DCB BANK

DCB Bank Limited Q1 FY'20 Earnings Conference Call

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MANAGEMENT: **MR. MURALI M. NATRAJAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, DCB BANK LIMITED**
MR. BHARAT SAMPAT – CHIEF FINANCIAL OFFICER, DCB BANK LIMITED

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the DCB Bank Limited Q1 FY'20 Earnings Conference Call. Joining us today on the call are Mr. Murali M. Natrajan – M.D. and CEO of DCB Bank Limited and Mr. Bharat Sampat – CFO of DCB Bank Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Murali M. Natrajan. Thank you and over to~~,~~ you, sir.

Murali M. Natrajan: Thank you. Good evening all of you. I have my team here with me in this conference call. My apologies for starting this call late evening. So, I hope all of you have got the 'Investor Presentation' and the 'Press Release' that we have put on the website and on BSE, NSE. So, we are ready to take the first question.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Sir, I have got three questions, I will club them together. First is, what is the current ALM mismatch for the bank, and what are the steps we are taking to bridge the gap? Question #2, what are the strategies or key triggers that will allow the company to meet the target to reach ROA of around 1.2%, cost-to-income below 50% and ROE of around 14% and improve the CASA ratio? And the third question is like what are the plans to improve the CASA ratio and what steps are we taking to improve? The fees income on the P&L side. So, like what are the targets for the fees income? These are the three questions.

Murali M. Natrajan: So, we have had some unusual challenges in the first quarter on the fee income. One of the primary challenges we have had is that there are certain regulations that needed to be followed as far as ATMs are concerned and we have followed all the timeline. And as on 31st March whatever ATMs, the vendor who was not able to make it compliant with the current regulation, we have had to switch it off till the compliance is completed by the vendor. There was enormous amount of delay in terms of the vendor completing the work in terms of compliance. So, therefore I estimate lost out about Rs.3 crores of revenue on ATM fees which would otherwise have been very steady and consistent over the last many-many quarters. So, that was one unusual item. Now, your question regarding ALM mismatch. The ALM mismatch has always been in line with the approved limit as prescribed by both regulation and our own internal risk management committee. So, I do not recall a single instance where we have had any mismatch over and above what has been approved as a various limit for various bucket. Having said that, periodically, we look at our basically the mortgage portfolio which is long-term portfolio and then we look at what is the long-term deposit that we need to take to reduce the gap if any in the greater than three years, greater than five years kind of bucket and then change our strategies in terms of deposit taking like for example we may like to price slightly higher by 10 basis points in a three year bucket so that we attract more customers in that bucket. That is how we have been managing our ALM process for the last several years. Regarding return on asset and cost-income ratio, ROE, our plans are exactly how it is. Sometimes maybe the expectation is that QoQ it will be exactly follow a particular pattern. That is not how business works. For example, first quarter the cost increases dramatically because of the salary increase that we have to give and the loan growth is not usually very good in the first quarter. Over and above that, based on our own risk appetite, we on our own exited many of the large ticket… and large ticket means I am talking about greater than Rs.5 crores type of loans because we were not very happy with the kind of risk situation that we were looking at. So, through either pricing method or by asking additional collateral, some of the loans exited so therefore the loan growth was slightly less than our expectation in the first quarter. Over a period of time if you see our cost growth, cost growth has been about 6 or 7%, has been low single digit. We are very confident about controlling the cost and improving the cost productivity. One of the major improvements we see would be the cost to average asset which is consistently coming down. Over a period of next two to three years we expect that to come down to 220 or 215 basis points. That is the aim. We are working towards it. That would be a major contributor to improving the ROA. As far as NIM is concerned, barring any QoQ issues, we think that steady state we should be at about 370, 375 basis points NIM. This quarter has been a bit ~~thing~~ thin- because we have focused a lot on getting retail term deposits. If you look at our term deposits growth on customer, it is 31% and if you look at our drop in what is classified as interbank deposits which is largely from cooperative banks and so on, it has dropped by almost 2%. Top-20 depositors have come down to 10%. Interbank deposits have dropped from 15% to 13%. So, I hope that answers your questions.

Anuj Gupta: Sir, would you speak something about the CASA ratio?

