DCB BANK

DCB Bank Limited Q3 FY-22 Earnings Conference Call

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MANAGEMENT:	MR. MURALI M. NATRAJAN, MANAGING DIRECTOR & CEO, DCB BANK LIMITED. MR. BHARAT SAMPAT – CFO, DCB BANK LIMITED.

Moderator: Good day ladies and gentlemen, and a very warm welcome to the DCB Bank Limited Q3 FY22 Earnings Conference Call. Joining us today on the call are, Mr. Murali M. Natrajan – Managing Director and CEO of DCB Bank Limited and Mr. Bharat Sampat – CFO of 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I'm now glad to hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Thank you. Good evening, all of you. Thank you very much for joining this call. I will make a few observations in the next five minutes. And then we will open the floor for questions. Just let me highlight a couple of items that we believe should be highlighted. First of all, for second quarter in a row, our upgrade and recoveries have been very strong. In fact in this quarter if I were to ignore gold loans, which I'll explain in a minute, if you exclude gold loans, the recoveries and upgrades have been higher than the slippages. And what we are finding is that steadily they are moving towards the situation where the monthly slippages are pretty much near the pre COVID level, like December 2019, or January 2020 kind of level. And upgrades of recovery are continuing to be performing well.

Gold loan is a kind of branch product. And there have been a lot of productivity challenges in December of infections we've had to kind of use skeletal operations in some of the branches and all. So, customers also couldn't reach on time to settle their dues, so all those are getting resolved in this particular quarter. We don't worry about gold loan NPAs because those are fully secured NPA. So, we do believe that, I remember having a call with investors in March 2020 when the pandemic was hit and we clearly mentioned saying that we run a granular secured business and we are pretty confident about our ability to recover and upgrade. And actually, it is playing out right now very clearly. As far as the collection efficiency is concerned, again we are pretty much back to or almost near pre COVID levels, where we are seeing some challenges that when a particular customer is coming out of let's say a three month or six-month moratorium, it takes one or two months for them to settle down to a rhythm of repaying. So, first couple of months, we have to chase them a little harder to get them to the habit of paying. And that when it becomes part of the denominator, it kind of impacts the collection efficiency. Other than that, we are doing pretty okay on collections.

Our provision coverage has been strong, excluding gold loans, which anyway doesn't require any coverage, so to speak but we have to make the provisions anyways, we are almost now at 66.4%. We are continuously adding headcount, we are almost now higher than the headcount that we had in March 2020. We are adding frontline staff and we've added a few branches. The whole intention is to put the Bank on a good growth path in the coming quarters. So, we sincerely hope that we will do a far better job in terms of growing the balance sheet in the coming year. And we are preparing well for that start of the year itself. As far as third wave is concerned, there are productivity challenges because infection rate was very high. I don't believe that all infections are being reported because people are doing testing at home and deciding to stay at home and these kind of issues. So, we had some challenges, but most of those challenges have been taken care of, February looks quite okay. Most of January was looking quite okay. So, that is where we are. So, with those comments, I'm happy to take on questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer Session. First question is from the line of Sanjay Ladha from Perfect Research. Please go ahead.

Sanjay Ladha: Sir, I just have a broad question again. It's a common perception among the investor is that, banking is a scale game, and larger banks will keep getting larger versus small private banks. So, just want to know your thoughts on it and how we are looking ahead?

Murali M. Natrajan: I don't have any thoughts on that, we have our strategy. I don't have enough understanding of banking to give you an answer to that question. We have a strategy, we have adequate scale, we probably will cross 400 branches by another one or two quarters. We have adequate frontline, we understand the product, we understand the segment we've been in the segment for more than 13 years, there is enough and more to do in this segment, business volumes are picking up. And we believe that with the kind of approach that we have, we should be able to double our balance sheet in three and a half to four years. So, that is my response to your question. I don't have any broad idea about what the large banks do and what the small banks do, et cetera. I don't have any idea about that.

Sanjay Ladha: Sure Sir, thank you. And my next question is, since previously we have a target of Cost to Income which is to 50%, ROA to 1% and ROE to 15%. So, just wanted to know what levers will be required to achieve the same and can you throw some light on the same and this requirement will be fulfilled in given that three-to-four-year time horizon?

