DCB Bank Q3 FY 2021 Results Conference Call Transcript
23rd January 2021

MANAGEMENT: MR. MURALI M. NATRAJAN – MANAGING DIRECTOR & 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 Q3 FY'21 results conference call. Joining us on the call today are Mr. Murali M. Natrajan -- M.D. 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 now 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, and thank you for dialing into this call. I know it is late evening on Saturday. We hope to finish this call in about an hour or so. And I have some "Opening Comments", and after that, we can start the "Questions."

The first point that I want to mention is that this is the quarter, which did not even have one month of any moratorium, so to speak, right, because the previous quarter had August as a moratorium. I want to give some perspective. When we are dealing with a self-employed segment, which is like medium to small ticket kind of segment. Even in pre-COVID times, it is normal to have about 2% of the opening book as a slippage. If you see our performance in the last few years, you will find that anywhere between 2 to 2.25, maybe a quarter was an exception or something, but generally that is the kind of slippage that is expected. And then of course, we did quite well on recovery. We used to have at least 50%, 60% of those recovered, primarily because we are dealing with secured business. Our loss given default has been quite under control in all these years. And it has not been such a big problem to manage this segment and we have developed a reasonable level of expertise on that.

Now, talk about COVID. First, March to August was moratorium. And then August to December we must honor the Supreme Court decision. So March to December, banks have not declared any NPA. So in a COVID hit situation, to expect that there'll be no slippage even the normal 2%, I think one needs to put it in perspective as to underlying portfolio usual slippages is bound to happen. For 10-months, there has been nothing at all. This is the first time this year something and hopefully by March quarter if the Hon'ble Supreme Court issue sorted out, then things become a lot more normal. Now, the slippage is not that big a concern as the inability to proceed on the recovery action. If you don't make it an NPA, then you can't proceed for various actions for recovery. Now, normally, if an account goes into NPA, by third or fourth month, you are able to kind of get some way forward on the customer, some settlement, some recovery plan, some sale, whatever, and then within six, nine months you are able to resolve majority of the cases. Now, in this current situation, we find ourselves in a situation where we cannot use too much of legal the thing, we have used the negotiation with the customer to kind of recover. And despite that, we've been able to recover about Rs.30 crores of NPA, and that doesn't even include gold auction, I mean, the gold NPA recovery has been negligible in this quarter. So you must put it in that perspective.

Barring any nasty or unforeseen surprises, we believe that we have reasonable understanding of the portfolio where it is proceeding. We have given you very informative numbers in terms of collection efficiencies. So you know things are improving, no doubt, but customers who have been deeply impacted by COVID are taking longer to come back to some level of business performance such that they can repay the loans. Of course, there are intervention tools, we have ECLGS, we have COVID relief for the personal loans, we have MSME restructure. There again we find different, different responses. I've gone through many customer responses. Some customers who are non-delinquent as on February 29 and let's say they have not paid us any money since August, when you offer them these relief, they have already planned to close the business, sell the property and give you the money. Now, they're not interested in any of these interventions, because they feel that they're just going to sell the property and pay off the loan, and the bank will have to wait maybe one or two months to make that happen. There are situations where customers feel that if they hang on for another three, four months, they don't need any extra money from the bank, why should they take that relief? Sometimes when a customer is given a new payment schedule, and he finds that the amount of money that he has to pay at the back end is higher than what he has to pay now, they think that maybe they have to bring some capital and reduce their debt and then ask for restructure. So, many times you have cases which must be tailor-made to the situation. So it takes time to address that. Of course, the sooner the uncertainty over the Supreme Court, the thing happens, the faster banks can start their recovery process. So, that is where we see ourselves. We are doing very well in terms of gold loans, the mortgage sales are picking up, we are doing well on KCC and tractors. We are being cautious on Corporate as usual. And in MSME, SME working capital, we are worried because we don't want to acquire customers who are under stress somewhere and then we end up acquiring. So we must be very cautious about who we acquire. So, we are being very measured in approaching new business in that area. So that is how we are. And we are quite confident that by March, April, we should be able to step up our new sales further so that we can have a decent growth of loan book in the following year.

However, I was just telling my colleagues that we see ourselves actually playing two matches simultaneously; the first match we are playing is India versus Australia third test where we have to bat the 130 overs to achieve a draw, which is like dealing with the stressed portfolio. And simultaneously we are playing both matches. The next match we are playing is the fourth match of India where we must bat 100 over plus to win the match which is our growth this thing. We have confidence, we have the resources, we have the capability. And barring any glitches here and there, we feel confident of dealing with the situation. Please don't expect that there'll be some uniform things that happen. There could be surprises… we don't like to give any surprises to the market. We hope there are no surprises but given the current uncertainties in the market while we put our best foot forward every day, sometimes it may not be possible to predict certain things. However, as of now, we are on top of it. Our 700 plus collection team is going out there, we don't have any outsourced collection, everything is in-house, going out there, assisting customers in every way possible to try and find a solution for stressed accounts. And we are not leaving a single stone unturned to help the customer and address the issue. As and when the other recovery methods, mostly, the legal methods start to open, we hope that we can achieve higher recovery percentage. So that is where we are.