Murali M. Natrajan: CASA ratio target is 25% and branches have been given CASA ratio target, some of the branches are doing spectacularly well on CASA ratio. Mind you about 20% of our branches are in rural areas. So, therefore their CASA ratio is not easy at all; however, we try to compensate that in metro and urban areas. So, the internal target could be slightly higher but I think around 24~~,~~ - 25% is where we will end up CASA ratio. And mind you, we pay only 4% interest rate up to Re.1 crore. Our CASA is ~~not~~ now a low rate CASA which is at 4%.

Moderator: Thank you. The next question is from the line of ~~Dhawal~~ Dhaval Gada from DSP Mutual Fund. Please go ahead.

~~Dhawal~~ Dhaval Gada: Just a couple of questions. Just wanted to hear your thoughts on the slippage movement that we saw during the quarter and some color around that? Second was, you explained one of the levers why margin sort of trended lower. I just wanted to understand on the repricing side on the assets where are we and what is your thought around that?

Murali M. Natrajan: There is some moving parts in the margin. There is a plenty of refinance, long-term we have taken from NHB, SIDBI, etc., They got I believe repriced somewhere in September last year. Since then interest rates have started coming down. At that point in time, it looks like the right thing to do because interest rates were actually going up. For the last three, four months, interest rates are coming down. So, only coming September, we are likely to see some relief on the refinance repricing based on our terms with these refinance. These refinance is very good; it helps our LCR, it helps our liquidity profile, it helps to improve our ALM profile. So, I would say that it is a good thing to do and it is available long-term and it does not have any CRR, SLR requirement on those refinances. So, there is one that is going on there. The other thing is that the term deposits that are maturing are getting repriced in a particular way. So, therefore I would say that it may take about 1-2-quarters for margin kind of to stabilize. Maybe sooner but it does not look like from our expectation that the margins may come under some more pressure in the next couple of quarters. But overall I think we should be alright because if you look at our yield, we have done a reasonably good job on the yield front. We have maintained good quality mix of products between commercial vehicles, mortgages and agri-inclusive banking. So, therefore that is helping us maintain the yield in a reasonably good fashion. Regarding slippages, in Q1, I estimate about Rs.35-40 crores extra slippages than our expectations, primarily on account of five accounts which were average but they were not able to provide us with proper repayment and therefore they slipped into NPA. From my review, it seems that at least two of those accounts are likely to come back in this quarter or the next quarter because we are seeing some action on that. So, other than that I do not see any major issues with our portfolio. As usual, we always have some two, three accounts challenges in ~~corporate~~Corporate, they are good right now, but under the current situation, it may become NPA later, I do not know, but this is what we have always faced at any point in time. Over and above that, we are very watchful of the ~~commercial~~ Commercial ~~vehicles~~ Vehicles portfolio especially the new vehicles where we see some pressure. Used vehicles seems to be doing alright.

~~Dhawal~~ Dhaval Gada: Just on asset quality, just to get it clear, these accounts you mentioned couple of them coming back, but just in general given where we are on demand side within the economy, what is your sense on sort of delinquency, have you seen rise in early bucket delinquency and you are putting lot of effort on collections, some color around the health of the MSME and SME that we work with and sort of how do you expect asset quality to pan out?

Murali M. Natrajan: The first set of ~~account~~ head count increases that we gave as we were ending the last year was to our ~~collections~~ Collections team because we want to make sure that there is enough intensity in our ~~collections~~ Collections team to be prepared for any eventuality of any deterioration in the market conditions. So, looking at it currently I do not think we are short hands on ~~collections~~ Collections as far as the bank is concerned. Our analytics team also is doing a very good job on giving us proper pointers on what kind of credit policy decision we have to take and what kind of focus needs to be there on early bucket or late bucket, whatever maybe the situation. So, we do not see any gaps in that area. Having said that, there is some amount of stress we can feel in the environment. I cannot put a finger and say exactly where but the general sense we get is that there is some level of stress. So, I was talking about our portfolio and intensity of collections. What I mentioned is that we are spending extra amount of time to make sure that the portfolio health is taken care of. We are trying to use our analytics team and our collections team to make sure that we are able to identify problems earlier. At the moment, I cannot put a figure and say is there any major portfolio issue that is developing. I do not think so. New commercial vehicles portfolio is showing some stress but it is not out of the ordinary some stress because of the market environment and we are confident that over_time we will be able to correct the situation.

Moderator: Thank you. The next question is from the line of Sai Kiran from Investec. Please go ahead.

Sai Kiran: You had issued a press release about a potential acquisition or you made an offer to Abu Dhabi Commercial Bank. Can you just explain the further details if any?