Murali M. Natrajan: So, we are a granular secured retail SME banking where, when you put on capacity, it takes volume to pick up for the Cost Income ratio to come down. We do believe that Cost Income ratio may get elevated for one or two quarters. As the volume starts to build Cost Income ratio will come down, cost to average asset will come down. We believe that if we are able to put the Bank on a higher growth path which is what we are doing in about three to four quarters, we should be able to sight a greater than 1% and greater than 14% ROE, ROA and we believe that we are now given that we have dealt with COVID wave one, wave two, we didn't even have to touchwood raise capital, we have made the strong provisions. So, we are in a pretty good spot to reach that goal. It may take three or four quarters, maybe five quarters but we are pretty much on path to achieve that.

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

Darpin Shah: So, first of all, if you can quantify how much was slippages from the gold loan during the quarter?

Murali M. Natrajan: We don't have a number it is there in this thing, including co-lending monthly about 60, 70 crores higher than the previous quarter. So, I don't know Bharat do you have that number with you? It's about 140 crores or something. Yes, 140 crores, that is the slippage.

Darpin Shah: Okay. And similarly in the terms of corporate.

Murali M. Natrajan: Darpin all these customers have to pay something like Rs.2000, Rs.1500, Rs.800, Rs.3000 they are all small loan customer like 2 lakh, 3 lakh, 5 lakh. And despite all the digital intervention, what happens is, they have to come to the branch and they will come and deposit the money. And there are digital processes like chasing them up on SMS, chasing them up with payment links and so on. And despite that, they will come to the branch and pay. In December particularly we had some challenges because of staff being less, because of infection they were not allowed to come to the office. Some of the customers were not able to come because they themselves were in the quarantine. So, all these things added to this thing, plus co-lending we do on gold loans. So, now that the book has built up, there were some MPAs that have come through co-lending as well which is also gold.

Darpin Shah: Okay, sir. The second is again on the asset quality bit, how much was the impact because of RBI 12th Nov circular in slippages for us?

Murali M. Natrajan: Which RBI circular?

Darpin Shah: So, if any account turns into an NPA and until and unless you receive all three.

Murali M. Natrajan: From the time that I have joined banking last 13 years unless customer pays all over dues, we never upgrade the account in any product. So, we never had that problem of collecting one installment and then upgrading the account, we never had that kind of issues.

Darpin Shah: Okay. Sir one last data keeping question, if you can provide the breakup of provisions?

Bharat Sampat: For the P&L?

Darpin Shah: Yes, for the P&L in 3Q.

Bharat Sampat: Yes, NPA related provision on the asset NPA or ageing provision of the NPA 64 crores. Floating Provision 3 crores, RBI mandated Standard Asset provision 2 crores, provision on assets restructured in the quarter 18 crores and Specific Provision for Standard Assets which we make as management overlay is a net of 9 crore. So, total 96 crores.

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

Mona Khetan: Just again on the asset quality part. When could we say expect slippages to normalize back to the two, two and a half percent level. Any thought process?

Murali M. Natrajan: It will take maybe one or two more quarters for it to normalize to that level. I am actually not any more worried about the slippages because our ability to upgrade and recover has really shown up very good and if you see the net increase in slippages has been purely on account of gold loans. If you compare the mortgage slippage, mortgage NPA, and commercial vehicle NPA and the SME NPA, they are actually below last quarter, which means our slippage versus what we have been able to upgrade has been pretty good. So, a lot of these customers are paid, made part payment. So, part payment does not allow the account to be upgraded. So, we are waiting for those to make their complete payments. Their businesses are picked up, that is why they are able to at least make part payment. Some of these recoveries are happening because customer is selling their property and just settling the money with us. So, that is also been some of the recoveries. So, I hope it is sooner but within maybe one to two quarters, we should have monthly slippages, pretty much back to pre-COVID level.

Mona Khetan: Sure, that's helpful. And also, as you rightly said a couple of segments including mortgages have already seen decline in NPA levels. But, if I look at the Corporate NPA they're still on the rise. What explains the rise in this quarter?

Murali M. Natrajan: Only gold loan.

Mona Khetan: The Corporate NPA?

Murali M. Natrajan: The Corporate NPA, I told you, at any point in time, I've always maintained some two, three accounts will be under some level of threat. And so, one account slipped, and then they have some plans to kind of repay. Our Corporate loan is only 10% of our entire book. So, we don't really worry about a small Corporate slippage of 5, 10 crore like that, because we know that over a period of time it does get recovered. In fact, this quarter we may have one recovery as well in Corporate. So, that is how it is we really are more focused on mortgage, commercial vehicle, SME, gold loans, that is the kind of thing. Corporate once in a while does have some slippages. We don't expect any major problems in our corporate book.