I thought I will just give you my perspective on this and we are ready for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sharma Kunal from Perfect Research. Please go ahead.

Sharma Kunal: Sir, I have three questions. First that in a banking with growing size and the scale, the bigger bank benefits from the lower cost of funds and better brand of deposit mobilization. What competitive advantage do we have against the bigger banks? Second, banks like a Kotak kept saving accounts rate quite high and then kept on reducing saving rate, customers didn't shift and due to which they have a very good CASA ratio at a good cost, even IDFC Bank is pursuing the similar strategy. So any reason why we are not trying the same? And lastly, can you please share some color on earlier plan of moving to 14% ROE and higher, what's the revised timeline and our strategy for it?

Murali M. Natrajan: So, when I joined the bank in 2009, people asked me what is your competitive advantage? We were at 3,000 crores loan book at that time, we are now at about 25,000 crores book. So, I really don't know how to answer that question. We are experts in catering to self-employed segment, and we do small ticket loan, we do it quite well. And we have been at it for the last several years. And we don't seem to have any difficulty in acquiring these customers. At times we face challenges because maybe a small bank, maybe an NBFC give them a lower rate, we have an anti-attrition team which takes care of that part of the portfolio. And as far as we are concerned, we have been maintaining decent NIMs upwards of 3.65%, 3.7%. At one point, our NIM used to be even higher than 4%. So we have not had any challenge in maintaining that kind of margin for us. So we focus on small ticket self-employed customer secured lending. And we don't see too much competition from any large bank, occasionally we do see an HDFC Bank or some other, but generally it used to be an NBFC. But we don't participate in the NBFC space because that is slightly a riskier space. We have chosen our risk appetite and we act according to that risk appetite. That is all I can say for your first question. As respect to savings account rate and so on, what exactly is the cost incurred by these various banks for getting that type of deposit, they only will know. By paying 7%, whether it is the right way to get savings account? We don't have that strategy. We don't apologize for not copying that strategy. Once I was speaking to a CEO of a bank, they have this program of 6%, 7% on savings account. They spent Rs.100 crores on the advertising budget itself. Now that may suit their balance sheet and their P&L and their approach. It doesn't have to be the same that we must copy and do it. Our approach is very simple; we want to get small ticket retail term deposits, our target size for deposit is about 1.5, 2 lakhs. The cost of acquiring that is quite reasonable. The cost of maintaining that is also very reasonable. Our competitive advantage is that we normally pay anywhere between 20 to 30 basis points, sometimes 40 basis points, higher rate than competition, yet we are not one of the highest and we are able to get the deposit, and those deposits customers are cross-sold CASA, we find that to be quite okay. At some point in time, we used to offer higher rate for greater than Rs.1 crore deposit and used to pursue that. But we found that we get only higher ticket deposit size and they are very fickle deposit which just runs away the moment some rate is changed. I don't agree with you that the moment rate is changed, customers don't go. Small customers may not go, but big-ticket customers switch, and small customers to acquire you don't need to offer any rate. If you want to get a 50,000 70,000 savings account, you don't need to offer any rate for that, at least that is what we have seen. As far as ROE is concerned, the next 12-months or four quarters will go in dealing with the COVID-related challenges. We are working towards the 2.2% cost to average assets metric. Our NIM, barring maybe one or two quarters of dealing with some NPA or stress book should be in the range of 3.65 to 3.7. We are working towards 110 basis points of fee. On a steady state, I think our credit cost should be about 50, 55 basis points. That is how we plan to have a much higher ROA, that is about 110, 120 kind of ROA and that will lead us to deliver 14% ROE. I do think that we need about four to six quarters to kind of reach that level.

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

Rohan Mandora: Sir, in the opening remarks, you alluded to the fact that there are a few cases who were there looking to exit the business and sell the property. So, just on the process part like wanted to understand as a bank, how we will capture the cash flows from the sale of property to ensure that our loans are repaid, that is one? Second, if you can talk about why the ECLGS offtake has been relatively lower for us, so, what is the behavior of the customer, why are they not taking the ECLGS disbursements?

Murali M. Natrajan: So, the property is mortgaged to us. Customer cannot sell the property without our NOC. That is how the whole world operates. If he sells the property, the property cannot be registered because the original documents are lying with us. So, the money must come to us for him to take back the original document. That is how mortgage works. There must be a society NOC, a lot of complications are there. There are one or two cases where customers have tried to sell their property without us, and they are facing fraud charges and other things. So, it's very dangerous to sell a mortgage property for the buyer and the seller.

Rohan Mandora: So sir, the money from the buyer will come directly to DCB or it will get routed via the customer?