Murali M. Natrajan: I will just very simply state that whatever has been mentioned in the press release is what we have to say at the moment. It is a simple transaction to our mind. We are taking select assets and liabilities of these two branches that are there of ADCB, that is the proposal. We have 60-days to execute definitive agreement and we have also mentioned that this transaction is at par. The loan portfolio is predominantly ~~corporate~~Corporate. The deposit portfolio what we are choosing is predominantly ~~retail~~ Retail and NR and seems like very high quality customers which fits in with our strategy of getting retail deposit. It is a very small transaction according to us and we hope to complete it in the timeline that has been given to us.

Sai Kiran: Second question sir, when I look at the NPA breakup ~~pie~~ by segment, I can see that AIB and then CV are the places where we have seen absolute increase in the slippages while answering one of the earlier questions you mentioned that the challenge was in select accounts. How should one read it because I assume that AIB and then CV portfolio should be very retail-oriented one but in one of your earlier questions you said that it is like four accounts where you have seen the problem?

Murali M. Natrajan: There was an account and you see ~~others~~ Others category; it has gone from 17 to 31. So, there we have had an account where there is a fight amongst the partner on who will complete a particular residential project and while the project is going on well and it is in good shape, all of a sudden these partners decided to kind of not cooperate with each other. So, we are working with them to correct the situation. ~~so~~ So that could not be achieved in the last quarter. We are hoping that in the next two quarters. So, that must be at least Rs.7 crores or some kind of this thing. In AIB, there is a group of customers who have taken loan for agri purposes. There is a default because they have not been able to service the entire interest portion. So, therefore that was the thing. And then in SME, we had two accounts in fact which was fairly large…when I say large, means by our reckoning about Rs.3 crores or something. So, we had that NPA. That is how this happened. Mortgages was fairly in control and we do expect some better recoveries in the next two to three quarters.

Moderator: Thank you. The next question is from the line of Ankit Chaudhary from B&K Securities. Please go ahead.

Ankit Chaudhary: My first question is last quarter we had mentioned there is one ~~corporate~~ Corporate account has slipped to NPA. Given the timeline there could be hopeful of recovering in the next two quarters. So, what is the progress over there sir?

Murali M. Natrajan: The NCLT in that thing has passed an order and it seem to have been accepted by all COC which is the Committee of Creditors. Now, money is expected but in India there is a lot of possible delays that can happen. We are very hopeful.

Ankit Chaudhary: If you can quantify what is the exposure, we have over there?

Murali M. Natrajan: It is a small exposure, I mean, it is not like large exposure, must be about Rs.7, 8 crores.

Ankit Chaudhary: Secondly sir, in the asset quality segment wise the ~~corporate~~ Corporate ~~and the~~ Bank NPAs have declined. So, is it…?

Murali M. Natrajan: Because from time-to-time we take fully provided accounts technical write-offs so that is what is this. Amongst all these accounts, the most difficult path of recovery is always in ~~corporate~~Corporate, takes lot amount of time, rest of the accounts even if the account is not upgraded, I can tell you there are hundreds of accounts where every month we are collecting some money from the customer irrespective of the fact that it is not getting upgraded. So, we are building the equity of the customer in the loan, making him pay something. In ~~corporate~~ Corporate that is not what it is, it takes huge amount of time to recover. So, the write-off that you see in the ~~gross~~ Gross NPA movement, both are I think two or three, I do not know, whatever that is all ~~corporate~~ Corporate account.

Ankit Chaudhary: Lastly sir, two questions, mainly on the guidance only. First being the loan part. So, last two quarters the loan growth has been lower and that is mainly because we have been slowing down on the ~~corporate~~ Corporate side, the book has been running down. So, when can we see the growth coming ~~off~~ up so that we can be able to fulfill the guidance of 3-3.5-years of doubling the loan book?

Murali M. Natrajan: Other than ~~corporate~~ Corporate we have grown by 19%. We never give guidance on a year-on-year basis because we do not know what kind of economic conditions, what support you will get from the environment to kind of run faster. Supposing 3.5-years become 3.9-years I am not going to lose any sleep over it because we are keeping on doing the right thing, going about the correct strategy, we are not trying to bulk up with big ticket and so on. As far as ~~corporate~~ Corporate is concerned, we are trying to make sure that we take as less risk as possible, matching our liquidity situation and that is how we have been. I cannot give you any guidance on where the ~~corporate~~ Corporate book would be in any time. So, it is a very opportunistic business we are running.

