DCB BANK

"DCB Bank Limited Q3 FY-'16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the DCB Bank Limited Q3 FY-'16 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan -- MD and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you sir.

Murali M Natrajan: Good Afternoon. Thank you for logging into our Q3 Results Call. In the first 10-minutes or so I will talk about some of the highlights. I hope all of you have received the Press Release and the Investor Presentation. So let me get right into it.

Profit Before Tax was INR 63 crores, 27% better than same period last year; however, Profit After Tax was INR 41 crores as against INR 43 crores in the same period previous year. The reason for that is that we are now paying the full tax. As you know at the start of this year we have already absorbed the accumulated losses so therefore full tax rate is applicable. Operating profit went up by 23%. This is despite the fact that we have been investing in branches. Net Interest Income was INR 160 crores and last year same period was INR 122 crores, it is a pretty decent growth. The Non-Interest Income is INR 47 crores versus INR 48 crores primarily because last year 3rd quarter we had about INR 8 crores of treasury gains, that was a pretty good quarter for especially money market because of interest rate movement. If you look at Net Advances excluding Corporate Banking it has grown by 34%. So this means Retail which includes Mortgages, Tractors, Commercial Vehicles, Agri and Inclusive Banking, SME, MSME, etc.. Including Corporate Banking, of course, the growth has been 24%. That is because the Corporate Banking book has declined by almost 10% as compared to the last year same time. The Deposits have grown by 19%. We have utilized the opportunities like NHB, SIDBI refinance which came at attractive rates. So there was no need for us to grow our deposits that much. CASA growth has been good; in fact, I would say SA growth year-on-year has been 17%, we are hoping to achieve 20% SA growth on a full year basis. So let us see how that goes. There has been a small uptick in the Net Interest Margin; we are at 3.96%. We changed our Base Rate around 15th or 10th of December. So the full impact of the Base Rate change has not happened yet, which we will see in the next quarter. As such Net Interest Margin has several moving parts like RIDF, mix of portfolio, excess liquidity maintained, NPAs etc., CASA ratio is slightly down. We do expect CASA ratios to keep going down till such time we find a spot where the branches start to become mature. Our intention is to go back to 25% but that would take some time. Gross NPA was maintained at about 1.98%. You will see in our 'Investor Presentation' the slippages, recoveries, etc., As far as the Capital Adequacy is concerned, we are pretty strong. Branch network we increased by about 16 branches; we have lined up another about may be 15 to 20 branches in the coming quarter. So work is going on. So hopefully, we will be able to complete this year at about 193-194 type of branches. So those are the highlights that I wanted to share about the quarter.

We are open to questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: Two questions from my side; from an application to disbursal stage, are we seeing more rejections in our LAP or any other business segment because of liquidity or cash flow issues if you could give us some sense?

Murali M. Natrajan: No, those are not the kind of things that we are at liberty to talk in this meeting. I have not seen any particular trend in terms of rejection rate being higher or anything. Particularly let us talk about LAP or Mortgages. When you hire a lot of new sales people, the first few weeks or even may be a couple of months, by the time they actually understand what is the credit policy of the Bank, what is the procedure, they may end up bringing some loans that cannot be disbursed, so their approval rate may be not good and sales manager may have a higher approval rate. The other point that I want to mention is that in this kind of situation we have a pretty robust analytic team in our Bank and recently we have also invested in some sophisticated analytic software. So we constantly look at the portfolio of different cuts, multi-variant analysis, etc., and then the whole process of reducing some parameters or changing some parameters or modifying the credit policy or the procedures or additional check, it is a very constant process because we also care about approval rate because approval rate declining is a productivity issue for us… it is a cost issue. Therefore that is the way it is. I do not see any particular issue.

Prakash Kapadia: Sir, in our endeavor to generate fee income by selling bancassurance, mutual fund, any tie-ups we have done of late and where are we placed in terms of trade, cash management, how many branches are we currently selling that, how have we invested in technology if you could give us some sense?

Murali M. Natrajan: We have a large number of RMs who are actually certified in Insurance, Mutual Funds plus there is a separate product team in trade that continuously trains branch staff in terms of pitching for trade products like Bank Guarantee, LC, FX, Remittances and so on. I do not have the exact number of trained RMs. Of course we have been associated with BSLI for the last several years. The new regulation is such that we can choose one more partner if we so desire which we will be working on. On General Insurance also we have products on Health Insurance on Accident Insurance and so on which is sold by our branch staff. So if you look at our Investor Presentation you would see a separate slide on what is our core fee income and you will see that core fee income is growing quite okay. So as a result of the efforts that are being put. Personally, we would like to see a much better growth, but we as a bank have very limited risk appetite for selling ULIP type of products because we feel that unfortunately results in some kind of a mis-sell… it is not the intention, but there is an RM there, there is a customer who may not be mature to understand those products, all kind of complications. So we have consciously reduced the sale of ULIP but we focus on more safer products so that the customer do not have any issues on that.