Mona Khetan: Got it. And what share of your loans would be EBLR linked?

Murali M. Natrajan: EBLR linked, I don't think we will disclose that but most of the loans that we have done since the last EBLR has come is all the EBLR linked. So, like mortgages would be

EBLR, most of the SME new loans will be EBLR, gold loan is not EBLR link. So, essentially mortgages and SME, MSME, corporate loans we use different, different benchmark depending upon what works well for the customer. So, our loans are replaceable to that extent. And the rest would be MCLR, even now we run a lot of MCLR linked books because they've not run out yet.

Mona Khetan: Right. But could we say, from a very broad perspective that half your book is EBLR linked by now?

Murali M. Natrajan: I won't know that but, yes we don't have that disclosure right now. But all the last EBLR linked, most of the loans are just EBLR linked.

Mona Khetan: Sure, got it. And just one last clarification. So, if I look at your CASA book, it suddenly increased from 66 billion to 80 billion last quarter, and that part of number has sustained. So, is there someone one off there or what is?

Murali M. Natrajan: No, it's retail CASA, there are no one offs at all. We have changed the scorecards of the branches to work on retail and natural person CASA. So, the scorecards have been designed such that the branches are focused on most of the loan, the CASA that they have to bring is on below two crore kind of CASA. And so we are seeing a decent amount of traction in that. So, we hope to take it further up to at least 30% over time.

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

Renish Bhuva: Sir just one question on the segment wise Gross NPA breakup it shows that 42 crore is flowing from the agriculture inclusive book. So, is this also coming from the gold loan, or?

Murali M. Natrajan: Part of it is from gold loan, part of it is also because of KCC six-month kind of product. So, six months later, usually the NPA increases in KCC. And then as customers sell their produce, and all we bring down the NPA on that. So, we have no major concerns. I do think that the recovery upgrades of this small loans would be quite good. We don't have any concerns on that.

Renish Hareshbhai Bhuva: Got it. So, underlying trend remains robust?

Murali M. Natrajan: Yes. I mean, for two quarters in a row we are showing almost 100% recovery upgrade. I don't know which Bank you know that can show that kind of recovery and upgrade.

Renish Bhuva: That is true sir. So, sir second question is on the restructure, and ECGLS book. So, what percentage of book is up for repayment on December 21?

Murali M. Natrajan: What do you need?

Renish Bhuva: So, you might have given some moratorium to those accounts.

Murali M. Natrajan: See, the moratorium accounts are not, everyone doesn't have a fixed one period moratorium. Some have been given one month moratorium, some have been given three month moratorium, some have been given six months moratorium. So, every month some portfolio from moratorium is moving to billing. And that is what I explained as, what happens when they come to billing even though we are starting to talk to them two months in advance, in the month that they come for billing, the collection efficiency drops, then within two months of their coming to billing the collection efficiency goes back to a much higher level because they come into the rhythm of repayment. So, every month, some percentage of the portfolio is coming into repayment schedule. What you are seeing in the collection efficiency includes delinquent and restructured both. So, the billed restructure is included in this collection efficiency.

Renish Bhuva: Got it. So, when we say slippages will normalize within two quarters of course, we'll be factoring the portfolio behavior in these two books as well as?

Murali M. Natrajan: Yes, absolutely the entire book, because from restructured the customer does not pay once the billing starts, and not all restructure is in moratorium by the way, so let's not assume that. So, when the customer comes into billing and they're unable to pay and then we've also given you how much percentage of customers have at least paid three installments, et cetera. So, that tells you that the collection team is very strongly in contact with these customers.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Sir my first question is, what was the interest reversal for this quarter?

Murali M. Natrajan: Interest reversal. We don't disclose those numbers. All interest reversal, etc., is all reflected in our NIM that we have shown.

Rishikesh Oza: Okay, and sir my second question is if you could share your credit cost for FY23?

Murali M. Natrajan: No, we don't give any such statement. But if our monthly slippages starts to come to a pre COVID level. We do believe that when our credit cost should go back to the normal 50,60 basis points. So, we are working towards making that happen in the next one to two quarters, barring any unforeseen situation.

Moderator: Thank you. The next question is from the line of Sandeep Joshi from Unifi Capital. Please go ahead.