Ankit Chaudhary: Basically, just wanted to understand, when can we see the overall growth coming at around 18, 19% rather than ~~retail~~detail…?

Murali M. Natrajan: I have not made any commitments to you or anybody on overall growth 18, 19%. I am just saying that ~~corporate~~ Corporate is not part of our core strategy. So, we always only look at the rest of it other than ~~corporate~~Corporate. Given the current market conditions, given the kind of risk appetite with which we are running, we are pretty happy with 19% on that.

Ankit Chaudhary: Lastly, this time the NIMs have gone to less than 3.7% and in one of the press releases you have mentioned that next two quarters also there could be some pressure on NIM. So, are we hopeful of exiting the year at around 3.7%, 3.75%?

Murali M. Natrajan: Steady state we think that it will be about 3.7%, 3.75%. Currently, there are some moving parts in terms of the refinance and the repricing of the term deposit. Our estimate suggests that it will all settle down in about one to two quarters and we are still hopeful of this kind of NIMs.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Sir, again on the growth front, when we thought NBFCs will be much slower and many of the banks also slower, so we could have grown faster in our home loans or the LAP portfolio. So, what stopped us from being aggressive here?

Murali M. Natrajan: NBFC may have exited or whatever. That itself may have caused some issues in the state at which we are finding ourselves in. So, as far as I am concerned, when we look at our risk appetite, we feel that even though NBFCs are not there, we want to operate in a particular set of segments which may or may not have been attracted by NBFCs. What I can see is that despite the fact that there are some challenges and all, we have been able to maintain a decent level of yield, that should give you some indication that there is some benefit of NBFCs not being there in the picture.

Darpin Shah: But do we expect in next couple of quarters will see a much higher growth because lower competition and lower takeover of loans?

Murali M. Natrajan: Some amount of lowering has happened on takeover of loans but I can tell you Darpin that we will be very cautious even in the next two quarters and we will be very careful in terms of how we proceed and how we grow. Of course, we are adding more people to sell in mortgages and other products. We will have to see one more quarter whether we need to increase the speed because of the current situation that we see the market to be in.

Darpin Shah: Our restructured book has gone up by around Rs.16, 17 crores on QoQ basis.

Bharat Sampat: One MSME account under regulatory guideline we have restructured is around Rs.16, 17 crores.

Darpin Shah: Some of the MSMEs are taking shelter and it is compulsory, it is not something that bank have an option when it is demanded by the SME, right. I think there is one account. Account is average but they are still serviced and they are going about their business.

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

Renish Bhuva: A couple of questions: One is on the RWA growth which is at 5% versus balance sheet growth of 5.5%. What explains the higher RWA growth in this quarter?

Murali M. Natrajan: Very simple. In the first quarter, the operational risk, 15% kicks in. So, you will see that in the last year first quarter as well. So, in the first quarter itself, you have to provide for the average of last three years income and 15% of that. So, that is what is the explanation for the risk-weighted asset growth.

Renish Bhuva: Okay. And that's the only reason why the RW growth is ~~fair~~higher?

Murali M. Natrajan: Yes, absolutely.

Renish Bhuva: Okay. And sir secondly, again just stressing up on the asset quality piece. So, basically is there due to the overall economic slowdown we are slowing down growth as well as we are seeing the highest income of the portfolios? And how are we going to prepare ourselves to navigate this cycle successfully, I mean, in terms of process changes or anything which you have in your strategy piece?

Murali M. Natrajan: Yes. So, number one, as we speak, we have intensified collection, not that we are seeing any systemic portfolio issue except in ~~commercial~~ Commercial ~~vehicle~~Vehicle. As far as ~~corporate~~ Corporate is concerned, once in a while something blows up you can't be prepared, I mean, you can keep working on it, but there's no collection capacity or something that we can put in place for those kind of problems. Then let's hope it is all portfolio related, whether you talk about AIB or a ~~commercial~~ Commercial ~~vehicle~~ Vehicle or ~~mortgages~~ Mortgages or whatever. So, there we have already done that, we have kind of looked at various cuts of our portfolio to see whether there are any segments that needs special attention or to be avoided or what needs to be done. So, our preparation is to intensify our collection and our recovery efforts, and provide the right level of capacity for collection so that you are never short of capacity there to address any problems that may arise. That's how we are preparing ourselves.

