DCB Bank Limited Q3 FY19 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: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q3 FY19 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 for an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to the Mr. Murali M. Natrajan. Thank you and over to you, Mr. Natrajan.

Murali M. Natrajan: Good evening. Thank you very much for logging into this third quarter results. We have uploaded all the details in our website as well as in the stock exchanges. I hope all of you had a chance to go through it. Let's start with the questions.

Moderator: Sure. Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the next question from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: My first question is, in the last call you did mention about the decline in Risk Weighted Assets. And this quarter again QoQ if we look, they have again, as a percent of Advances they have come down. So, could you throw some segment wise color as to where are we focusing more, is it the home loans, why is the risk weight coming down? And can this continue?

Murali M. Natrajan: So, if we continue the way we are working, it cannot keep coming down. Of course, the way we have been operating, if you see last year same time our loan book and you see the loan book at present, I think the loan book has gone up by some Rs. 4,000-odd crores whereas Risk Weighted Assets has gone up only by Rs. 3,000 crores. So, that is our fundamental business is what I would like to believe. So what happens is that whether you look at the SME loan or whether you look at LAP or you look at home loans, and even commercial vehicles, we are trying to go for segments where the risk weight is not more than 75%. When you pursue larger ticket loans and depending upon the rating you end up having to keep 100% of the risk weight, and the pricing may not be commensurate because customer does not understand the risk weight and so on, so pricing may not be commensurate with the risk weight of the loan. So, I think I also explained briefly last time around, I don't know sometime I explained that, we have also put a calculator in place whereby the frontline is able to engage with that calculator and figure out whether it makes sense for them to book the loan or not from ROE point of view. So, it has its own in-built cutoff and then it is very dynamic, the costs are dynamic, the risk weight depends upon the type of loan, etc. So, even that is helping is what I would like to believe. So, all in all, our intention would be to keep getting efficient in using capital. So, I can see that those initiatives are yielding results. Now, segment wise and all, we do not give you those kind of details, what we have presented is the detail that we are happy to share.

Jehan Bhadha: Sir, second question is, RBI has allowed personal loans to be benchmarked, so that will be mandated from April. So, how will we be impacted by it?

Murali M. Natrajan: What is the personal loan mandate?

Jehan Bhadha: Sir, they have mandated personal loans to be benchmarked against external benchmark like repo rate or something like that.

Murali M. Natrajan: You are talking about that instead of MCLR they will use…

Jehan Bhadha: Right.

Murali M. Natrajan: We have not received any details of the circular, and we will await for it before we make our assessment and comment.

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

Darpin Shah: Sir, if you can throw some comments on the fraud which has happened during the quarter?

Murali M. Natrajan: So, this has happened in the state of Gujarat, this is in commodity funding. And it is a declining business for us, I think we probably have only about Rs. 30 or Rs. 40 crores of outstanding because it has been a declining business for us for many months. There are many banks who have given loans in this particular location and, to some degree or to a larger degree, everyone has been affected by this fraud. Essentially there are three problems here, all customers are available but the problem seems to be that there is a shrinkage, there is a shortage and in some cases the goods itself is not there. So we made an assessment of the situation and then we just took it as a fraud. Some amount of recovery has happened, the rest is being provided. So I think only about Rs. 3 crores is left in terms of making the provisions.

Darpin Shah: And sir second thing, now we are nearing end of FY19, so if you can give some comments or your vision for FY20, FY21, next couple of years from here on, where do we see growth, ROAs?

Murali M. Natrajan: So, we do not give year specific targets, as you know. But what I would like to say that we had said about 14%, we had said about 55%, we have said about 1%, etc., I think two of the three is already in some ways done and I personally believe that it is absolutely sustainable. Of course, sometimes analysts have this looking at every quarter to quarter, the actual business may vary quarter to quarter but directionally we are very confident about our business model. Sometime ago some doubts were raised whether business model can ever deliver even a 55% cost-income ratio or it has a high cost-income ratio. We never believed that. We believed that it can be operated at a lower cost-income ratio.