Sandeep Joshi: Sir, I had question on restructured books. So, we have around 15% of coverage on our restructured loans.

Murali M. Natrajan: 18%.

Sandeep Joshi: Yes, around that. So, are we comfortable on this number or considering the recovery trend, this might inch up a bit in the next quarter?

Murali M. Natrajan: We have this, restructure book is not an NPA book, restructure book is a performing book. The collection efficiency shown in the table includes the restructure book, which means that including the restructure book, which is billed we are collecting 95.7% in business loans, 98.2% in home loans. So, our provision is pretty strong on the entire book, if you look at our provision table that we have given according to our calculation, on the performing advances, it is 2.2% of performing advances we are having provision. Bharat can explain provision if you like.

Bharat Sampat: From the press releases if you take provisions related to NPA, all items other than that, which are towards standard assets, if you add all those up, it comes to 2.2% of the standard assets which are roughly 27,000 crores.

Sandeep Joshi: Sir, I have one more question on the funding side. Sir, if we compare the cost of deposits of our bank compared to our peers, there is a good gap between cost of deposits of our Bank and maybe peers.

Murali M. Natrajan: Not at all, please go to the website, check our deposit rate and check the deposit rates of even large Bank the gap is very, very minimal at this point in time. Please check it, we check it every week, we have ALCO every week, we check it every week, please check it. Our cost of funds are also coming, cost of deposits are also coming down. And we are bringing it down and in line with our approach and strategy making sure that our liquidity is good, our LCR is acceptable and all that, you can compare the deposit rate on term deposits. Absolutely, the difference will not be more than 30, 40 basis points.

Sandeep Joshi: Okay, sure sir I'll do check. One more question on the recovery, over the last two or three quarters we have seen a good amount of recoveries, sir do we expect that trajectory to continue over the next couple of quarters. So, are we probably done with the recovery?

Murali M. Natrajan: No, we are never done with the recovery. As long as there is NPA we will never done with the recoveries. So, we expect the recovery trends to continue, our interactions with the collection team, our reviews with the collection team indicates that we are in a position to build strong recovery pipeline. But obviously at some point in time, it will start taper off just as the slippages also will taper off.

Moderator: Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.

Amit Mehendale: I have a quick follow up on operating expenses. Sir, we seem to have scaled up frontline staff branches in last two quarters, from Q1 to Q3 if I see the numbers. And that's probably putting some pressure on short term, quarterly profits. So, is it fair to assume that, some of these staff, branches, et cetera, will become productive in about say 12 months or so. And then we kind of hit the earlier run rate, early we used to do like if I see Q3 of last year, we were doing 250, 270 crore type of a quarterly PPOP run rate. So, is it fair to presume that in about 12 months?

Murali M. Natrajan: I can't give you any indication of what PPOP run rate, etc., will, but I'll tell you what we are doing. If you look at our press release, you will see under the headcount point number 20. In March 2020 we were at 6,845 headcount, March 2020. So, in almost two years, we have moved by only 500 headcount. But because the opportunities were limited in 2020-21, we did two things. One, we moderated the headcount, that is why when we increase the frontline headcount, if the headcount is not productive, we have a very structured process of making sure that the headcount is given chances for performance improvement. And if the performance improvement doesn't happen, they exit based on the scorecard. So, we have a very flexible kind of approach on that. That is why for us to scale back, some level of headcount is not a problem. So, in 2020-21, because the opportunities were limited, there were lockdown, and so on we scaled back the headcount, saved the cost, we did not even give salary increase to the extent that we normally give in any particular year. And all that cost that we saved, we were able to make adequate credit provisions and ensure that the Bank's balance sheet and P&L strengthens. Now that we are seeing things are heating up, we have dealt with COVID one, we have dealt with a really difficult COVID two, we are ramping up the headcount. In retail and SME banking when you ramp up the headcount, it takes anywhere from three to six months for the newly headcount to become proactive. And therefore, we believe that, after a little bit of increase in Cost Income ratio, it will start tapering off in about two to three quarters.

Amit Mehendale: Right. And sir similarly, I also see that branch expansion, you made a comment earlier that you may hit 400 branches in next couple of quarters or so. That also means that we will be adding about 50 branches, in four, five quarters.