Prakash Kapadia: Is it fair to say because of say lower trading income, the other income at a bank level has not grown this quarter?

Murali M. Natrajan: If you look at last year and this year, last year we had about INR 8 crores I think of treasury income because there was interest rate opportunity which was not there in this quarter. So the base case, if you see the core fee income, that has been growing quite well.

Moderator: Thank you. The next question is from the line of Siddhesh Mhatre from Dimensional Securities. Please go ahead.

Siddhesh Mhatre: Can you tell me what is the impact of that MCLR on the Bank? In this kind of an environment, do you still expect then to do aggressive expansion of branches?

Murali M. Natrajan: Regarding MCLR the guidelines have come very recently, it is a detailed guideline, we are still studying that guideline. Our Market Risk team believes that there could be an impact of 25 to 30 basis points because of the MCLR implementation. The good news about the MCLR circular is that it gives you an option not to convert the existing portfolio to MCLR, right. I mean, there is an option which is there which is good because otherwise on day one all the portfolio kind of shifts to the new rate. So we are still working through the details. It is going to be beneficial to the customer, but at the same time we have to be careful not to end up confusing the customer because there are many rates that we need to publish in this. So that is where we are. It will take some time. I do not think it will be finished before another 15-20 days or so. Now with respect to the question on aggressive, I do not know what you mean by aggressive expansion, but my response is as follows: I request you to please look at October 30th, 2015 guidance that we have issued; it clearly says that from September 2013 to September 2015, we increased branch network by 57, we increased the number of people from 2400 to something like 3700, and our loan book has gone up from INR 6700 crores to INR 11200 crores in the same time, and thankfully, we have also maintained the NPA.

Siddhesh Mhatre: The branch expansion you said in the last quarter that you would have a big expansion of around 200 branches or so.

Murali M. Natrajan: No, I think you should read the message little carefully. I think the whole world knows that I said; 150 branches in 24-months is what we have mentioned. We are pretty confident of delivering on that strategy. Of course, we find that there are some issues that comes up either on NPA or cost or some other issue. We are prepared to slow that down, rectify our path and then move forward again. But the general intention is to double our branch network.

Moderator: Thank you. The next question is from the line of Sanket Chheda from SBI CAP Securities. Please go ahead.

Sanket Chheda: This quarter we added around 16 branches which accounts for like 10% of the total branches. But when we see the growth in OPEX is hardly any 2% or 2.3%. So I was trying to understand are these branches just right now you have bought the places and the employees are yet to be employed or something like that?

Murali M. Natrajan: Sometimes it does not happen exactly in sequence, sometimes we have to identify the employees well in advance, put them in some existing branches, train them, so that when the branch comes up in 3 or 4-months' time, they are ready to move in and start work which is a usual preferred model for us, we hire people and all. You see the head count number; head count has moved up almost by about 300 or so this quarter. So the cost of branches would continue to get reflected in our actuals as we go along. I have not looked at the way you have looked at it because we know that we normally hire staff slightly in advance before we actually put the branches. Some of the branches you end up having the branch about 2 or 3-months in advance because you need to refurbish the branch and so on. So there are many moving parts in that.

Sanket Chheda: Right now, you must have planned for the couple of quarters or three quarters. So after that if the branch is growing at 10%, so what would be proportionate movement in OPEX like it would be similar?

Murali M. Natrajan: I have given a very correct guidance on October 30th, 2015. In every call, we will not be able to add color to that because that is what now we are pursuing, hopefully, we will do better than that, that is the intention of management, but that is the guidance I request you to go with. I have said clearly as to what we are looking for in ROA, CostIncome ratio, ROE, etc., right up to FY2019. Some quarter I may open 15 branches, sometimes for example, the current quarter if we open 15 branches, we may actually spend the first quarter of next year making sure that there is no loose ends on the existing branches before we take the next step. So it would not be uniformly possible for us to open branches.

Sanket Chheda: Our NIM is on the rise since three quarters and this quarter like if you see the reported yield on advances and cost of funds, so cost of funds fell by 16 points and yield fell by 16 points and after that also there is a rise in NIM of 17 bps.