And we are confident looking at the performance of the branches, looking at the performance of the businesses that we could be 50% or below in course of time and we have drawn up some plan internally for that. I am not at liberty to explain to you that. But if I look at today and if I look at two years from now, I certainly believe that the profitability numbers, whether it be ROA, ROE or cost-income ratio, should be definitely better than where we are today. Number two, if you look at cost to average assets, I believe that we are at least down by almost 40, 45 basis points compared to last year. So, eventually we want to come to a 2.3, 2.35 cost to average assets for this business model. Our confidence is pretty high, sometimes we get bogged down by is it 14 or 13.5 or things like that, we know that 14 is only a point in our journey, our journey is much further ahead. And we have confidence, there are opportunities, there is opportunity in improving efficiency, there is opportunity in looking at improving our fee momentum, there is opportunity perhaps even in improving our risk weighted asset consumption. So, I see lots of opportunities in this business model.

Darpin Shah: And one last thing, anything specific on competition in LAP business, pricing power, prepayments, etc?

Murali M. Natrajan: We have not heard anything recently about this, last couple of months have been reasonably quiet. And we have been making sure that our pricing is reflective of the cost of funds that we are experiencing, plus also making sure that loan-by-loan we meet the cutoff of the ROE, very few loans are booked which does not meet the ROE cutoff that we have set ourselves internally. So, I think it might build up next quarter or something, I do not know, but at the moment the competition is quite manageable.

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

Renish Bhuva: Sir, a couple of questions. One on the delinquency in AIB business, so this quarter we actually saw a spike in this delinquencies in this portfolio, so any particular reason?

Murali M. Natrajan: One is of course this Rs. 12 crores fraud in AIB, that is part of the explanation. Secondly, in the rice mill or some of the smaller SME loans, we have had some challenges, primarily on account of cash flow issues faced by these customers. We continue to do reviews of these loans to see what is our requirability. We have reasonable confidence that they all have good properties attached to it, and when I say they are all small ticket means like these are maybe Rs. 2 crores, Rs. 3 crores type of loans. We are confident that we will be able to recover these loans. For AIB, because of this fraud it has not been a great quarter from slippage point of view. But I see that there will be some momentum in recovery in the coming quarter or the following quarter.

Renish Bhuva: Sir, basically, if we adjust for this Rs. 12 crores the delinquency you see would be at that level going forward or there will be some scope of further improvement in the AIB delinquencies?

Murali M. Natrajan: AIB delinquency, I cannot say there will be a further delinquency or not. Basically this is a one-off event that has affected us.

Renish Bhuva: So, there is no any microfinance portfolio which is hitting us in AIB?

Murali M. Natrajan: No, microfinance portfolio has not, in fact, there may be a net recovery or something in microfinance, we have not faced any challenge in microfinance portfolio. But what I would like to say is you look at the recovery and upgrades for the first nine months of this year, and Bharat can comment on it.

Bharat Sampat: If you add up the recoveries and upgrades from first nine months, we have nearly hit the number for full year last year. That is a strong recovery and upgrade performance. What it does demonstrate is that small ticket secured lending recovery rates are much better than large ticket unsecured. And lastly if you see, not only us but asset reconstruction companies to whom we have sold some of the SME and small ticket secured loans are also showing a steady recovery on those security receipts. At the peak we have issued so far totally Rs. 74.75 crores worth of security receipts, which are down to Rs. 48 crores through hard cash recovery. And for the rest of the security receipts also, rating which is coming through from the rating agencies, recoverability between 98% and 100%.

Renish Bhuva: And secondly on this Other Income part, even if we take out the capital gain, etc., there is a sharp jump in the miscellaneous income part, around Rs. 18 crores. So is there any recovery from the written-off accounts or what experienced this sharp jump, it was Rs. 9 crores in last quarter?

Murali M. Natrajan: So, part of it is explained by, every year you will see this because the PSL sale that we do, we amortize it over four quarters. So it balloons towards third and fourth quarter. And we are always much ahead in terms of what is minimum required, because we usually end up at 55%, 60%. And so there is available pool for us to do a PSL fee. And the good news is that all of it comes back again for us to do it again in next year. Unless some rules change, that is what the rule we are operating under currently. And that amount is disclosed for last year also in our annual report, you can have a look at that.