Murali M. Natrajan: You see that our disclosure says that we will add about 25 to 35 branches in 12 to 15 months, and that has been a steady disclosure that we have been making in all our press release, we have not changed anything. Because you see, you look at our branch network in 2021, we were at 352 end of 2021. In end of 2020, we were at 336. So, in almost two years, we have added only 31 branches. So, we are trying to catch up a little bit of a branch network also, because now that we are seeing opportunity, we are just slightly accelerating the branch network. So, that is why I said, we might reach 400 in maybe one to two quarters.

Amit Mehendale: Right. So, if I just look at the same numbers if we look at from 2018 to 19, we added probably 15, 20 branches. So, it seems to have picked up a little bit so we are assuming that this is to basically scale up the balance sheet. And now the opportunities are available. If we have a frontline branch that obviously helps. That's more or less the thinking, is that fair assessment?

Murali M. Natrajan: We believe that there is an opportunity, we believe that our business model is intact, we strongly believe that what we said in March 2020 that we are running a secured granular portfolio, therefore our recoveries and upgrades will be quite good. And it has even surpassed our own expectations because we are almost at 100% of recovery and upgrade the last two quarters. We were not able to continue 100% all the time. So, our business model is intact, there is demand, the smaller customers are there. Our products are quite powerful and we are able to compete in that segment quite well. So, we are quite happy to keep expanding this now that we have dealt with three waves.

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

Suraj Das: Just couple of questions. So, sir as you rightly said that the December productivity was at the frontline productivity was impacted by the high infection rate, and hence having the probably the gold loans saw some higher slippages, how you're seeing things on Jan, Feb since now the overall situation is much better in terms of last couple of months. So, now how you're seeing trends in the gold loan side, on the slippage side, have you recovered a substantial portion of that slippages last quarter or just wanted to get your view on that?

Murali M. Natrajan: Situation from a productivity frontline availability is looking far better in January. And as of now first 10 days of February also doesn't we don't seem to have any challenges. We are monitoring all the infections and all across our footprint and across our staff. In fact I would say that there are hardly any casualties or any issue in terms of, although infections were quite high, the number of people who were getting infected was very high. But fortunately, there will be no casualties and everyone was coming back after seven, eight days of quarantine or treatment or whatever. So, January is looking far better at the moment.

Suraj Das: Okay. So, customers have started paying off the gold loans and all that?

Murali M. Natrajan: Gold loan, NPA, unless we have taken some other metal than gold, I don't worry, nobody should worry about the gold loan NPAs. The gold loans are tested, there are independent controls on this. And we have very small customers like 2 lakh, 3 lakh, 4 lakh as of customer. When you threaten that I'm going to auction these things, we have an e-auction method, when we threaten to auction 99% of the customers come in either completely square up the loan or repay all the overdue interest and start running the loan like this. The challenge for gold loan is like this for small customers, they are used to taking the loan from, a bullet loan kind of thing from NBFCs. There, they don't have to come and service their monthly interest, they just come once in say six months and all and pay off the entire amount. We are making sure that the customer is in the habit of paying his interest on a monthly basis, which you believe is a far better although slightly operationally more intensive. We believe that that's a lot better method of managing the gold loans. So, we have no concerns on the gold loan NPAs.

Suraj Das: Right, sir okay understood. And sir last question from my side, anything on your tenure, your tenure is coming to end in April. So, any comment on that?

Murali M. Natrajan: We have to wait for RBI to revert. So, based on Board recommendation the application has gone to the Reserve Bank of India so, we are waiting for RBI to revert on this.

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

Rohan Mandora: Sir, just wanted to understand, whatever upgrades and recovery that we have seen in the nine months of FY22, how much of that is coming from the slippage that would have happened during nine months of 22?

Murali M. Natrajan: The biggest recoveries are coming from the early slippages which happened in COVID two, second wave and also in some of the after the Supreme Court order we had downgraded the accounts. So, those are the slippages that are more recent slippage, what we have observed generally in mortgages, is that if you are able to recover within the first three, six months, it is pretty good. Otherwise, it takes time like even maybe 12, 14 months because there may be some customer may have gone legal or he may create some trouble in terms of settling the account and so on. But most of the recoveries are coming from the recent vintages.

Rohan Mandora: Okay. And sir what were your slippage from restructure and ECLGS this quarter?

Murali M. Natrajan: We don't have that, it's all part of the same slippages and we didn't do aggressive lending on ECLGS we have sanctioned up to 2100 or 2200 crore but we have only disbursed about 1000 crores as far as I can see most of our ECLGS are performing quite alright.

Rohan Mandora: Sure sir. And sir lastly since we are guiding for a slightly higher than normalized slippage for next two odd quarters.