Murali M. Natrajan: It must come to DCB. That is how all mortgage works across India. That's the basic of the business. On the ECLGS, one senior banker called me and said that, look, we disbursed so much of ECLGS and many of those customers who have taken ECLGS, not only used the ECLGS, now they are becoming delinquent and along with ECLGS, , they are becoming NPA. We wanted to conserve the bullet. And till August, since it was lockdown and this is not picking up, we didn't see any sense in just rolling out the ECLGS and giving the money plus our customers where individual customers. First, government gave ECLGS to non-individual customers, then based on representations from bank like us, they open it up for individuals, then individuals approval came much later in the cycle. From there on, the first task for us was to get the sanctions done in their digital system, we have about Rs.2,000-odd crores on digital system. Last quarter, we were at about Rs.300 crores, this quarter, we are at about Rs.600 crores, we have another six months to disburse the loan, which is the March quarter and June quarter, and we are proceeding in a very systematic manner on this. There are customers who don't want this money. And there are customers who want desperately the money. The guys who want desperately the money, we want to be cautious how they are going to use the money. Is the business coming up or not because just by giving the money just because it is guaranteed, doesn't make sense if it's not going to help the customer in any way. So we have created a grid whereby we are evaluating the customer and disbursing the money and we are confident that the pace will continue to pick up.

Rohan Mandora: Sir, the collection efficiency in the month of December has gone on marginally vis-à-vis November. So any specific that we have?

Murali M. Natrajan: It has gone down marginally.

Rohan Mandora: So sir any specific current trend which is leading to this or is that business as usual, some volatility monthly?

Murali M. Natrajan: That's what I mean, that is marginal. These are all irrelevant to focus on because like maybe a few customers or maybe there was some holiday in someplace, something like that, so it doesn't really matter.

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

Darpin Shah: First question is, how much proposals you have further received for restructuring, which can be expected in Q4?

Murali M. Natrajan: Darpin, I don't have the MIS on how much proposal is there on restructure. Our guidance is up to maybe 3%, 5% of our business could get restructured, I mean, in a sense, because of the COVID related stuff. And what is happening is that as far as corporate is concerned, since we are not a big bank on corporate, we cannot possibly tell you as to who's coming up for restructure there. Only when we received some intimation from other banks, we will know. As of now, we don't seem to have any problem. More restructure requests are coming from loan against property customers and CV, less from home loans as of now, SME, MSME working capital also requests are less from that point of view, and there are customers who are waiting for their business to pick up before deciding how they want to go. So, that is the other question. Like you are ready with your solution, but the customer is not ready to immediately accept it. So all those things are happening. So, I think the whole team is working on it. So let's see how this quarter goes on that.

Darpin Shah: One small clarification sir. In the press release, you have mentioned that assets to the tune of 160-odd crores where work is in progress there for restructuring. So, have you already included this Rs.160 crores in the pro forma NPA this 3.7%?

Murali M. Natrajan: Yes, yes.

Darpin Shah: So, in case this goes through, the pro forma NPAs would have been lower by say 60, 70 basis points, 3%?

Murali M. Natrajan: Typically, this work in progress item would be that we are telling the customer that you give me at least two installments or one installment to show me or this thing or the customer documentation is pending, or the customer is saying that I'm going to bring in some capital and reduce my this thing. So there are multiple discussions must be happening. I can't structure it into any one bucket. But we know that we are like tracking these customers quite closely. There is a full tracker that is there, which means we're tracking it closely. This 159 is already included in that 448 so is 30 included.

Darpin Shah: If you can provide some quantitative color on SMA book?

Murali M. Natrajan: We have given you all the collection efficiency and everything. We don't have such a corporate book to give you SMA kind of thing. I have never seen that being out of range in any way. So probably we will consider in the next quarter what we can do on that.

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

Mahesh MB: Few questions from my side. First question to Bharat. If you can give us the breakup of provisions? And on the pro forma numbers on the gross and net NPL that we used, the increase is about a little over 450 crores. Does that also include the COVID provisions that you have in your books for the 500 crores, is that netted off when you're bringing your net NPL numbers?

Bharat Sampat: You mean the breakup of P&L part, right, balance sheet part is already given in the press release. So, for 148 crores, the breakup is COVID-related 86.1 which is there in the notes to accounts, aging additional provision on NPA accounts Rs.20 crores, floating in accordance with our policies, the floating provision has now reached Rs.105

crores, we have made Rs.3 crores there and RBI mandated standard assets Re.1 crore, so, Rs.4 crores over there. MSME and COVID restructuring together Rs.22 crores and we have a process of internally reviewing standard accounts and making provisions where we feel that we may need specific provision for a particular account before it slips, so, that is the Rs.16 crores. On your second question on COVID-related, what we have put as pro forma, Supreme Court provided forbearance. The netting off is to the extent of provision related to that and Rs.86 plus 22 crores, 114 crores has been netted off.

Mahesh MB: If I just see your provisions in the SMA is 519 crores, in which account?

Bharat Sampat: It is included in the Rs.229 crores. COVID-19 related stress provision, which is there, there we have given a footnote, include the provision of 114 crores for loans not classified as NPA, that is 114 crores which we have taken in pro forma.