Renish Bhuva: So it is purely because of the PSL fee income?

Murali M. Natrajan: Yes, that is a phenomenal work, because that is directly because of the small ticket focus. So, on NPAs I have one comment, I just want to tell you that. I just said, I just was looking at this quarter, what are the various loans that have become NPA, even this Rs. 12 crores that you are talking about, of course it is a fraud, but there are all number of small ticket adding up to that Rs. 12 crores, Rs. 13 crores. And in a commodity, despite the fact that there are checks and balances and all, I think there has been some issue in the last mile and therefore there are lessons learnt, but anyway we are not focusing on commodity funding, it is a winding down business. We believe that it has got too much work to be done for too little benefit on the PSL basis. So, therefore, we took a call many months ago to just kind of slowly whittle down, but in the meantime we have had this accident and we are making provisions. But more importantly, if I ignore this and look at the rest of it, first look at some four, five loans, they are all in Rs. 4 crores, Rs. 3 crores, Rs. 2 crores, the rest of it is all in the Rs. 70 lakh, Rs. 60 lakh, Rs. 50 lakh, that kind of a small ticket, whether it be a home loan, whether it be a commercial vehicle, whether it be a loan against property. So, every month some recovery occurs. I only worry about, even though our corporate portfolio is small, it is only 15%, I only worry about two, three accounts that we always have some. They keep giving us some stress or headache here and there, I worry about that more than I worry about these small tickets. If there is a fraud, of course, that is a different matter, but generally that is how our focus is.

Renish Bhuva: Sir, if I can ask just last question. Sir, on OPEX part, though the employee expense has actually swell during the quarter, but other OPEX still has increased by 8%, despite there is a benefit of Rs. 5 crores on the depreciation. And I think we have closed down some ATM also, I think absolute ATM numbers has gone down this quarter from some 542 to 505.

Murali M. Natrajan: But every year or every now and then we have to do a purge of ATMs that do not make sense from a P&L point of view. And you would have seen this, even about two years ago also you would have seen some, sometimes we are opening 50 ATMs and maybe closing 50 ATMs, so probably don’t see the net effect, but here it has been different. Again, there are some rules that have come in terms of the upgrade of ATMs and meeting RBI guidelines, it is sometimes cheaper to exit the ATM then try and upgrade those ATMs. So, that is one. Other thing is that cost line by line, whether it be a rent, it be repairs, it be security guard expenses, it be DSA commission, line by line there is a very strong focus in our bank. And right down to the branches, right down to the department there is a huge amount of focus. So, all this has not happened, the cost increase has been contained, because there is a lot of activity and work that is going on, demanding productivity of every cost. So, I believe that we are pretty much on top of the cost, and we also make sure that headcount is given only to branches that are giving us more, no point in throwing headcount at branches that are still struggling. So there is a lot of reallocation of resources, it is a very active work that we do on cost, it will take me almost half a day to explain all the various things that we do on cost. Bharat wants to add something.

Bharat Sampat: Renish, cost for quarter ended December 2017 was Rs. 106 crores, current quarter is Rs.104 crores. Even if you back off the difference in estimated useful life impact of Rs. 4.5 crores, it goes to Rs. 109.5 crores versus Rs. 106 crores. So, 3.5 crores increase on the base of Rs. 106 crores…

Murali M. Natrajan: On the base of 330 branches.

Renish Bhuva: Actually I was looking at the sequential data, so I think might be in Q2 there might be some lower base of something, that is why I think this quarter it looks like 8% QoQ jump in the other OPEX, from Rs. 77 crores to Rs. 83 crores.

Bharat Sampat: What I would request is, like Murli mentioned earlier in one of the replies, that quarter-to-quarter there may be plus/minuses here and there.

Murali M. Natrajan: I do not think we should get bogged down.