Murali M. Natrajan: I will tell you the number of factors that goes into NIM, I am quite sure you are aware of it, and not in any particular sequence; the product mix, the PSL achievement, there is a lot of movement that keeps happening on RIDF, the RIDF that gets replaced what you give up and get replaced that may have come up at a higher yield, for example, we would have done better in our GSec than what would have been expected. For example, if you control NPAs that helps you. For example, in one quarter we may have had excess liquidity because of the timing of booking of the loan, this quarter that may have been better. So all those items play into it. All I want to tell you is that we changed the Base Rate in middle of December. That 15 basis point is not fully reflected in our NIMas yet.

Sanket Chheda: That is just 15-days of this quarter, right?

Murali M. Natrajan: Yes, 15 days of this quarter for almost quite a lot of the portfolio that is impacted by the Base Rate. As the deposit rate come down, every month we have to review the Base Rate and we have to pass on by revising the Base Rate which I expect some Base Rate revision again in the next few days if not by end of the month definitely may be by February some Base Rate change will again happen.

Sanket Chheda: So sir, adjusting for the present Base Rate cut which you did and which you will do in future, so we can adjust for that, can we say that NIM will supposedly be about 3.5 whatsoever?

Murali M. Natrajan: We have created our model at about 3.5-3.6. That is what I think I have been mentioning. We hope we can do better than that. Now again we also have to account for what will be the impact of the new methodology of creating Base Rate. That is again work in progress.

Sanket Chheda: Why I asked on NIM is basically if you see since last two-three quarters, PSU banks are also doing good on retail specifically on home loans, so I suppose they are not doing much of LAP. The reason was we are facing any kind of yield pressure due to competition from them?

Murali M. Natrajan: There is always yield pressure on competition; there will be NBFC, there will be small HFC, there will be public sector banks, there is HDFC, ICICI and so on, for example, yield pressure is very clearly showing on our Corporate book because our Corporate book has de-grown by almost 10% compared to previous year same quarter.

Sanket Chheda: My question was pertaining to only the mortgages where we are strong and also now public sector banks due to the capital constraint they are also looking at this pie.

Murali M. Natrajan: It depends on what customer segment they are going after. I have put a specific slide on who is our customer this time; if you go to page17, I have explained as to who is our customer because there have been a lot of questions coming on who exactly is customer of DCB, it is a Self-Employed, and Self-Employed segment requires hard work, supposing, there is a water supplier, he may not have anything more than his bank statement and his receipts in terms of supposing he is supplying to some say A-category company what receipts and payment he has and bank statement, he may not have more than that, you have to really help to understand what exactly is his cash flow and construct cash flow and disburse the loan. For that kind of hard work you may get 50 basis points higher than someone else or may be salaried segment. The question is which kind of financiers are ready to do that kind of hard work. The underwriting time can get extended by 3-4-days because of that kind of challenges.

Sanket Chheda: There was no mention of restructured. So can you tell me what is the outstanding?

Murali M. Natrajan: We did not restructure any book. I think anyway if you restructure nowadays, it is all NPA.

Bharat Sampat: Restructured standard is INR 46 crores net.

Sanket Chheda: We do not anyways resort to ARCs?

Murali M. Natrajan: No, we did resort to ARC last year I think 4th quarter if I am not mistaken, but this quarter there is nothing. There is nothing wrong in doing proper ARC actually.

Moderator: Thank you. The next question is from the line of Clyton Fernandes from Emkay Global. Please go ahead.

Clyton Fernandes: I had a question on your loan mix. So 17% of the book is in Corporate. I do not have the data for this quarter, I have just taken 17% of existing advances and that translates into something like 11% Y-o-Y decline. So is it a conscious strategy on part of your Bank to kind of go slow on this sector because this segment is probably going to see some stress or has there been some run off on your book, why is there such a sharp decline Q-o-Q and Y-o-Y?

Murali M. Natrajan: First point is the conscious strategy is to skew the book towards more Retail, SME, CV, Tractors, Gold Loan like that… small ticket… secured. Other conscious strategy is try and avoid lumpy large exposures unless and until we are very confident that that is a good kind of company to be lending to. We most of the times shy away from giving any large ticket loans, I do not think more than 2 groups have large or 3 groups have large exposures in our bank. What has happened is that there is so much competition for the large ticket loans that we have lost some loans to competition because the rate reduction was more than 100-150 basis points from what we are charging them. First of all we cannot charge below Base Rate. Second is that we felt that it is not an appropriate risk at that kind of time. So it is not that we are not originating Corporate Loans, but the origination were far less than what kind of run offs happened in that. These days it seems like a risky idea to me at least.

Clyton Fernandes: So sir, do you think the next few quarters you could see if not a contraction in the book but very low single digit kind of growth in this kind of segment for you?

Murali M. Natrajan: Our intention is not to grow the book beyond 15% to 20%, but from the way it is going we probably would be lucky if we can maintain it at the same level as why we started this year.