Murali M. Natrajan: Mahesh, this Rs.448 crores are the gross number, that includes this 30 crores, 56 crores. We thought we should give you some color of this Rs.448, that's why we put all these numbers. To give you an example, if you go through our March presentation, we have said Rs.89 crores, we have taken benefit of COVID and did not declare it as NPA in March and put some provision on that. You can see our March result presentation. Now look at those accounts, tells us only Rs.39 crores are still in trouble, Rs.50 crores are below 90 DPD already out of that. We've been able to collect over the last few months as an example I am saying. And the other point I want to make is if you look at our gross NPA without this Supreme Court which is Rs.502 crores, the net of that is only Rs.150 crores, right. Now, doing a secured business where our loss given default is usually not more than 20%, 25%, we are very adequately provided on our base NPA, I would like to argue like that, very strongly provided on the base NPA. There can't be any downside on that if at all there could be some upside is what we believe.

Mahesh MB: One question on this, you have mortgage as your primary vehicle for lending. You think that prices are holding up in the market when you start selling these assets and you think that the LTV which is sitting out there adequately covered that we probably will end up with more provisioning on the credit cost?

Murali M. Natrajan: Okay, I want to split this into two parts. First, let me answer the LTV part of it. Below Rs.2 crores or below Rs.1.5 crores type of property, we don't see that much of value drop in the property. And we've taken a lot of examples of people's personal dealings on property as well as some of the other customers and all. We haven't seen much of a challenge. The challenge comes only when a customer thinks that he should get more. If there are offers available and the customer agrees we don't have any risk in our principal in majority of the cases. So I would argue that big ticket have a problem on LTV perhaps, but not on the small ticket, definitely not in the 1.5 crores or below area, and certainly not in the 40,50 lakhs unless of course, we have made some big error in our valuation itself while lending, that is a different challenge, but that's more like an operational risk and that is never systemic. It is usually an isolated kind of issue, that is the point one. So from that point, we don't think we have any challenge in the way we are providing for these stress book or NPA. At the same time, what I want to mention to you is that we have independent directors and we have a statutory auditor. Nobody has dealt with COVID type of pandemic. There are no models to rely on say whether we are good, adequate, and so on. Everyone is feeling their way through this whole thing. Of course, if you provide some 33% or so something as an example, one may feel, yeah, it is quite adequate. So I think this process will be iterative. We will keep reviewing the portfolio, we'll keep doing the analytics and seeing what it is because if there are delays in recovery because of the Supreme Court not deciding yet, those things may actually result in needing higher provisions till you actually recover. So now, I feel confident that we are providing well, but we will keep evaluating our provision every quarter.

Moderator: Thank you. The next question is the line of Rakesh Kumar from Systematix Group. Please go ahead.

Rakesh Kumar: First question is with respect to unclassified gross NPA number where we have provision close to around 24.8%. I'm referring to pro forma gross NPA number minus reported gross NPA number on which we have a provision of around 25%. So in your opinion, is that good enough now?

Murali M. Natrajan: So, supposing this was not seen as adequate, neither statutory auditor nor independent auditors would have approved these accounts. Okay? So it's not just management as to it, there is a challenge process that would have gone through and all. Second point I want to mention to you is that given that we do secured lending, usually, we have not seen our loss given default beyond 25%, 30%. Having said that, we will continue to evaluate our portfolio to see whether we need adequate provision. As a management team, we have always been wanting to do more than adequate provision rather than do provision at the lower level. So, we will evaluate every quarter and see what it is. Just because we are making provision doesn't mean that we think that is more stress, and that is not the way to see it, because more provision means it is strengthening. If we keep continue to do the recovery, obviously, it is going to be reversed. So in times like this, we generally like to behave more like a… I am from a foreign bank background, in foreign bank, you always take more provision than necessary and then keep working through the recovery process aggressively and then get it reversed. But now, we consider this to be adequate.

Bharat Sampat: Apart from Rs. 114 crores, which is in the numerator, for denominator of Rs. 448 crores we have given some more details in Point 15 of Press Release, you please have a look at that also, it will help you get a better picture over the adequacy.

Rakesh Kumar: Thank you, sir. Second question, sir, considering the collection efficiency number for the segments that we have reported, there is a gap of almost 5% to 10%. So, restructured number analysis of around 5% and thereon provision at the rate of 10%, is that number looking perfect in your sense? So, because if the 5% number goes up, then I think 240 minus 114 number, which is 10% on the restructured number, would have to be increased.

Murali M. Natrajan: Yes. So, nothing in pandemic, neither we have experienced in the past, nothing is perfect, we have to keep feeling our way through this, we have to keep doing analytics, we have to keep doing collection, we have to keep reviewing feedback. So, I can't give you a perfect answer on it. All I wanted to tell you is that our operating profit even at the current balance sheet, if we keep the balance sheet static also we would be at the level of Rs. 700 crores to Rs. 800 crores per year at the current margin at the current cost income ratio, etc. That is quite a lot of margin of safety for us to make any additional provision that may be required, okay? So that you please keep that in mind because we are dealing with secured portfolio. Our unsecured business book would be less than 20% in the entire balance sheet, rest is all customer self-occupied property that we have. Therefore, there is a huge level of safety in that, customer won't just give up his property, we just can't be in a situation where we are going to have a loss like that. So, that is number one.