The second point I would like to see is that we are looking at even through the door population of loans coming in, to see whether there are any segments that needs to be avoided. I think there is a popular belief that because NBFCs have gone which means that banks should go crazy to do that. I don't entirely -- I may have agreed with that maybe in September, but current market situation doesn't tell me that that's necessarily… you know, all bad loans are made in good time is what I learnt a long time ago. So, I would say that these are not good times either, at least that is not how it looks to us. So, we have to be very careful in terms of how we do that. So, we are looking at even through the door population carefully. So, that's how we plan to navigate this situation.

Renish Bhuva: Okay. And then when we initiated this process, I mean, let's say three months back, six months back?

Murali M. Natrajan: January.

Renish Bhuva: Okay. And sir last question if I may ask, is that this is about that acquisition we have proposed. So, basically what sort of ROE these branches are making today? I mean, this is ROE accretive business which we are buying or it's at par with what bank is generating as of now?

Murali M. Natrajan: So, I don't think I can comment on that too much but I will tell you, if there are two branches I don't know of any two branches running the full-fledged technology, full-fledged compliance, and full-fledged operations, full-fledged CRO, can hope to be that profitable. I mean, like from ROE perspective. They will be profitable I guess, but we are only taking select part of their business, we are not taking their -- so for customer's convenience, say for example, we take the branches that doesn't mean we have to take over the entire cost. So, more details will follow. All I am trying to say is that we wouldn't even attempt to take something that is likely to negatively impact our own.

Renish Bhuva: So, basically why I am asking is because in your initial remark you already mentioned that we are not very keen to getting into corporate banking, and the advanced portfolio which these two branches are having is entirely corporate banking.

Murali M. Natrajan: Yes. So, my justification for that is very simple, you have Rs. 1,000-odd crores of retail and NRI deposit, and quite a lot of good quality customers, at least our preliminary examination says that. When we look at their corporate portfolio, most of them at least looks to us as short tenure and high quality, okay? So, therefore we believe that we can manage the exposure, and over time use this opportunity to build deposit base. And when the preliminary examination shows that their branches are very well located, both in Bangalore and Bombay, and we are quite happy with that, so we will know in the next few days. And again, we have to do a full due diligence before we…

Renish Bhuva: Right, that part is critical.

Murali M. Natrajan: Yes. So, therefore it may turn out to be Rs. 900 crores, it may turn out to be Rs. 700 crores, I don't know where it will end up on this particular thing.

Renish Bhuva: And what will be the price you are going to pay, I mean, the basis on which we will pay? I am not asking evaluation I am just asking…

Murali M. Natrajan: I think we have already said, it is par. It's there in the press release.

Renish Bhuva: Okay, it is there in the press release?

Murali M. Natrajan: Yes. It is there in the press release, Bharat can read out.

Bharat Sampat: Last para says accretion of these deposit and advances will be at par value of balances in the underlying account at the actual ~~data~~ date of transfer ~~there up~~thereof to DCB Bank.

Murali M. Natrajan: So, for example, let us say the transfer happens on July 31st, whatever is the balance we will pay that balance.

Renish Bhuva: Right. No, but what about the infrastructure payout and everything?

Murali M. Natrajan: So, we are talking about, I mean, again the details will have to be ~~giving~~given, I am just giving you what would be our thinking on this. What is normally the infrastructure of a branch, maybe Rs. 50 lakhs, Rs. 60 lakhs kind of equipment, I don't know.

Bharat Sampat: We are not taking premises; we have already mentioned in the start.

Murali M. Natrajan: Yes, we are not taking the premises there, right. So, I mean, our branches will cost normally what, Rs. 50 lakhs, Rs. 60 lakhs to refurbish. So, I mean, that is the kind of number. So, it is not even, I think, factor for us.

Renish Bhuva: Got it. So, basically we will decide prices like thinking what we will spend on our branch, it will be like that?

Murali M. Natrajan: Exactly. I mean, like, why would we think anything other than that.

Moderator: Thank you. The next question is from the line of ~~Vishig~~Abhishek Modi from Asit C Mehta. Please go ahead

~~Vishig~~Abhishek Modi: Sir, first question is, since you are talking of low growth in terms of advances and deposits, would you be increasing the branches, is there any plans to increase the number so that we will have more area coverage?