Clyton Fernandes: Because for your overall advances growth to be around say 25%, then you will have to resort to a lot of the slack to be picked up by the other segments which is your strategy?

Murali M. Natrajan: Other segments are growing at 34% and I am at least not disappointed with that.

Clyton Fernandes: What you said at the start of the concall is that your Deposit growth you do not have to grow so much because you had some amount of funding coming from RIDF?

Murali M. Natrajan: There are 3-4 things that has happened; the SLR reduction has given us some relief, then NHB, SIDBI, those kind of refinance opportunities presented itself and they were at very good terms, probably also long term, so we thought why not take those opportunities.

Clyton Fernandes: So your interest cost this quarter has been kind of contained because of those refinancing opportunities?

Murali M. Natrajan: That is also one of the reasons plus if you contain NPAs that itself helps not to damage your NIM. RIDF also there is a constant movement because there is a 1-year RIDF that gets repaid and the new thing comes. So there are some interest rate differences that happens. So multiple items affecting NIM.

Clyton Fernandes: If possible, could you share your breakup of non-interest income for this quarter, I have the fees, but treasury and other things?

Bharat Sampat: Clyton, you wanted breakup of non-fund income below commission exchange brokerage line. So, INR 36 crores is Commission, Exchange and Brokerage, INR 4.5 crores is money market trading gains, FOREX is roughly INR 4 crores and recovery from written off accounts is a little above INR 1 crores, rest is all sundries, adding up to INR 47.2 crores.

Moderator: Thank you. The next question is from the line of Kaushal Patel from India Nivesh. Please go ahead.

Kaushal Patel: Sir, first data point; what was the employee count as of Q3?

Murali M. Natrajan: I think 3,981 if I am not mistaken.

Kaushal Patel: Recently, you launched something on digital platform that M2P, wallet-as-a-service. So would like to know some background of it, what exactly it is?

Murali M. Natrajan: Why not I separately mention because we do not want to take up the time of this, we will put it out for the entire investor group. Of course there are a multiplicity of wallet and these days if you are a bank and you do not have a wallet, then it becomes a bit of an issue, it is like we have to complete the product suite I guess. Now that you have raised the issue, I will mention that interestingly, we are working with about 3 or 4 startup companies, we can call it FinTech, we can call it startup, and we are quite open to newer ways of acquiring customer; same segment… Self-Employed segment but newer ways of acquiring through these FinTech idea, some of them look very exciting, I do not know how successful it will be or what would be the acquisition cost of this, but we are happy to test it. So hopefully in the coming months we will be able to give some updates to our investors.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on the current credit environment. Secondly, overall trend in the Corporate Loan book and the watchful list in terms of incremental stress, means, the large accounts could slip into NPA or turn into any kind of restructuring or 5/25 kind of these in the coming quarters, so could you throw some your comments?

Murali M. Natrajan: We do not have any 5/25. Even when we had this whole concept of CDR, we actually resigned from CDR 4 years ago, we do not believe in restructuring of loans. So at any point in time since

I have joined this bank some 2-3 accounts in Corporate shows stress for various reasons business model, like for example one customer had some problem in Libya, therefore he had challenges in repaying on time Bank's interest and installments. So these things keep happening. Even today we have about three accounts I think which are showing some stress, but the company is honoring its commitment albeit late but they are honoring their commitment. So in our Investor Presentation we do not represent any data on stress assets and so on.

Manish Ostwal: Second point is in terms of RBI recent released list of corporates where some of the banks recognize NPA and some of the banks have not. So any of our exposure falling in that discussion?

Murali M. Natrajan: So as of this afternoon DCB Bank has not heard from RBI on any list. So tomorrow morning we may get I do not know.

Manish Ostwal: In terms of ROA profile, last year we have reported ROA of 1.3%, this year we have maintained the margins and we have done better to some extent and the Cost-to-Income ratio also is quite stable. So how do you see the ROA trajectory for the coming quarters if you give some guidance?

Murali M. Natrajan: My request is that we have given one set of guidance on October 30, 2015. We really do not want to confuse by giving fresh guidance on these items. Bank is currently working towards either meeting or beating those guidelines and that is where we are trying to head. You must notice that there is a huge tax rate difference between last year to this year. That explains part of the drop in ROE and ROA.

Moderator: Thank you. The next question is from the line of Ajitesh Nair from Premji Invest. Please go ahead.

Ajitesh Nair: A couple of questions; one, your comments on the business environment of the customers that you are dealing with primarily the self-employed group, we have seen a lot of stress on the large corporate side and on the projects side, infrastructure side. Have you seen any deterioration or any improvement either which way your customers have percolated down to the SME segment till now, any comments on that? Second is on the Agri and Rural Banking which has been doing quite well for us over last couple of years now. Just your sense of how do you think that is going to play out over the next couple of years both in terms of the proportion of business and also the opportunity to do maybe more products Vehicle Finance and not only limiting to Tractor, maybe moving on to rural consumption products?