Number two, now, based on whatever information we have in the last three, four months, plus all the information we have collected over the last several months during COVID, we believe our restructure would be up to 5%. Now, whether it becomes 5.5% or 4.5% only time will tell, but now it looks like that.

Rakesh Kumar: Sir, may I ask just one last question. On this MFI book, what is the proportion under FLDG? And what is the degree of protection under FLDG?

Murali M. Natrajan: We have a reasonable level of protection under that, we have not executed that protection for a simple reason that those loans are also covered under Supreme Court interim order. All these BCs are our partners and they are making those efforts to collect the money, it would be very unfair on us to just break the partnership or invoke the FLDG, then how does he collect those things. So it is better to allow them to collect as much as they can. And for the balance we will use the FLDG because we are in a long-term relationship with all these BCs.

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

Sri Karthik: Would you attribute your slightly moderate improvement to collection efficiency for the conservative disbursements in a credit guarantee scheme?

Murali M. Natrajan: No, no. ECLGS is divided into different segments by our customers who have serviced all their instalment, customers who have paid in part, customers who are struggling to pay enough of instalments, like that we have divided this into different customer segments. Most of the customer sanctions are for good customers. What we find in the market is customers are saying, look, you can give me this money, but my business has not grown big enough for me to take this money, what would I do with this Rs. 5 lakh, Rs. 10 lakh and all. So we have given some price break. For example, some of the good customers we have had an approval from ALCO to give a price break of almost 50 basis points, 100 basis points and give them the option of debt consolidation.

So, point is, there are customers who don't want the money and there are customers who desperately need the money. And we must balance this to make sure that we give it in a very systematic manner. There are banks who have called us and said that this seems like a sensible approach, because they seem to have disbursed all the money and they are now having no other intervention tool if the customer is going down south. So we have acted cautiously on this. And anyway, till August or September, this tool was not available for individuals in a manner of speaking. So things are proceeding well. We have already done Rs. 300 crores in this quarter, we hope to do similar numbers in the coming quarters.

Sri Karthik: Thanks for that. But I was wondering, looks like from a collection efficiency perspective there is about a 10% gap, what we were earlier now. I understand 5% could be restructured, what about the rest?

Murali M. Natrajan: What is that 10%? If you look at February number, for home loan it is 4% and for business loan it is 7% and for CV it is about 9%, from what it was in February 11. There is bound to be some slippage in all loan books. There are customers who have not been able to come back to any decent level of business since after lockdown. There are customers who are possibly thinking that there will be some relief coming from Supreme Court, therefore, they are not servicing all their loan. If you look at other data that we are presenting for you, 93.3% of home loans have at least paid three EMIs or more, right? Similarly, if you look at business loans, 93% have paid at least three EMIs or more. So this number is increasing. If you look at customers who have not even paid one instalment, it used to be 10%, 11% about last quarter, we are at about 1.55% for business loans. So it's an improving situation, that is what I would like to say.

Sri Karthik: Thank you. And just a last bit from my end. In terms of our organization restructuring or any changes to our business model, have you utilized this last few quarters to make any major changes?

Murali M. Natrajan: We constantly make changes to our credit policy because have an analytical team, we have collection inputs, we have a credit policy team and we have sales, we keep reviewing the portfolio. We use SaaS to look at different segments and micro segments, and we keep making changes. From the time COVID happened, we have made several changes. I don't know which one is major and which one is minor, but these are all sensible changes that we have made in our business model. And we have tightened it all the way down in say, for example, May, June. But based on what experiences we have on September, October, we have relaxed a lot of the guidelines as we see better data coming through from the field. So, this is a constant work that we do in our bank.

Moderator: Thank you. Next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Just a few quick clarifications. So, you have given us Rs. 687 crores of restructured book and then Rs. 159 crores of notional slippages as part of the slippages, which could potentially be restructured. So I am assuming there is no overlap between these two, right?

Murali M. Natrajan: No.

Mona Khetan: Okay. And some color on your restructured book, where all is it coming from? Is it largely CV or does it also constitute LAP as well, as well as home loans?

Murali M. Natrajan: Loan against property, self-employed home loans, commercial vehicle, MSME, SME, these are the four major contributors to this book. Some bit here and there would be there of other portfolio, but largely coming from these four.

Mona Khetan: Sure. And how much would be the interest reversals taken during the quarter?

Murali M. Natrajan: For restructured, whatever interest the customer has not paid, you must reverse that interest? However, on this Rs. 448 crores, we have not taken any interest reversal, we have taken it all in the provision.

Mona Khetan: Okay. Got it. And lastly, while you did highlight on the recovery front, just wanted to get some additional perspective. You are largely in the self-employed segment, and clearly that segment has been the most impacted. And recoveries historically have been one of our forte, so could the recovery rates come down over the medium-term because of the given environment?