Murali M. Natrajan: I didn't say that, what did I say. I am not guiding for any high or lower slippages, all I have said is that, the monthly slippages are pretty much coming close to pre COVID level. So, in the next two quarters or so we believe that it should go back to normal slippage level that we were experiencing in the previous that is pre COVID levels. That's what I said.

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

Jai Mundra: First question is on cost of deposit sir. The question is sir, if I see since COVID we have seen the reduction in cost of deposit by around 100 basis point, since the beginning of the pandemic is a decent, pretty good improvement, but at the same time the growth focus was not there, the balance sheet was consolidating. And at the same time, if I compare the improvement versus peers, then it is still lagging. So, other banks probably have done slightly better, let's say around 140, 150 basis point odd. So, just wanted to get your thoughts that., Is this because you probably still have slightly better card rate, the card rate of SA is still higher versus peers maybe. Or is this something to do with something else. So, I just wanted to check that maybe?

Murali M. Natrajan: See, we are doing mortgage business 40%, 50% of our book is mortgage. In order to support that mortgage business, we need to take longer term deposits. So, we take, we always pitch for three year type of deposit, two year type of deposit, for those kind of deposit you have to give a slightly higher pricing. Secondly, we focus strongly on retail term deposits. So, that we have a very strong what is it called liquidity during these difficult two years that have been there and also have continuously reduced our top 20 deposit which is almost now at 6% odd. So, when you do that, there is a conscious decision taken but there will be some cost associated with that, we never had to struggle during these two years in COVID for any liquidity and all, we maintained higher levels of liquidity because the small Bank cannot take any chance on liquidity at all. So, we never took any chance on that, we made sure that we are fairly liquid that also has some impact on our NIM, slowly those liquidity is getting drained out. So, we hope that, that also should help us to improve our income and rate. And SA rate have been changed very recently, I don't think probably maybe six or eight months, and SA rates have been made competitive, because we are competing with some of these banks, which are offering such rates. However, the effective SA rates whatever you offer effective SA rate is still lower than term deposit rate that you offer and therefore I do expect there is some improvement in cost of funds. However, in the meantime, funds are becoming a little tight, people are increasing their deposit rate. We are also, you can't be off market till deposit rate and expect to grow deposit, especially if your balance sheet is only like 40, 50,000 crores. So, we are making those adjustments as well. So, as far as I'm concerned, our cost of deposit and cost of fund have moved in line with our expectation.

Jai Mundra: Do we have any wholesale or bulk deposit or we don't have, I don't think we have.

Murali M. Natrajan: That's what I mentioned our top 20 deposit is 6%. So, we have, I don't know some other banks may have 12%, 14% whatever they but about three years ago this number was 14% or 18% we have brought it down to 6%. So, below 7%, 8% we are pretty comfortable.

Jai Mundra: Right. So, even in the deposit pie chart that you give this is all it looks like almost everything is retail plus, so there's no wholesale bulk deposit here?

Murali M. Natrajan: So, every Bank will have wholesale bulk deposit, they will have top 20, top 50, top 100 like that and these are reported to RBI, these are fact internally, these are discussed in ALCO**.** So, everyone will have wholesale deposit, what is the proportion of the wholesale deposits to total deposit is what constitutes the level of risk, which is what I'm saying this top 20 deposit is at 6%, it used to be 14%, 15% some three, four years ago.

Jai Mundra: Right. But sir can you share the let say in proportion of bulk deposit or maybe the wholesale deposit whatever definition that you may have?

Murali M. Natrajan: Any deposit which is greater than two crore is called bulk deposit, by RBI definition.

Jai Mundra: I think that was changed to now five crores but anyway if you have any number corresponding?

Murali M. Natrajan: No, where you head this information of five crore?

Jai Mundra: Sir, in recent LCR disclosures now the retail regulatory deposit that has now changed to five crores.

Murali M. Natrajan: I am not aware, I'll check with the thing, because anyway bulk deposit anything above 2 crore is bulk deposit. What we are disclosing to you in our press release. A lot of disclosure we are giving as a Bank. You guys should work with those disclosures.

Jai Mundra: Sure. And secondly sir on disbursement, again we have given pretty much disclosure details on this disbursement, if I see there is some drop in the MSME disbursement maybe the last quarter was a bit higher, but still just wanted to understand how should we look at 86 crores disbursement versus 168 crores disbursement last quarter.