Murali M. Natrajan: Let me take the second question first; we started many years ago creating a unit called Agri and Inclusive Banking primarily because we wanted to ensure that we do not miss out on priority sector lending. I do not recall a single year that we have missed out on completing that 40%, may be one year it was 39.9% or something, but largely we have not had any problem because that ensures that we do not get those low yielding or at least we get limited amount of low yielding RIDF and all those bonds. We used to complete a lot of these PSL requirement by buying out some portfolios from NBFCs and so on. Somewhere we decided that this is not going to be a long term solution for us. So we decided to actually open branches in Tier-II, III, IV, V, VI in Agri and Inclusive Banking business unit and create product infrastructure as well as sales infrastructure to have all kinds of products that are sold by any bank in India like KCC which is Kisan Credit Card, Tractor Loan, Warehouse Construction Funding, etc. Now the situation is in the last 2 years not only these rural banks sell these products like Small Commercial Vehicles, Tractor Loan, Kisan Credit Card and so on, they also do some level of SME, MSME business in the catchment area that is present. The challenge here is that you have to sometimes tailor make the product to suit the particular region and you also have to choose the regions very carefully because there are regions in India where the credit culture is weak and we may end up actually giving loans there and not recover those loans. So Agri and Inclusive Banking is the full-fledged business unit for us and we value it as dearly as you would value SME or Mortgage or any other unit for that matter. And it has now become a unit which was actually trying to meet only priority sector lending, but from there it has actually graduated to not only meeting priority there, we are exceeding actually priority sector lending in target, but also grow profitably from branch banking point of view. From delinquency point of view, so far our experiences has been good barring one or two customers here and there. Yes, there is these vagaries of nature, crop failure, this and that always play some issues but largely we have maintained that portfolio as a good quality portfolio and we do not see any major concerns with that portfolio and I hope that we will continue to grow it handsomely. Now the question on SME and environment. The environment is tough; some of the SMEs are definitely facing problems because if they are depending on some larger or government or anything like that, the cash flows tend to get delayed but we try and choose SMEs who have proven business model, small ticket again, we do not lend any SME…only on exception basis we lend above INR 3 crores, otherwise, the norm is INR 3 crores and below. We did this credit change probably almost four years ago now. So we are seeing stress in the environment, but barring a few SME, at the moment the portfolio seems to be in control. That is mostly because we keep tweaking our credit policies to make sure that we do not end up in any buckets of trouble. It is ongoing daily, weekly, monthly, struggle and grooming. There is nothing that happens automatic.

Moderator: Thank you. The next question is from the line of Riddhi Shah from Quant Capital. Please go ahead.

Jignesh: This is Jignesh here. I have had a couple of questions that I needed to talk. Firstly, I understand your branch expansion stands very well, I have gone through with your October presentation, but my question particularly is that which are the areas now you are still focusing, earlier you used to be #1, #2 private sector bank in that area, are you still following the strategy or there are some changes?

Murali M. Natrajan: There is no change in strategy from whatever we have been doing till October ’135 Even our last quarter results to the best of my understanding there was nothing wrong with our last quarter results, of course, the tax rate did have an impact on the net profit because if you look at the Profit Before Tax it has been pretty decently growing. The strategy is very simple; all products, all branches; deepen in areas where we are already present, for example at Chhattisgarh or

Madhya Pradesh or Odisha where we have been very successful, limit the number of metro branches or large branches, work on Tier-2 to Tier-6 and in areas that we open, we have always tried to be #1 or #2 private bank. But let me tell you there is one important thing in that. Say for example we get a critical mass of branches in Chhattisgarh. Even if you are #3 in a new location, there is this momentum that has already got created that helps. But that is not our main strategy; main strategy remains at #1 or #2. You have to do 25% of the branches in unbanked areas; unbanked you have to be #1, otherwise it cannot be unbanked.

Jignesh: What will be the size of the branch – will it be a pretty large branch or a smaller branch with 3 or 4 employees, what kind of branches generally you are actually looking into of the recent expansion had been?