Murali M. Natrajan: Even in this situation, we have been able to recover Rs. 30 crores, normally we recover Rs. 60 crores, Rs. 65 crores per quarter, including goal loan recoveries, which we do auction every month, every two months we used to do auction. And the threat of auction, the moment you do threat of auction customer comes and settles, pays, most of them, we hardly ever sell those jewellery. So as you know, the SARFAESI process, all has faced some delays because of the current situation. Plus, we are being very empathetic to customer and we don't apologise for that because customers have gone through a lot of crisis, the last thing we want to do is create some major issue where the bank will be on the back foot in terms of, so we don't use any aggressive technique for collection, we tried to negotiate, work through with the customer rather than take any major legal action. All collections are done by in-house people, we don't have any external collections. So I believe that till such time the matter gets resolved in Supreme Court, recovery rates may not be better than Rs. 30 crores, Rs. 35 crores per quarter, that is how I see.

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

Jai Mundhra: So I am not asking for guidance, but just to understand, in your opening remarks you had said that normally we would have 2%, 2.25% kind of slippage. So assuming the 5% restructuring happens, so in a way the borderline stress cases are clubbed into restructuring. Maybe fourth quarter is where you may also see some slippages of the borderline cases. So from 2022 perspective, outside of the restructured book, should we be back to 2%, 2.5% slippages outside of the restructuring book? Will that be a logical conclusion?

Murali M. Natrajan: I am not sure that can be a conclusion. The reason for that is, think of March, May, we came into standstill. And the standstill somewhat got removed in September, which means that some of it would start to hit us now. Now, I am not sure after this wave another 2% will happen or not, but however, only time can tell. At the moment, our focus is on using the intervention tools given by the government and RBI to try and address the pain points in the portfolio for the customer and then see how that pans out in this thing. The other point I want to say is, if customers who have been able to pay their instalments all through or immediately once the moratorium was over, should be very strong portfolio. So therefore, I don't see much of an issue on that. Our job of that would be to protect the portfolio because we don't want some other bank to do a baltra on that portfolio and take it away, because that's a very good portfolio for us.

Jai Mundhra: Okay. So when we say 2% of people, 2.5%, that was outside the restructured book, even though, in a way as you said, the portfolio which comes out into 2022 should be of much better resilience.

Murali M. Natrajan: We hope so, I mean, that is what our thought process is right now.

Jai Mundhra: Sure, sir. And second on restructuring, in your last interaction, I mean, in the last quarter we had said 3% to 5%. And after that quarter, all agencies and most of the banks have lowered their restructuring guidance, and even DCB Bank, at this point of time, has only seen Rs. 200 crores of additional restructuring request. So, just wanted to check, why have you still been on the higher end of the range, just to understand that?

Murali M. Natrajan: All banks declare their moratorium at 95%, 97%. And then you saw what was the report sent by RBI in terms of private banks moratorium, I hope you have seen that report? So we have been reporting our moratorium the most correct way, in my opinion. Similarly, I don't know what the bank's portfolio is, I am only talking about my portfolio as to what the self-employed segment is, what they are going through. If a customer has got only 60%, 70% of his sales back since the lockdown, it is unreasonable to expect him to do

100% of his loan servicing. If you do that, he will become NPA and then we won't be able to recover it. It is better to err on the side of caution to give him that restructure option and they can always exit that restructure anytime they want. And so far, our collection team doesn't seem to think that restructure book would perform so badly that we will have to, so at least that experience has not been that bad. You don't restructure just to save NPA, we restructure because we need to give that customer a chance to bring the business back to some level of normalcy. So, I can comment about other banks, you can look at what they commented on moratorium and what they are telling now, and then you can decide for yourself.

Jai Mundhra: Sure. And the last thing sir, on your term, so I am not second-guessing RBI, but what has the bank or has there been a formal recommendation which has gone from Board's sides to RBI? Because other banks which are also having the succession planning, they have also done similar things. So, I may have missed out.

Murali M. Natrajan: Ask your question directly, what is your question?

Jai Mundhra: Sir, the question is, has the Board sent your renewal thing?

Murali M. Natrajan: Yes. So, regarding succession planning, there is always a formal process of succession planning review by the board on an annual or any frequent basis, which is also reviewed by RBI. These are all matters that are to be done very well by the Board and the management team. And gaps, if any, must be addressed in each timeframe. Regarding renewal, RBI requires renewal applications to be sent six months in advance. If you recall, one of the bank was penalized for sending their CEO renewal request late. So, I am quite sure that process is underway. What is the outcome of the process? You must wait.

Jai Mundhra: Right. But the renewal application has gone before six months, I mean, within that six-month timeline, right?

Murali M. Natrajan: We have usually not screwed up on that deadline.

Moderator: Thank you. The next question is from the line of Raul Maheshwari from Ambit Capital. Please go ahead.

Rahul Maheshwari: Very good disclosure. I know it would be very difficult for me to ask this question, but as in quarter three you had given or witnessed guidance in terms of you are witnessing a flattish kind of growth. But now, we on a month-to-month basis we are on an improving trend. Two things, one is on a holistic basis and second on mortgage, no doubt there is a little bit of being cautious on LAP, but on housing loan, what kind of growth are you witnessing? As we have seen some small sized to large banks are having a very good growth. So a rough color on this would be very helpful, because asset quality you have given very detailed, but on growth side it would be very beneficial, sir.