Murali M. Natrajan: There is nothing to look at. These are all customers come for enhancements, they draw down, sometime they don't, disbursal is what have been drawn down, customers is their, cash flow increases, they may not come for any enhancement. So, it's a cc like almost 70% of the business, or 50% of the business is CCOD. So, it keeps moving, you set up the limit but customer may not draw out but eventually as after we have set up the limit he may draw down in the coming quarter or so. So, that number is what you should look at this, how we are moving on mortgage that is our key driver for growth. We have disburse some 800 odd crores in mortgages and we expect this number to continue to build up.

Jai Mundra: Sure, sir and lastly. Last two things sir, one is on this co-lending some of this gold loans which you have shared as a press release is that these are from co-lending as well. So, fair to assume that you would also have FLDG kind of?

Murali M. Natrajan: It's co-lending, no FLDGs. There is no need for FLDG, the co-lending partner has fantastic collection mechanism. When you do co-lending on a first few months when the portfolio is built up there will be hardly any NPA, then there will be ongoing NPAs in and out because some will come in and some will get upgraded that will be the nature of the business. So, we don't need any FLGD, we are pretty confident about the processes, the partner with whom you are working.

Jai Mundra: Understood great. And last thing sir, have we moved on to account, have we joined the account aggregator framework and if yes, then anything?

Murali M. Natrajan: It's work in progress.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead.

Rahul Maheshwari: So, sir two questions, first on the, I know one third of the entire book whether it's a LAP related business loan and the SME part, the segment in which the particular borrowers are there because if we look at throughout the SME of business banking for the entire system, it has done a phenomenal growth by just asking the segment where you are tapping over there the customer demand is a little bit lower as compared to what the large banks are growing because the dots are not getting connected. If we look at the entire SME and the business banking pie which has grown at a very mid teens growth.

Murali M. Natrajan: See, the segment that they are operating is SME, MSME. Now unfortunately SME segment, MSME segment is a very wide segment somebody doing a 5 crore loan also receives an SME, MSME segment, somebody doing at 10 crore also is an SME, MSME segment. Somebody like me who's doing 30 lakh, 40 lakh loan also we'll say they are in MSME, SME segments our sweet spot is average ticket size of 30, 40 lakhs. And our focus about 40%, 50% of mortgage is in small ticket home loans and balance is in business loans. And we are quite happy with the response that we are getting from our sales team on this particular business. What has happened is, in this pandemic, a lot of the large ticket loans that we have set up are run down to like 1 crore, 2 crore and all, lot of them have actually repaid in full because they have just kind of exited the business. So, we see the attrition analysis, property sold and paid. Property sold and paid, is a pretty high number for us. Of course we also have some exit because customer is asking for more money at a lower price we have allowed that to exist. All those are happening in the book. Our segment seems to be quite intact and based on the frontline headcount that we are building branch network that we are building; we believe this number should scale up in the coming quarters. So, in a broad SME sense I really don't know which segments if for example, you are saying it's grown by 20% for the market, I really don't know in which ticket price it has grown. Higher ticket price, there is a fair amount of demand and we are confident that we should be able to scale up this business.

Rahul Maheshwari: Sure. Sir second question, Mr. Murali I want to ask that in the current quarter this disbursement for mortgage no doubt has improved, but especially on the home loans, can you give some numbers of insights of what kind of disbursement yield and the average ticket size we are targeting, because of small NBFC are disbursing a 1500 to 2000 crore as a disbursement purely to the home loans that are taken place. So, it would be very helpful to get that. Whether Bank is little bit conservative and trying to get out of this third COVID wave and then we will start the journey or where is the growth is not matching the small NBFC also which has a size of 1 million to 2 million?

Murali M. Natrajan: We are building the capacity now. And we expect the growth to pick up in one to two quarters. Now, I really can't comment on what an NBFC is growing, which segment is growing, what risk they are taking, I know what is the risk appetite we have, we know the cutoff score at which we operate, we are pretty confident because we understand this business, we have expanded the number of locations and naturally a lot of home loans are coming in some of the new locations that we are starting and these are coming in the ticket size of 20, 30 lakhs. Some of the property kind of deviations that are done by NBFC, we do not do. We believe that it is not allowed by the Reserve Bank of India regulations. So, we don't do that as well. So, in this segment they are growing and how they're growing, we have some idea, but we basically are not in that kind of market, they even charge 17%, 18%. Of our yields in home loans, usually tough, cannot be more than maybe 10 or maybe 10.25% that too in some very select segments.