Murali M. Natrajan: First of all, from a square feet point of view, say for example, you want 700 sq.ft., that may not be what is available there, you may be only finding 1,000 sq.ft. there because most important location also is very critical. So, while the perfect size could have been 700 sq.ft., you may actually find 1,000 sq.ft., but I look at the size of the branch more in terms of number of people. So since we have a concept of all products, all branches, we look at the catchment area, there is a detailed study that is done of the catchment area to say what product can be sold there, how many SMEs are there, how many pharmacies, how many shops, what is the mandi available there, what is the portfolio of tractors with other banks, etc., some locations are obviously rejected because you do not feel that you can succeed easily in those locations, then we choose a number of people; usually, branch manager and teller and one service manager is like every branch will have, then you had the sales people, so if you need mortgages, then you add one or two people depending on the opportunity, you need SME, you add one or two people. So, you just put all that together, probably our average would be about 10 to 12-people per branch in the new branches.

Jignesh: Secondly, how well are we placed against specifically payment banks, because I am seeing digitally improvements are quite visible, even the presentation has quite improved now?

Murali M. Natrajan: We can put payment bank, small bank both together in one bucket for the time being. Would you believe it we recently heard that some payment banks are going to hire direct sales to go and acquire new customers in CASA? That is so much for the hype on digital acquisition and so on. But, this may be an aberration more than this thing. We look at these small banks and payment banks in three aspects: First and foremost is what is going to be the impact on DCB because of talent. We have very strong HR systems and processes, talent management, in fact, we have taken the opportunity about one and a half years ago, we created a separate forum in our Bank and created this whole concept of how to manage our talent much better so that as and when we get attacked by any of these new entrants, how to protect your good quality people. So, I believe that we have made quite a lot of progress in that. Yes, of course, you will lose some people but generally we would be able to give them good progression. But the young population of our country is such that in three-four years' time they do feel a need to make some change. So that is not easy to deal with. But having said that we have a pretty good strong HR process. The second aspect is what is our business model and what is our product capability. We have very robust product capability and business model. Our business model is a proven business model, we know that in 18 to 22-months, how to break even on a new branch, how to get to a 50-50 percent cost-income ratio on a new branch, how to manage credit, our systems are pretty robust, there is a lot of learning that we have all gone through in the last few years that is helping. Of course, it is a continuous process, there is more to be done because when I look at some of the other companies like for example, Bajaj Finserv, we feel that there is lot more we can learn from their analytic capability and so on. Having said that we believe that we have a pretty strong business model and capability. The last point is that how long will it take for the small banks and payment banks to really hit the road running. We reckon it could be anywhere between 12 to 18 months and we believe that we continue to do the good job that we are doing, we will be more than ready for this competition and that is why we put this whole 150 branches strategy in the first place.

Jignesh: On the Deposit front, I am seeing a good traction happening on the NRI Deposits as well. So can you give some color on what kind of Deposits are this?

Murali M. Natrajan: These are Rupee Deposits and CASA. We do not take too much of FCNR Deposit because we do not have opportunities to lend in foreign currency and we have a pretty good franchise; the Aga Khan network is present in East Africa, that is Kenya, Uganda, we also have an online portal for NRI customers to put their deposits. So we have created a huge amount of contacts through our Aga Khan network plus we also have separate dedicated Relationship Managers in our domestic branches to cater to NRI customers. So this was about INR 80 crores or so about five years ago this has gone to about INR 1300 crores. We are quite proud of this franchise and we believe that over the years in the next few years and all we will be able to create some trade links with East Africa which would also be beneficial to our fee income.

Jignesh: One or two questions of your presentation. It is more like the info that you have provided. You had some tie-up with the TVS Credit Services. What exactly is it?

Murali M. Natrajan: Currently, with TVS Credit, we have entered into a kind of marketing tie-up and they are a very strong two wheeler financing company and when we looked at the portfolio. They have a excellent portfolio, it is a strong management team and they felt that they can leverage their marketing efforts to start with originate new car loans. We are giving new car loans only through our branches to our own customers, we have not set up a separate sales team and so on. They have a very big network. They said that they will start sourcing new car loans for self employed people on a fee sharing basis. So that is a tie-up. Hopefully if we are successful in this tie-up, we will extend it to more products.

Jignesh: Your CV portfolio what kind of vehicles you will be financing here?

Murali M. Natrajan: SUV, LCV, we try not to finance strategic kind of big ticket, again we have a buyer for small ticket, so someone who has three trucks, four trucks that type of stuff. So we do it only because we want to be strong on PSL. I think almost 80% of the portfolio which is 3% of this thing should be PSL.

Jignesh: The Tractor funding would not come here, right, or?

Murali M. Natrajan: Tractor funding is in Agri and Inclusive Banking, which also must be about 2% or 3% of our book.

Jignesh: Your Tier-1 is 12.33% if I am seeing it right. Are you planning for any QIP or any dilution in the near-term?

Murali M. Natrajan: No, we are not planning any dilution or capital raising for the time being. We have adequate capital to take us at least for another year plus we have scope to do 1.5% of AT-1, that is additional to Tier-II which is about 2%. So we will try and see what are those options first before we go to Tier-1. Right now, we are pretty strongly capitalized.