Bharat Sampat: I will just read out the five quarter numbers, Rs. 106 crores, Rs. 105 crores, Rs. 106 crores, Rs. 99 crores, Rs. 104 crores.

Renish Bhuva: Got your point. So, basically, we are pretty confident about achieving that 2.3%, 2.35% kind of a cost to assets over next two years, so I think that is the key message.

Bharat Sampat: Yes, if we are not confident we do not mention it in this call.

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

Dhaval Gada: Just a few questions, firstly, this quarter we have seen yields sort of improve after decline for many quarters. So, just if you could comment a little bit about the pricing environment? And also just relate that with the mortgages business growth? If you look at directionally over the last maybe three, four years quarterly basis we have seen that directionally mortgages growth has been decelerating and my sense was that this quarter we may see some reversal of that trend, given how competition in the NBFC space has behaved. So, what is happening in the operating environment and how the pricing is moving, if you could tie the two?

Murali M. Natrajan: See, the home loan NBFCs are exiting regular home loans for whatever reason. We are not into the standard vanilla home loan business because at the rate at which these home loans are done, which is 8.59% at our cost of fund, it does not make sense for us even at 35% or 50% risk weight. So, we do only self employed home loans where we believe we can get about 50, 60 basis points pricing. So the home loans, my belief is, it has gone probably to larger banks, I am just taking a guess based on what I know from the interactions with our RMs, a lot of loans have gone to either Axis Bank or ICICI or those sort of things. So you may see that number there, and their financials I am not aware. When it comes to LAP, they come in all sizes and shape, you have to choose what is the risk appetite that is acceptable to you, what is the ticket size that is acceptable to you. I would say that October the market was still figuring out what to do, November we started experiencing some benefit in terms of lower pressure on pricing, in the sense that customer was closing the loans, when I say close means closing the sales faster than it was before. December, I would like to believe was even better. But we actively let loans that are especially large ticket demanding higher top-up, etc., we actively let that go because we believed that it does not fit our risk appetite, it may be okay for some other entity. So, loans booked minus loans that are exit because of attrition, I can see that there is some improvement happening. If this trend continues, the pace of mortgage might pick up. Whatever be the availability of loans in the market, we only chose what fits our risk appetite. And next point I want to say is that it is also a distribution game, if I add 200, 300 more people to mortgage, automatically I can pick up more mortgage loans. Those kind of calls we will see based on the financials, what kind of numbers we need to deliver in the coming months and so on. So, net-net what I want to say is that there is some benefit on both pricing and volume, it is still not fully reflecting, hopefully it will reflect in the coming months.

Dhaval Gada: Understood. And just on deposits, we have seen couple of very good quarters on pick up in retail term deposit. So, if you could comment a little bit about, is online FD product that you had launched sometime back, is that a meaningful contributor, what is happening on that front?

Murali M. Natrajan: My comment is that online item is still picking up, it is not adding any significant volumes. We need to spend a lot of marketing money if we need to make that work. But for repeat customers it is a phenomenal convenience. And the fact that now we cannot use Aadhar, therefore there is an offline work to be done, so that takes up another one or two days. Not that it has taken away the glamour out of the product, but just a little bit more process intensive from that point of view. I think the branches have been given very detailed goals on CASA and retail deposits, we have confidence that we will continue to improve our deposit profile.

Dhaval Gada: And just lastly some data keeping questions, one, what is the employee count at the end of the quarter?

Murali M. Natrajan: Approximately 6,000.

Dhaval Gada: So it has remained stable for last three quarters, broadly?

Murali M. Natrajan: Yes, at the moment. And we have given you guidance I think that we will grow employees by 300 to 400 or something like that, I think that is where it seems at the moment.

Dhaval Gada: And just one more, on provisions if you could provide the breakup for the quarter, the breakdown of the provisions line and the stock of floating provision at the end of the quarter?

Murali M. Natrajan: Floating provision must have grossed Rs. 70 crores, if I am not mistaken.

Bharat Sampat: Rs. 73 crores in provision.