Murali M. Natrajan: What you guys are missing out, which I think now I am wanting to point out is that item number J of our press release says that deposits grew by 15%, our customer term deposits grew by 31%. And we are talking about retail growth here, and customer deposits grew by 26%. We need branches to grow customer deposits. And the more granular our deposits the more ~~strongly~~ stronger the franchise, and everyone knows that. So, we would continue to have 15 to 17 branches every year, at least for this year and next year, then we will take a call on what speed we need to increase our branches. The primary responsibility of most of the branches, except the unbanked branches, is to generate deposits, both CASA and retail term. And that is already reflected in their scorecard. What we are trying to do is to get more and more and more small, small retail term deposits, because we believe that that would enormously strengthen our franchise. And so far in the last few three, four months that we have been at it, we seem to be fairly successful.

~~Vishig~~Abhishek Modi: Thanks for clarifying. One more thing that in one of the questions you told 4% of interest you pay up to Rs. 1 crore, just want to have idea. So, you are not taking bulk, as per your definition bulk was ~~reversed~~ revised to Rs. 2 crores, so just wanted to have idea, Rs. 4 crores up to Rs. 1 crores you are giving me at a savings rate, if I am right?

Murali M. Natrajan: Savings rate we pay 4% up to Rs. 1 crore, greater than Rs. 1 crore I think we ~~paid~~ pay 6.25%, and greater than Rs. 5 crores we pay 6.5%. There is a separate monitoring of total bulk deposits, we are very careful about what will be the bulk because we don't want to have to, because this the bulk savings account has very erratic this thing in terms of stability of balance.

~~Vishig~~Abhishek Modi: Okay, thanks. Sir, just one final thing, the commercial vehicle portfolio, in terms of new vehicles you don't see good growth, you expect the improvement in economy to have better growth, you told old and used vehicles were doing good, the but new vehicles are having some ~~downtown~~ downturn issue. So, just wanted clarity on that part?

Murali M. Natrajan: See, ~~use~~ new and old vehicles business are fairly interlinked, so that is there. But one advantage is there in used vehicle is that we give a ~~load~~ loan based on the valuation of the truck. So, the LTVs as we start off is quite okay. Whereas in new vehicle what happens, you give say 80% of the vehicle, as it comes out of the showroom it is already down by x percent in terms of value. So, the customer defaults within the first six, eight months. Then the loss given default is high on new vehicle. So, we see some challenges in our portfolio on new vehicle because of delinquency of customer not able to completely pay their instalments. Supposing installment is Rs. 50,000, some of them are paying only Rs. 10,000, Rs. 20,000 obviously it becomes NPA. We haven't seen that type of issues in used portfolio which is smaller than our new portfolio. But having said that, if commercial vehicle as a segment does not do well in the coming months, it may have some impact in used vehicle level.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus. Please go ahead

Rohan Mandora: Sir, in say three to four quarters ago in a con-call you had indicated that one of the key risk that you saw was that once a loan was given by DCB, if some other financier gives another loan to the borrower the account ~~would~~ could go into stress. So, like currently how do you see that risk, because NBFC has slowed down?

Murali M. Natrajan: No, NBFCs have slowed down but there are NBFCs which are very, very active on unsecured lending. And there are some other entities which are stronger in unsecured lending. And it may have reduced a bit, but such a situation still exists. Some of the loans that we exited in SME this year, I mean, this quarter is also because we found that they are stretching themselves by taking unsecured loans elsewhere which seems to indicate more and more craving for credit. So, therefore we enter it. So, it may have changed a little bit but we still continue to monitor that kind of loans in our portfolio.

Rohan Mandora: Sure. And sir like another thing in terms of, like we had a preference that if an account crosses Rs. 3 crores or Rs. 4 crores, we may be okay if they want to move out of DCB. So, are we looking to relook at the point of that ticket size, or maybe increase it to say Rs. 5 crores, Rs. 6 crores ~~of~~ or be comfortable at that?

Murali M. Natrajan: For the next 12 months I am pretty confident that if at all I relook at it, I will relook at it to see whether the Rs. 3 crores has to go to Rs. 2.5 crores, if at all. This is not a market where we want to give higher loan. I mean in a very, very select basis we will give it, but not on a portfolio basis. Our average ticket size in ~~mortgage~~ Mortgage and SME continues to be in the range of Rs. 35 lakhs, Rs. 40 lakhs, that type of this thing.

Rohan Mandora: And just lastly, I just missed the comment on the increase in NPAs for agri business. 33% jump, so was it mainly because of the agri corporate businesses or was it more on the direct agri side?