Moderator: Thank you. The next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: A couple of questions from my side; in your press release where you talked about the recalibration of your branch expansion, you are very clear about the implications for the Cost-to-Income ratio, etc., What I wanted to understand was you also are expecting some benefits to come out of this branch expansion. So when you reach let us say the end of Phase-1 which is 150 branches, what are the some of the vectors or metrics that you are going to measure yourself by be it CASA, cross-sell, fees, loan growth, I do not know what it is, which will be different from what it is today?

Murali M. Natrajan: It would not be different from what it is today. We have a pretty detailed measurement of existing branches, new branches, new business lines, sales people. For example I think I put it in our presentation, we have something called e-DSR which is there in our digital part of the presentation, where we are monitoring quite a lot of the frontline sales in terms of how many customers are they meeting or how many calls they are doing. Of course, it has not been fully embedded in the Bank but we are trying to make that happen. So there are quite a lot of number of metrics in credit areas, there are about two dozen metrics that we measure. We measure ourselves in terms of what is the large ticket exposure, small ticket exposure, stress accounts, unsecured loans, secured loans. None of those will change. If at all it will just keep getting more and more sophisticated.

Swanand Kelkar: What I meant was from an investor facing standpoint, let us say you are at 23% CASA today, at the end of Phase-1 do you have 30% in mind at which you will pat yourself on the back saying that is a good job done?

Murali M. Natrajan: We do not ever pat ourselves on the back, this is a continuous running, so there is no need because we live from quarter-to-quarter, so therefore there is no time to pat yourself on the back at all. But having said that I believe that the CASA ratio would actually fall before it actually goes up because rate at which we are growing our loan book and therefore the Term Deposit that would be required or even refinance that would be required would be faster than the CASA growth that we can achieve in the near term, but eventually when the branches start to mature, we have an internal target of trying to reach 25% CASA ratio.

Swanand Kelkar: Other question was on the Balance Sheet expansion. I think you have mentioned it you want to double the Balance Sheet in about 3-years which presupposes I think mid-20s kind of CAGR. Is this more an aspirational number or you have mapped it out business segment wise where exactly you want to grow and what you want to target? Will this happen without diluting NIMs or credit cost?

Murali M. Natrajan: There is no intention to dilute NIMs or credit cost because that would be not good growth. Our Bank is focused on good growth. So we always look at the loan book, for example, we have something called Balance Sheet meeting in our Bank, and if any business manager says that he is going to grow by let say INR 40 crores this year. The question that would be asked to him is, "Tell me what is the distribution of these loans - Is it two INR 20 crores loans or is it twenty INR 2 crores loans?" Because we want to focus on quality of the portfolio. The business managers are such that they will just simply not argue with credit if there is a logical reason that has been given to them saying that this segment should be avoided or this kind of LTV should be avoided or this kind of credit process should be avoided, whatever be there, it is a very healthy discussion that we have in our team because everyone feels that we need to grow the Bank but not at the cost of sacrificing a lot of NIMs or credit cost. So the answer is very simple; obviously, we have done a very-very detailed work not only on these 150-branches, but on each business segment, geography and so on. This is a dynamic process. Today, it may look like X but we may find out that particular region is not suitable for us or the early indicators are not something that we are happy with. We will change it. But largely the distribution of the advances that we have said which is 45% Mortgages, 12 to 13% in MSME, or even 15% in SME, etc., We are not likely to grow this Bank on the basis of putting on heavy big ticket items in Corporate. That is very clear to us.

Swanand Kelkar: The essential DNA of the Bank remains the same?

Murali M. Natrajan: Yes, no question about that, it will be Self-Employed, small ticket, secured, granular, well distributed portfolio. That is what we are working towards.

Moderator: Thank you. The next question is from the line of Vikas Agarwal from Prokens. Please go ahead.

Vikas Agarwal: I have a couple of questions; one thing is out of our total advance portfolio, how much is the fixed and how much is floating?

Murali M. Natrajan: We do not present those numbers in that. We only have given you some guidance on the NIM, for example, Commercial Vehicles will be fixed or even Tractors will be fixed, but other than that we are unable to give you more information on this.

Vikas Agarwal: In case any NPAs are there in such areas of Retail portfolio, then how has been your experience, whether finally they come back maybe after 90 days, maybe some more days they come back and they take or you have to generally do something else with that portfolio?