Murali M. Natrajan: This floating provision is done based on the policy that we have got approved by Board, which was like two, three years ago, whatever. That irrespective of how this thing is we keep making those provisions every quarter. Rest of it, Bharat, you can comment on it.

Bharat Sampat: Credit provisions are Rs. 35 crores, floating provision is Rs. 5.5 crores and then Rs. 2 crores release in provision on investment and Rs. 2 crores provision for standard assets. I am rounding up the numbers a little.

Moderator: Thank you. Our next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a couple of questions from my side. One, this fraud exposure that you had indicated, how large is it for the system or it is not too much?

Murali M. Natrajan: Looks like at least six, seven banks perhaps maybe involved. I do not have any report from any source to say what is it, but from our RMs I understand that multiple banks are involved.

MB Mahesh: A few hundred crores or its in thousands?

Murali M. Natrajan: I really do not have an idea, all I know is about our exposure. And then I really don't think I should give any unauthorized, because sometimes RMs in order to, because I will be beating him up, so in order to feel good, he may say that other bank has lost so much, I mean, that does not help me in any case, right.

MB Mahesh: Second question is on your cost of deposits, is there a material difference between cost of deposits and cost of funds for the bank?

Murali M. Natrajan: Material will be defined as what? Cost of funds will be higher because it will be refinanced items in that, Bharat, right?

Bharat Sampat: Right.

Murali M. Natrajan: And Tier-II will be there in that.

Bharat Sampat: Mahesh, during the current quarter for example, we have availed Rs. 600 crores of refinance from NHB and NABARD. Now, NHB and NABARD fund, while there is no CLR or SLR on it, but the base rate is slightly higher as compared to the term deposit rate. So there the cost of borrowing would be appearing higher, but on the other side there would be a benefit in terms of no statutory appropriations. And ALM profile improves, that is a bonus.

MB Mahesh: The reason I am asking this question is slightly different, if you just take a slightly lower number out there and just assume that to be the cost of deposit, just trying to understand how much more do you have to go in terms of the cost of deposits probably peaking for the Bank, because you seem to be getting some pricing advantage on the other side? So just some outlook on the margins on that.

Murali M. Natrajan: But that is a month-to-month, quarter-to-quarter we have to sit, we have ALCO almost every month, right. And that is how we have to decide as to what kind of deposits we need and what buckets and so on. So therefore, I cannot possibly comment, but the deposit base has been pretty steep in October and November. And there is some cooling off now, but as you know, March usually turns out to be a difficult month in terms of price, everyone wants to maximize, the deposit holder wants to maximize their returns.

MB Mahesh: And one final question, since you also interact with the fair amount of NBFCs, what is your sense, when do they get active in the market or you think that it will take some more time, because they also need to get access to funding which is still coming in a very slow pace?

Murali M. Natrajan: Slowly it is picking up and ALM profile, etc., if you look at, I think slowly it is picking up. I really think that NBFCs probably may not, they will have a great pricing power and all, but I am interacting with them and I do see lot more confidence about things improving in the last 30 days at least. So, I expect that beyond March we should expect these NBFCs to come back to some level, it may not be similar to what happened before, but yes, some level of this thing. But a lot of proposals are coming from various NBFCs for co-lending, or any other strategic partnerships and all, because everyone wants to kind of move forward with different business models, including the irregular models that they were operating.

MB Mahesh: Perfect, because you seem to be saying the originate to sell becoming a little bit more common these days.

Murali M. Natrajan: Yes, it is. But we have received some proposals on co-lending and all. Again, we do not want to jump into something without really finding out what exactly will it do to our ROE and operational risk, etc.

Moderator: Thank you. We take the next question from the line of Amit Singh from B&K Securities. Please go ahead.

Amit Singh: Sir, firstly on our incremental branch expansion, so say by FY20 what is our strategy on branch expansion? And where these branches would be, in which geographies?

Murali M. Natrajan: It would be mostly in our existing location, we do not plan to go to any new state. And at the moment, like I previously explained, we probably will add another 15, 20 by end of next year. Then depending upon how we are performing and our profitability parameters, we will move forward to the next level, if required.