Murali M. Natrajan: We don't have a problem in the BC business in agri. We have some delinquencies in tractor, but that is how the market is. We have some delinquencies in commodity funding, we have some delinquencies in KCC. So, across the portfolio here and there are issues, and that's the nature of that business. If you don't do that we are not able to compete are agri target and then you need to subscribe to low yield ~~RID of~~RIDF bonds to the extent that you are shortfall. So, that's the nature of the business.

Rohan Mandora: Sure. So, any news on the recoverability of these slippages?

Murali M. Natrajan: I mean, that's what I mentioned, like even when an account is NPA, unlike ~~corporate~~ Corporate, we continue to have some recoveries flowing in many of the accounts because of the collection effort. They may not have upgraded the loan or paid in full, but they keep paying some part of their instalment despite being NPA, that is how a lot of recoveries are done. And then at one point once you have got the customer into the loan fully then he settles by either selling a property or a plot or something like that. It's a very hard collection, that ~~A&E~~AIB collections are very hard and intense. collections. I mean, I just heard, just an anecdote, I just heard that in one of the small locations in one of the states, some of the local people start interfering on repossession and sale and things like that. So, you have to at a local level sort this out and get the customer to cooperate and pay. So, it's a very different ~~work~~ world out there, it is not like your metros and cities where the collections are slightly different.

Moderator: Thank you. The next question is from the line of Parmeshwaran S from JM Financial. Please go ahead.

Sameer: Hi, this is Sameer here. Just wanted to understand what would have been the approximate cost for these long-term borrowings that you have tried to replace in this quarter?

Murali M. Natrajan: Problem means?

Sameer: The cost of borrowing, these long-term borrowings that you have replaced with TD?

Murali M. Natrajan: No, no, you misunderstood that. We have taken from time to time refinance from NHB, SIDBI and so on. They all come at a particular contract, some would be a three-year contract, some would be a five-year contract, depends at the point in time what kind of funds were available with these entities. These, refinance usually don't have CRR and SLR attached. So, whatever you pay a coupon is what is your cost of fund on that. So, they go through a particular repricing mechanism. When we took these refinances a few months ago, the interest rates were looking like it was going high, so that is how we took that refinance because it looked very good at that point in time. And there is a repricing mechanism because of which you are paying a higher rate. Now the interest rates have started coming down but they are not going to reprice it immediately, they will reprice it at the anniversary date. So, that hopefully will play out by September, October onwards, that certainly our MIS seems to indicate that is how it would be.

Sameer: And on an incremental basis you have tried to go by going high on retail term deposits?

Murali M. Natrajan: On retail term deposits we have a campaign running. And we have changed the scorecards for our branches. So, the intention is to try and get as many retail deposits as possible to provide even better liquidity profile than what we have currently. That's the intention. And you can see that at least in two data points that our top 20 has reduced to 10%, and our interbank deposits in the pie chart you will see has dropped by 2%.

Sameer: In fact, even the outstanding borrowing number is slightly down QoQ, which is why I thought that you probably would have tried to repay some of these high cost…

Murali M. Natrajan: You cannot repay that in advance, you have to repay them as per schedule. So, these are all scheduled repayments month on month.

Bharat Sampat: If I may add, balance sheet quarter end to quarter end, customer deposits are up 26% of which customer term deposits are up 31%, whereas inter-corporate deposits in balance sheet are down 27% and what Murli mentioned, 15% to 13% is a drop in their share of the pie, but in absolute numbers inter-bank deposit has come down by 27%.

Murali M. Natrajan: And that's all deliberately we are doing that. I mean, it's not by accident, that's how we try to run the business.

Moderator: Thank you. Next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Murali M. Natrajan: That would be the last question, okay? Go ahead.

Jay Mundra: A couple of questions. Sir, first to on this acquisition, so is it correct to assume that either you will buy out the entire corporate portfolio or you will not take it? Or is there a mechanism wherein you can only select a part of this 900 something?

Murali M. Natrajan: I think our press release is fairly clear. Let me just read it, because I just want to make sure that there is no misunderstanding on that. It says here, to acquire the business of identified customers of their two branches, okay? So, our intention is, we have already had some idea about their portfolio, our intention is to do due diligence and acquire certain portfolios of the customer, and similarly certain deposits. So, for example, we can choose not to acquire a bulk deposit or a CD or whatever they may have, we may choose to not to do it. So, we have the option, but for that we have given certain indications on what would be approximately what it would be. And we will complete the due diligence in the next x number of days and complete it. So, we are under no this thing to take over the entire book.