Murali M. Natrajan: So, first, we are increasing our team size in mortgages and home loan. And our headcount numbers to start going up from this quarter onwards is what our expectation is. And we are present in most of the cities. Our focus area is going to be very strongly on home loans, continue to be strong. If you look at our LAP versus home loan, home loan proportion is constantly increasing for us as compared to LAP. But the segment remains the same, it is the small ticket self-employed segment and I would say that salaried people employed in small companies, that is basically our target market. We can get very decent ROE on loan by loan on that thing, although the collection intensity must be strong in that because these customers are not regular in payments unless you keep reminding them. But that's the basic segment that we are talking about.

We are doing quite well on KCC and tractors in agri business. So we think that that would grow. Our intention is to build back a growth or at least double-digit to, say, high-teens kind of growth in the coming year. So we are building capacity for that. But it takes time, probably by March, April we will start to rev up. Already the last quarter has been decent for us as compared to the previous quarter. So we want to keep continuing to build that. And that's where it is. As far as CV is concerned, it will take maybe another quarter or two quarters to stabilize that business before building back volumes on that business.

Moderator: Thank you. The next question is from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Doshi: Most of my questions have been answered, just one question. So, we are very good in asset quality and in terms of recovery, but given our lower loan book and lower size of the book, how do you see the growth from FY 2022 onwards? Can we clock the double-digit growth or low or high double-digit growth?

Murali M. Natrajan: Starting FY 2021, 2022, the intention of the team is to clock double-digit growth. Initially, it may start off slowly, but then we will build back this thing. We are very strong in terms of our understanding of this segment, cautiously and consciously we took a step to make sure that we understand what exactly is happening in this segment in the last few months. So, post-COVID now things are steadily improving. So like I said, we are playing two games here, one is to manage the stress portfolio, another is to strongly build the sales momentum. Last quarter has been pretty good, we are succeeding in it, and step by step we hope to build back, especially in home loans, gold loans, LAP, KCC and tractors, these will be the big focus area. Gold loan if you see, we have grown by 100% in the last one year, and from a normal Rs. 20 crores, Rs. 25 crores per month we are already at about Rs. 180 crores, Rs. 200 crores of sales per month in gold loans. So there is a massive change we have already done in gold loans.

Dikshit Doshi: Okay. So basically, pre-COVID we used to usually say that we can double our book three, three and a half years. So can we expect that from, obviously COVID hit us, but say from FY 2022 onwards we can assume three to four years we can double our book?

Murali M. Natrajan: We can give you that guidance in about one or two quarters as we are just building our momentum back, we need to see how that pans out. And we certainly will be able to give you that guidance in a couple of quarters.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead. Due to no response, I have muted the line. The next question is from the line of Rajiv Agarwal from Sterling Capital. Please go ahead.

Rajiv Agarwal: Sir, can you give the details of this unsecured loan book, in which sectors do you lend?

Murali M. Natrajan: Unsecured loan book?

Rajiv Agarwal: Unsecured loans book, 20% unsecured loans you talked about.

Murali M. Natrajan: We are doing business with a fin-tech company, we also have BC, MFI loans which is unsecured, those two predominated unsecured books that we have.

Rajiv Agarwal: And my one more question, this profit on sale of investment, what exactly is that?

Murali M. Natrajan: This is G-Sec sale in OMO.

Rajiv Agarwal: Okay. So, can we expect this to happen next quarter similar type of profit on sale of investment?

Bharat Sampat: No, I do wish, but no, we cannot.

Murali M. Natrajan: It entirely depends on OMO announcements made by RBI. Plus, whatever announcements were made, we should be having that portfolio for us to sell. Third, we should be wanting to sell that. And so there are many variables in that. So we see how it goes.

Moderator: Thank you. The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: I just wanted to ask, like on the cost of deposit front, so over a year, in the last one year while there has been a 50-plus reduction for us, but for the major banks there has been reduction of like more than 80 bps to 100 bps on the cost of deposits. So, just wanted to understand, when the interest rate cycle will reverse, so will we change the interest rate on a slower rate than the bigger banks to maintain the difference of more than 100 bps, 150 bps of interest rates?

Murali M. Natrajan: Our focus is on retail term deposits to individuals. Our sweet spot on that is Rs. 1.5 lakhs to Rs. 2 lakh kind of ticket size, that is what we focus on. Our rate is usually about anywhere from 25 to 40, 50 basis points higher than some of the bigger banks, but not one of the highest in the industry. But we are in the top bracket of the industry. Our strategy is to get retail deposit, and then we cross-sell CASA products to those customers. We find that to be stable because it's usually a three-year deposit, but average it will be about 20, 22 months kind of deposit. Not only the deposit, when it comes it stays for that long, plus customers deepen on their own by getting more deposits. So it seems to be working for us, both from a cost point of view and from a stability point of view.