Amit Singh: So we will add up 15 or 20 more branches in FY20?

Murali M. Natrajan: Yes.

Amit Singh: And secondly, in our LAP book what is, I mean, what is the origination? I mean, how the incremental origination is happening in the LAP book? Is it through our branches or is it through the other sources?

Murali M. Natrajan: So, we have two, three channels here. We have our own RMs sourcing directly through cold calling or through micro marketing activities. Then we have branches giving us leads for various products, including loan against property and home loans. Then we have mostly in metros, DSAs or connectors what we call as, they are giving us leads to be closed. In agri inclusive banking, almost 90% plus of our loans are originated by the branches themselves.

Amit Singh: Sir, if you could share the incremental mortgage breakup, I mean, how it is getting originated in the incremental mortgage book?

Murali M. Natrajan: We do not publish those data, but it is getting, like if I was to look at seven, eight years ago if it was let's say majority, or most of it was DSA, we can see that every month some improvement we are seeing in terms of the direct contribution by branches. What is important is it all depends on how we define the score card and weightage for various products at different quarters for the branch. So, the base score card, they have to do CASA and gold and whatever, and from time to time we need to keep adjusting the score card. The other point I have to tell you is that there are product managers like SME product managers, mortgage product managers, the way they interact with the branches and make their life easier, that would automatically mean that they will lean towards one particular product versus the other. So we have to keep making corrections for all that. So it is a very complicated process, sorry for a complicated answer, but step-by-step our contribution from our sources is improving.

Moderator: Thank you. We have the next question from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: Sir, quick two questions, one in terms of loan growth, when I look at this number at 23% YoY, 3.7% QoQ, this really looks low to what we are trying to do in terms of branch addition and productivity.

Murali M. Natrajan: Ignore Corporate loans and then calculate.

Alok Shah: Sure.

Murali M. Natrajan: Ignore the corporate loan base from both year and then tell me what is the growth rate.

Alok Shah: Okay, I will do that math.

Murali M. Natrajan: It should be at least 26%, 27% according to me.

Alok Shah: And that number would have remained more or less the same for the previous…

Murali M. Natrajan: See, our guidance is that we will try and double it in between 3, 3.5 years, that we have, I would believe, consistently delivered at least for the last few years, hopefully we continue to do that. We are aiming for profitable growth, we are not trying to drive this train faster than what the whole system process profitability can handle. So, therefore, we chose, no point in just adding on asset without risking liquidity, risking Rrisk Weighted Assets and so on. So we are trying to make it as good and efficient as possible without losing too much of growth, that is how we have been planning. And that you can see in our this thing, for example, Commercial Vehicles is growing, although small base it is growing well; Mortgage continues to be, it is about 40% odd of the book, it is probably growing at about 17% to 20%; Gold Loan is growing; then you have SME loans growing at 20%, 23%. So, we are quite okay, there is a diversified portfolio, we have lots of opportunities.

Alok Shah: I take your point, I did this math, I did math of December 2015 when we started branch addition to September 2018 growth, ex-corporate, that averages 28%, we are at 26%. I am not saying 28%, 26% is a big number, but on a steady state basis we can grow at 28% to 30% on retail SME books is my question to you?

Murali M. Natrajan: My answer to it is that in a 3 to 3.5-year period we are aiming to double our book. I am not able to give you a year-on-year thing because it depends on what the regulatory environment is, what the risk environment is and so on. Our team is dynamic enough to keep making adjustments to the business model and sales and everything like that to deliver performance, and that is what our confidence is.

Alok Shah: Sure, that is helpful. The second question that I have to you, when I look at balance sheet, and again, this might not be a right indicator, but the sequential growth in loan portfolio, the absolute amount or the incremental LDR, let me put it this way, that number has come down to 61% which was 70% plus in preceding quarters.

Murali M. Natrajan: What is the 61%?

Alok Shah: Incremental. So I am saying Rs. 22,800 crores of loans versus deposit base increase of 14,000 crores increase, or a Rs. 13,000 crores number, so…

Murali M. Natrajan: Have you counted refinance of Rs. 600 crores that Bharat mentioned, that also is a source of fund for us, right?