Bharat Sampat: In fact, their balance sheet is bigger than this. This list itself is based on, if you see the press release, it says certain customer assets and liabilities, it is part of their balance sheet, subset of their balance sheet.

Jay Mundra: Sure. And secondly is, is there any relationship with this bank in any way with our promoter group? Just to understand.

Murali M. Natrajan: I don't believe so. But if this goes on well, we hope that we have a long-term relationship with DCB.

Jay Mundra: And second, on the fee income, I mean the trend so far, though this is a seasonal, I mean, it could be seasonal, but the core fee ex of treasury has also been a little bit lower, so any comments there?

Murali M. Natrajan: I mean, we lost some revenue on ATM because for the right reason we didn't want to operate the ATM if they are not compliant to the regulations. So, so many banks are correcting their ATM compliance that vendors are stretched. Fortunately, situation got fixed, I think by end of May or end of June or something. So, we hope that this quarter is not as difficult as the previous quarter. We are continuing to put a lot of effort on all the granular fees. And I am pretty hopeful that fee income will continue to build, especially because if you are going to acquire a lot of retail deposits, which is what we are doing, it does provide opportunity for us to do a lot better job. This focus on retail term deposit is definitely getting us lot more customers through the door.

Jay Mundra: Sure. And sir what is your usual, I mean from now onwards what would be normalized branch addition pace, if you can just…?

Murali M. Natrajan: I wish there is anything normal in our country, so there's nothing like a normal something that I can tell you. But at the moment the intention is to do 15, 17 branches for the next two years, this year and next year.

Jay Mundra: So, 15 to 17 branches every year, right?

Murali M. Natrajan: Yes. And we are confident that we will do that. And again, one other data point which may be of interest, we are unlikely to go into any new geography, we probably -- other than unbanked which is a different strategy altogether, we probably will deepen our presence in existing geography.

Jay Mundra: And how do you read this this emergence of there is a total PSU SME loan under 59, it seems to have made some headlines, but what is your assessment on your competitiveness out of that?

Murali M. Natrajan: Is it secured or unsecured loans?

Jay Mundra: That shows everything, I mean, this is collateral based wherein properties they name so they can get an approval, it wouldn't be secured I believe.

Murali M. Natrajan: So, I believe we have a reasonably good understanding of SME segment. In a month if hundred loans come in, I think we probably reject about 30, 40 of those customers for various reasons. Usually, poor financials or poor -- in our assessment are not able to repay, or in fact sometimes they may not even have a property that can be properly mortgaged. Now, you can take a call based on your risk appetite to finance some of those people because there is a business, they are running some business, there is a business, their cash flow maybe erratic or whatever, they have a business, right? So, you may finance that for their expansion or so. We have chosen certain parameters by which we do lending. And one of the things we don't do is that without meeting the customer, going to their site and checking out their business, I don't think the credit approves any loan, probably some very small loan maybe they approve, but not those loans at Rs. 30 lakhs, Rs. 40 lakhs. So, our experience is that SME segment is very good, very big, but equally risky. So, one needs to have very detailed underwriting process. So, we have other ways to ensure faster processing, for example, recently we have introduced software called Fin Flex for SME lending were from start to end the process has been simplified a lot. There are some automatic checks that are done of various portals to speed up the process. So, you can call it digital or whatever. So, all those things we are doing to ease the pain of the customer, but we would not do a loan without meeting the customer and checking out their business.

Jay Mundra: And last two data points. What is the proportion of LAP in the mortgage book?

Murali M. Natrajan: As I always said, 70%, 75% of our mortgage book is LAP.

Jay Mundra: And the provisioning breakup for this quarter, how much is loan loss and MTM?

Bharat Sampat: Floating provision is roughly Rs. 6 crores we have made, standard asset ~~position~~ provision is Rs. 2 crores we have made, and balance is credit provision, which is roughly Rs. 33 crores.

Murali M. Natrajan: And what is our total floating provision we have now, Bharat?

Bharat Sampat: Floating provision is Rs. 84 crores.

Murali M. Natrajan: So, we have a total floating provision of 84 crores in our balance sheet at the moment.

Jay Mundra: That's very helpful. Thank you.

Murali M. Natrajan: Thanks a lot. And if there are any follow up questions, please do get in touch with Gaurav or Bharat and we will be happy to answer them.

Moderator: Thank you. Ladies and gentlemen, on behalf of DCB Bank Limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.