As far as other banks are concerned, what strategy they follow you must see that for them and how it works for them. For us, the segment that we are targeting for loans, self-employed works well for us. It has given us very reasonable returns, our NPAs have been in pretty good control. Of course, during pandemic they were one of the worst hit, but we are starting to kind of get control over that portfolio. As far as the deposit is concerned, from a total cost point of view, that is cost of operations and cost of deposit, targeting retails term deposits and cross-selling CASA seems to be a better opportunity for us. And that has enabled us to reduce our dependence on bulk deposits to a large extent, and we have only about 7% odd of top 20 deposits. So, that gives a lot of stability to our balance sheet.

Lalit Deo: Sure, sir. And sir, just one data keeping question. What would be the overall disbursement per quarter during pre-COVID times?

Murali M. Natrajan: We have given you the disbursal what is happening now, and we hope to build on this quarter-on-quarter, coming March onwards we are building our capacity, we are rejigging our scorecard. So, we hope to do better such that we achieve at least double digit, probably high-teen kind of number next year. That is the intention now.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir, just in your press release you indicated that you expect your costs to be down by 10% for the full year. If you can explain what percentage or what part of this cost reduction is due to lower prices? And what part is due to cost cutting or permanent or structural in nature?

Murali M. Natrajan: On the permanent cost structure, we have told you that we are working towards a 220-basis point cost to average assets. Hopefully, in about 18 months to two years, we should be able to achieve that number predominantly through process changes, accelerating our digital agenda, improving on productivity, those are a lot of things happening in the bank on a continuous basis. As far as cost is concerned, this year we kind of readjusted our headcount requirements based on the kind of business that was coming through in the first two quarters, that has helped us something. The lower business in LAP in the first two quarters has helped us to save some costs. And, some other negotiations that we have done with various vendors during this time to reduce cost, all that has helped us to kind of lower our cost.

Anand Laddha: If you can quantify, like of the 10% reduction in cost this year, what part will be due to lower business?

Murali M. Natrajan: We are unable to quantify that, that is the kind of disclosure we can give you at this moment.

Anand Laddha: Okay. And second, just a data keeping. In a Press Release you indicated Rs. 687 crores of loans likely to get restructured. This includes the pro forma slippages of Rs. 400-odd crores, is that correct?

Murali M. Natrajan: What is that? Come again.

Anand Laddha: In the Press Release you indicated Rs. 687 crores of loans which are likely to get restructure.

Murali M. Natrajan: Not likely to get restructured, restructure is what we have written.

Anand Laddha: And this includes the pro forma slippage or pro forma slippages…

Murali M. Natrajan: No, that doesn't include that.

Anand Laddha: So Rs. 487 cores of pro forma slippage plus Rs. 687 crores of restructuring, is that a total stress we have?

Murali M. Natrajan: Rs. 448 crores, we have given you clarification that Rs. 30 crores have already moved below 90 DPD, Rs. 56 crores in secured gold loan, so I can't see any stress in that gold loan. In Rs. 55 crores we are seeing that we are partly covered by FLDG, so only part would be stress. So, we had given you some kind of indication on what that Rs. 448 looks like. And Rs. 687 crores are where various customers have asked for release restructure, we have restructured those loans.

Anand Laddha: And we have a floating provision of Rs. 229 crores cumulatively with us?

Murali M. Natrajan: No, floating provision is Rs. 106 crores, Rs. 229 crores are COVID related stress provision.

Anand Laddha: Okay. So, we would have done Rs. 106 crores of floating provision, Rs. 229 crores of COVID related provision and 10% of provision we would have on the restructured book?

Murali M. Natrajan: Yes.

Anand Laddha: Okay. So, effectively we must 229 plus 100, 329, and another 100, so almost like Rs. 430-odd crores of total provision available on a Rs. 1,300 crores stress book?

Murali M. Natrajan: I don't know how you are calculating. We have given you the details on what all provisions we are holding. And as far as our gross NPA is concerned, we are left with only 0.59 of net NPA, which means that gross NPA is provided almost like 85% odd.

Bharat Sampat: You can look at the Serial Number 13 on Press Release, it will give you some idea.

Moderator: Thank you. We take the last question from Kunal Sharma from Perfect Research. Please go ahead.

Kunal Sharma: Sir, I just have one questions. Sir, we can see the non-interest income has had a big jump, which is 66%. So can you please give some color on it? How much of it is sustainable good forward?

Murali M. Natrajan: So, the base income, we of course had a one-off income this quarter because of the OMO G-Sec sale. But other than that, even the base income is coming back steadily towards the pre-COVID levels. For example, I think if you look at our core fee income, I would say, it has grown by almost 25% as compared to the previous quarter, like the processing fee, ATM fees, renewal fees, CASA related fees, third party income, all that put together has grown at least by about 25% as compared to the previous quarter.

Murali M. Natrajan: Great. Thank you very much, everyone, for attending this call. Have a nice weekend. And look forward to speaking to you next quarter. Thank you very much.

Moderator: Thank you. On behalf of DCB Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

*****