Alok Shah: Okay.

Murali M. Natrajan: So, are you referring to a faster deposit growth and slower loan growth, is that what you are referring to?

Alok Shah: Yes, so Rs. 600 crores refinancing which came in in this quarter is the reason why.

Murali M. Natrajan: No, again, my answer to you is that, I am in no position to explain to you like in a 15 day period what happens or a 30 day period what happens. All I can say is that we keep balancing this liquidity profile, the mortgage book, the SME book. The intention is to grow, of course if I can grow at 50% without losing any profitability or credit losses, definitely we want to do that, not that we are saying no to a higher growth, then that we have to make sure that it is supported well by CASA, supported well by deposit growth. There is a lot of parameters that needs to be considered. Considering all the parameters, at the moment we believe that we can double our balance sheet in 3 to 3.5 years time. And it may be off in a quarter here or maybe better in other quarter, don't count the Corporate, Corporate we believe that we will be keeping it about 14%, 15%, and that has been very consistent about this last few years.

Alok Shah: Sir, just two data point questions. Would you be in a position to quantify the PSL fee income for this quarter?

Murali M. Natrajan: It will come in our annual report. It has been at least for the last two years we have been able to repeat the performance. If regulatory conditions remain the same, we have confidence that that is a good item to pursue.

Alok Shah: And the last point, Tier-I 11.9, that is without profit, is that right?

Murali M. Natrajan: Yes.

Alok Shah: And then Tier-I including profits, that number would be?

Murali M. Natrajan: That would be published after the audited results in April or May, whenever we publish.

Moderator: Thank you. Our next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: If I look at the LAP book, what is the outlook on growth? As somebody mentioned, it has slowed down to around 17%, 18% as compared to 30%, 35%. Is that leading to a slowdown in core fee income? Because if I look at our core fee income it saw a muted growth during this quarter and even on a nine months basis it is lower than what I think we would have been targeting? That is the first question.

Murali M. Natrajan: So, product mix is a very important thing. So, what happens is that there are multiple products within LAP, depending upon the customer profile. At one end instead of LAP if you look at mortgage, one end is home loan where the fee is very minimal, like maybe 0.1% or Rs. 5,000 or Rs. 2,500, that kind of stuff. On the other end there is a small ticket kind of loans where it could be as high as 1% or even 1.25%. So, the point I have to say is that we had phenomenal competition in the first quarter and last year in loan against property, especially coming from NBFCs, those are easing. So, I do see some change in the product mix happening on that. Fee income is a phenomenon, of course some amount of fee income comes from processing fee, I agree, because of the loan origination. But the point is that fee income is very dependent on how well the branches are delivering on fee and what are the number of customers that they have. We are confident that we can deliver 12% to 15% kind of fee, stepping up to a higher number over a period of time. And we are working on that and I see that as an opportunity, not as a weakness.

Prakash Kapadia: No, but in our case, Murali, the contribution from LAP is higher than mortgages, the point of mortgages which you made is very relevant and fair. But given our dependence on mortgages which was there, I am just trying to understand because of the tapering of the growth rate has the fee income come down?

Murali M. Natrajan: Specifically to mortgage, if I grow at 25% LAP versus 17% LAP, the processing fee element or consequently any other fee that may come would be lower. But again, it also depends on market conditions, because lot of time fees is a very pure market condition, people are offering at a lower rate the processing fee, we will not be able to charge higher fee on those. Such problems we have not faced in terms of fee in SME so far, because it is a CCOD product usually, and the fee also can be repeated in the following year for renewal, etc., at least some part of it, not all of it. Mortgage is the most competitive product in the country, so we are looking at some product mix there to see what we can do. Again, it all depends on the market. If we can grow it faster without causing issues for us from both liquidity and NPAs, yes, definitely we certainly would want to do that.

Prakash Kapadia: And secondly on our endeavor to increase Personal Loans to our existing customers, where are we gearing?

