back to the disbursement norms as well, which was benign or muted in the earlier quarters; so that's something where we expect. It is essentially digitalization of cash or collection services, which is facilitated by our BC point. So that's where we expect that the momentum should return back into CMS.

Again, it is not that suddenly it's going to become extra bullish. We are also doing some incremental aspects in going into new avenues. We're looking at some industries like education institution, hospitals, etc. So maybe we will have some breakthrough coming on that over the next couple of quarters as well, which can lead to some CMS throughput recovery.

Your second question was on the BC banking business, that largely remains stable as we are essentially doing. Point to note out here is the way transaction business, which is remittance, micro-ATM and AEPS, which is impacting us directly; also, may have some knock-on bearing impact on BC banking. But largely, we've been able to maintain our targets out there.

Bhavik Shah:

Right, sir. And sir, when we say we leverage our network when we'll get the small finance bank license, so then BC partners will become exclusive partners to us or will they continue to be partners to others as well?

Ketan Merchant:

So, when we look at total BC network, we don't expect that all of them will become exclusive. Out of the active partners, even 10% - 15%, if they become exclusive to us, that will become a very high base to start with. And we expect that some of those partners will also invest a little

bit more money in their own network and in their own shop, which will lead to a higher lending income for them and for the network.

So, we have built together a full hub-and-spoke model for liabilities as well as for assets across various states of the country. So, a lot of work has already happened. Our basic model is already in place. So, we'll keep on refining it as we go forward.

Moderator: The next question is from the line of Parth Goyal from Smart Sync Investment Advisory Services.

Parth Goyal: So, I just wanted to ask about the CMS segment, but I think that's just answered. So I just wanted to -- wanted some more update about the traditional business. Like you've mentioned that we have lost some share to UPI. And I just wanted to ask about what is the merchant retention rate? And are we seeing any pricing compression? Or are there any losses, any large partner losses there?

Ketan Merchant: Okay. Let's just go sequentially. If I understand your question right, the transaction business momentum, which is losing, how is that happening? Largely, in fact, if we see this quarter, merchant -- the 2 million merchants, which we essentially have, those are categorized firstly into active. And then from an active perspective, each one does different products. If I'm not mistaken, our CASA merchants, which essentially in certain cases can be common with transaction business, have increased by around 25%.

Where the transaction business is largely losing and we go back to our narrative, is the remittance piece. This is something which we do with our fintech partners and their merchant with a relatively thin margin. Remittance as a whole, after the regulatory guidelines, which is some, which came in November '24 and were expected to stabilize in some form; that seems to have continued the erosion coming across as well.

And again, somewhere in the narrative, we had also said that micro ATM and AEPS or largely AEPS, we've not seen that kind of a reduction, which is coming. And perhaps the reduction in the remittance is big material, and that is through fintech partners, merchants, which were doing across for us.

Moderator: The last question comes from the line of Saikiran from Pulavarthi Advisors

Saikiran: Three questions from my side. The first thing, the regulatory or what I can say, corrections from whatever has happened in the last few quarters have seen some sort of a volume degrowth. Do you foresee further impact from here on or more or less, it is now based in the base? That's my first question.

And the second question is like there is quite some time there is some sort of conversations about charging for the UPI payments. Where does that stand? And if that doesn't go through, do you have any plan of monetizing the payments? That's my second question.

And the third question is like especially from the payments perspective, the business model or rather the payments industry itself has undergone multiple changes, and it became extremely difficult for the players to monetize the payments as such. What are your thoughts about it?

Rishi Gupta:

So the first question, I think, was on the regulatory actions. And see, this is an ongoing thing. And regulatory, LEA, ecosystem changes, new regulations. We are living in a world where the regular interventions from the regulators, law enforcement agencies, government, we should build it in our business as such.

So, while we have done a lot of work in the last 4 to 5 months on this, but if you ask me whether this will stop in future, I don't think so. The new things will keep on coming. People are also trying new ways of defrauding people. So this is a cat-and-mouse game, which is there.

Like last time we mentioned about mule accounts, and that was an activity which was quite high in quarter 1 for us. But in quarter 2, we were able to move up from the mule accounts, regulatory controls, and we are better off on that now.

So it is going to be -- but are we better planned or have we better devised our systems? Yes. So our ability to understand the challenges which are there, the shocks which can come is far better, and we have recalibrated ourselves accordingly.

Coming to the second point is as far as the UPI is concerned, UPI, there are two things. One is government of India used to issue incentive for UPI, which in our case used to be about INR15 crores, INR20 crores per annum. So that has affected us in this year. So in this year, we have not received anything for this year in this year. And so we don't know what is the final status of that. So that is also one area which has affected our P&L predominantly.

UPI being allowed to be charged, so here, there are two conversations. P2P UPI doesn't seem to be the case. UPI P2M for larger merchants is something where we see there is more possibility of that coming in. But how much of that will be -- how much money we'll get from that KT? We don't know as such.

So we are already working on a worst-case scenario where there is no UPI incentive coming to us. And we have seen that happen in the first 7 months, and no incentive for this year has come to us till now. So if it comes, it is only going to give us an upside as such.

I think the third question was on monetizing -- the monetizing of UPI is anyway happening on CASA, CASA renewal balances. There's a slide also, which talks about UPI volumes, value, deposits. So that is the way we monetize it.

And one -- and you rightly said, making money in payment business is very difficult. And specifically when 50% of our business is happening on UPI transactions, we have very limited opportunity to monetize is there.

So that pain is there. I appreciate you understanding that pain. But with SFB coming in, we will be able to use that rail, the data of UPI more effectively, and that will give us a better insight into our customers, into our merchants. And that should help in some form.

Saikiran: Just one follow-up question, sir. You account the UPI incentive on cash accrual basis, not on the cash basis. That means when you receive that when your account for, but not on an accrual basis. Is that what we are seeing?

Rishi Gupta: Yes, yes. Obviously, yes.

Saikiran: Got it. And typically, earlier year, it was released on an annual basis, sir, or it's on a quarterly basis?

Rishi Gupta: They used to release it every quarter, every 6 months with a lag

Ketan Merchant: With the lag was what it was coming through earlier.

Moderator: Due to time constraint, that was the last question. I now hand over the conference over to the management for closing comments.

Rishi Gupta: So thank you all to the participants. It's been a tough quarter, as you can see from the results. While the revenue degrowth is largely because of the remittance business, which does not give us good margins, but good revenue top line, our margins have substantially improved from there because of the change in the product mix.

We continue to push on the CASA and the Digital business. And we expect that the H2, which is normally better for us than H1, we should see better results coming in H2. Our focus as a team is to push more on the profitability bottom line and to keep control over our cost initiatives and cost controls have to be put in place. And hopefully, the SFB thing will come sooner. We are all waiting and praying for that. Thank you.

Ketan Merchant: Thank you, everyone.

Moderator: On behalf of Go India Advisors LLP, thank you for joining us, and you may now disconnect your lines.