Murali M. Natrajan: Answer would be different for different portfolio. Gold Loan is very simple; we just give the notice to customer, most of the customers will come because they value their personal jewels, so they will come and settle the matter with the bank or pay the interest or whatever and get it all sorted out or ultimately they may even come and say, "Fine, you auction the loan." So that is how you dispose of a Gold Loan. When it comes to Tractors or Commercial Vehicles and all, we try not to resort to this repossession. That will be usually the last resort because if you take away the Commercial Vehicles you will not be able to generate cash and it will actually further damage your ability to recover. Again, repossession would be the last resort for that kind of portfolio. You work with the customers to repay. In Mortgages, again SARFAESI would be the last resort after having tried to get the customer to work on a payment plan. Suppose, he becomes NPA, you try and say, "Okay, let us agree on payment plan so that you can come back to a regular account in six months, nine months or whatever." If the customer does not cooperate or he is unable to repay or something, then you resort to SARFAESI. So the collection team has got very-very capable people, so they work with the customer. That is the way we learnt even in our foreign banks saying work with the customers. If all else fails, then you just have to go to SARFAESI because SARFAESI is not the final solution for everything. What does happen is when you put out auction notice or something like that customer comes and settles in many instances.

Vikas Agarwal: As most of the Advances you told it is going to self employed people, underbanked areas. If we look at your deposit base, Deposits are also coming from such customers or it is mainly collected by other branches in well-established areas by white collar people?

Murali M. Natrajan: So, it does not matter to us whether they are urban or rural, we target self employed customers. Even in urban areas, we are only focused on self employed. I have given you some data I think on the presentation in terms of the percentage of self employed customer and our CASA and Mortgage as an example, I think it is about 87% or so. So bulk of the deposits does come from urban area because if you look at our country, I am not quickly remembering the statistics; I think 40 to 50 top cities contribute almost 60% of the Deposit of the country. When you go to a smaller area, we have to start sometimes with the loan and then start as we get customers, we spread out and get our small ticket CASA or Deposit customers. It is very difficult to get large ticket Term Deposit customers in rural areas. I do not think there is enough money out there to give you the Deposit. We also have some small team for institutional deposit. But as you see 80% of our Deposits are in the Retail area.

Moderator: Thank you. The next question is from the line of Jay Mundra from Batliwala & Karani Securities. Please go ahead.

Jay Mundra: As you mention the strategy of the Bank is to grow all branches doing all products. So can I just know how many of the current branches are currently doing Mortgage or AIB wherever possible?

Murali M. Natrajan: So all products, all branches there is a philosophy. So, for example, in a place called Hinjilicut which is my favorite location in Odisha, we may not be able to do Mortgages. There are areas in Punjab where we may choose not to do certain products because of credit issue or something because it may be very good for Deposits. Generally, all branches are trained to do a few things like of course, CASA, Gold Loan. Majority of the branches are trained to originate either an SME Loan or Mortgages. So I do not have any data on exactly how many branches sell what, there is internal data which is not something that we share in this forum.

Jay Mundra: You have given the detailed breakup of your gross NPA wherein Mortgage Gross NPA has slightly inched up to around INR 51 crores. But in general, apart from the numbers, have you seen any deterioration or stress moving upwards in the LAP or the Mortgage front?

Murali M. Natrajan: The answer is when you talk about our large portfolio, from time to time we do see some stress in any particular geography or in any particular a special program that we may have done, etc. But we believe that in the small ticket, our average ticket size is about INR 50 or INR 45 lakhs, and as we spread ourselves to more locations ticket size is actually coming down. We have not seen any systemic problem as yet in the portfolio.

Jay Mundra: I just needed the breakup of the provisions that we had; so we had around INR 21 crores of provisions? Also, broadly the breakup of the Mortgage book in terms of LAP and Home Loans?

Murali M. Natrajan: We do not have the breakup with Bharat right now. So sorry about that.

Jay Mundra: We were carrying some floating provisions a few quarters back. I just wanted to know what is the outstanding floating provisions?

Murali M. Natrajan: We continue to create floating provision every quarter and we have not used up any floating provision.

Moderator: Thank you. The last question is from the line of Ravi Naredi who is an individual investor. Please go ahead.

Ravi Naredi: So many institutions were in Q2 could not get bank license. Can you identify any such possibility to tie-up with them for win-win situation for both of you and them,have you any such plans?

Murali M. Natrajan: We will not be able to disclose it till we actually are able to close some of those plans. Many of the institutions that have got the small bank licenses already were working with us either as a customer or some other alliance that we have had. And the institutions that have not got their license, we are in discussions, we will see how that goes, there are opportunities on helping them in trade, treasury, may be even doing some deposit products for the customers, we are working on it, let us see what we are able to close.

Murali M. Natrajan: Thank you everybody for attending this call. We will catch up with you next quarter.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of DCB Bank, that concludes today's conference call. Thank you all for joining us and you may disconnect your lines now.