Murali M. Natrajan: It is a start, so we probably have about Rs. 100 crores of loans, something around that. And we are getting all, because if you recall 10 years ago I do not think we did a good job in Personal Loans, so those scars are gone but still some memory is left of that, so we have to convince the Board that we are good guys and we can do this well and so on. So we will take our time to establish a very strong process, credit controls and all, and then we will see where we end up on that. In any case, our ambition is not to go beyond 3% to 5%.

Prakash Kapadia: 5%.

Murali M. Natrajan: Yes, 3% to 5% is what we see over a period of time. And therefore, yes, I am happy with the progress that the small team has made there.

Prakash Kapadia: And lastly, you mentioned about the opportunity on scaling other income, so given that some of our branches are seasoned now and branch expansion will not be as aggressive we had seen over the last two years, so is it fair to say the work in progress should start yielding results in other income in FY20 and beyond?

Murali M. Natrajan: Sir, this is yielding results in cost-income ratio, it is yielding results in balance sheet, it will yield result over time in fee as well, we have the confidence on that. I mean, as customers why would we not be able to, the products are there with us. So, I would say that it is a part of our journey and our confidence is high. Yes, some amount of more work will be done, but I see that as an opportunity clearly.

Moderator: Thank you. Our next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Sir just on the productivity, I think this is one of the metrics which we have discussed where you mentioned that we want to sort of improve the productivity. In terms of our journey, I mean, because we have the March number where we discussed around Rs. 8 crores of business per employee, where are we in terms of improvement of the productivity?

Murali M. Natrajan: I will tell you the numbers where we are looking at business per employee, it has gone up by at least Rs. 1.5 crores in the last 12 months per employee. My numbers tell me that March 2017 we were at 6.85 business per employee, and we closed this at 7.71. So, I can see that in last quarter it was 7.41, before that it was 7.29, before that it was 7.23, before that it was 6.85. So, I can see step-by-step, and remember we are doing small ticket. So, if I had done big tickets probably it would be much, but yes, our confidence is that we are working towards the Rs. 10 crores, Rs. 11 crores kind of number over a period of time on this.

Ashish Sharma: And sir, just clarifying on the employee number which we have given, it was I think 600 or 700 or…

Murali M. Natrajan: It is approximately 6,000.

Ashish Sharma: And then just lastly, you have already given your comments on the growth part, we should look at ex of corporate. But given the growth rate in which we are comfortable at, the band, when should we be looking at raising capital? I mean, again, the Tier-I is without the nine months profit, so what are the threshold at which we need to sort of raise capital? Although, there is a buffer in terms of having sufficient Tier-II at this moment, when do we need to raise capital in this journey of doubling the balance sheet?

Murali M. Natrajan: So, Bharat just corrected me, the headcount number is 5,934, I said approximately 6,000. Coming back to this, I want to tell you what my feelings are about Tier-I capital, of course, this 11.93 does not include the current year profits. What I would like to say is that look at the way we have been using Risk Weighted Assets efficiently, for the past at least three quarters. We want to see what more improvement we can do and that would give us a path on when exactly do we need to raise capital. So, my comment is, in the past maybe I said that I want to raise capital in 2019, 2020, but I would go back to the drawing board and say that what exactly is the kind of capital usage that we are achieving, the efficiency.

And that would lead to what point in time we need to kind of raise capital. So, in any case I do not see that for at least six months or so, I do not see any reason to raise capital.

Ashish Sharma: Okay, so we will review maybe half year down the line in FY19?

Murali M. Natrajan: Yes, we will review half year down the line and see where we are. I could not say that till all the initiatives of our Risk Weighted Asset improvements are showing some results, and you can see that at the moment. So, therefore, I would say that at least till June I do not have any thoughts on raising capital.

Moderator: Thank you very much. Sir, would you like to give any closing comments.

Murali M. Natrajan: Thank you very much. And if you have any follow-up questions, please write to Bharat and Gaurav and we will be happy to respond back to you.

Moderator: Thank you. Ladies & gentlemen, on behalf of DCB Bank Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines now.