Rahul Maheshwari: Sure. And just last one question. And definitely, as you said, the pool of customers, in essence you're targeting 30 to 40 lakhs as a customer, can you give some guidelines that on the improving the efficiency and productivity what kind of platform or app which we are developing so that you can reduce the turnaround time and it can be very well to cross examine and do the cross selling or we are doing a partnership based model with the FinTech that can reduce the time, which of the things which we have?

Murali M. Natrajan: I am not aware of too many FinTechs that is present in mortgage type of business. And many of these FinTechs are either in unsecured loans or some other type of business. We found it far more useful to tie up on co-lending with established NBFCs because they seem to have the ability to scale up. We already have two successful co-lending partnerships as we speak. And we have been doing co-lending partnerships in product or segments where either we will take time to scale up or it is far better done by the partner. So, that is how we are. For example if a partner is doing a 50,000, Rs.60,000 loan, whereas our average ticket size is more like Rs.2 lakh we would rather let the co-lending partner do that segment and we concentrate on our segment. Now on mortgages, there are a number of technology changes that are happening continuously to improve the TAT. We are currently also in discussion in terms of upgrading our platform itself in some parts because this platform was done almost like five, six years ago. There are discussions going on. It's an ongoing improvement we have to do in terms of reducing the TAT for the customer. Like, I know recently for example, how either a KYC check or PAN check all that has been fairly automated in order to reduce the time taken for evaluating a customer at least screening the customers. So, that's an ongoing process Rahul.

Rahul Maheshwari: Just a follow up on this, on the co-lending which you have done with two big NBFC, that is only for the mortgage segment or you would be tapping the other segment and what is the mix you generally do, 80% is with you and 20% with NBFC which is the normal?

Murali M. Natrajan: We have not done any co-lending in mortgages. We have done only in gold loans and we have at the moment, it is a 80:20 kind of a approach.

Moderator: Thank you. The next question is from the line of Prabal Gandhi from Antique Limited. Please go ahead.

Prabal Gandhi: Sir first question is, you have given a target of the growth around 18% as in 3 to 4 years, you are willing to double your balance sheet**.** Traditionally, how do you see loan to deposit ratio trending hereon, I am not looking for any numbers, I'm looking for qualitative direction how do you see this number?

Murali M. Natrajan: We believe that our CD ratio would be in the range of 80%, 85% because we do home loans, because we do small ticket, MSME loans, because we do tractors and KCC a lot of these loans are eligible for refinance, long term refinance from SIDBI, NABARD and MSB. And we utilize that those are long term funds they help in LCR, the rates are quite good. So, therefore, your CD ratio is likely to be in the 80%, 85% kind of range that is how we expect. However, matching with our loan growth, we should be able to grow our deposits and we believe that we have adequate capacity and we will obviously increase the capacity as required and different kinds of products to achieve that.

Prabal Gandhi: Sir, on the refinancing side, what is the incremental cost typically that we get?

Murali M. Natrajan: It depends on the year and the month when we draw down. During COVID times these are available even at 5.25%, ordinarily it can be availability, it will be in line with kind of G-sec rate or slightly lower, it depends on the time. If they are flush with funds, they may be offering the money cheaper. So, it depends on this thing, so the good news is any refinance does not attract SLR and CRR. So, whatever rate is the rate that is applicable.

Prabal Gandhi: Got it. Sir my next question is on the Other Expense so, we've seen when we were around 2.1-2.2 average assets three years back and now we are at 2.3-2.5 the rise came from the Other Expenses. So, if you can give some color on how much is the variable, how much is the fixed and how do you see this other expense line coming out?

Murali M. Natrajan: Which Bank is giving you these details of how much is fixed and how much is variable and all can you tell me?

Prabal Gandhi: Sir we need this since, this would help us to.

Murali M. Natrajan: Help me to understand which Bank is giving these disclosures and why do you expect us to give you this detail level of explanation, we have already shown in 2020 that our business, our cost of scale can be scaled down from a 920-crore cost in 2019-20. In 2021, we scaled it back to 850 crores, 70 crores we were able to do it in a matter of 12 months. So, that is how scalable our model is.

Prabal Gandhi: Right. My question was basically that, are other expenses around 1.2, 1.3 and if we are investing for the future, we are building any capacity this ratio is likely to come down. So, from this sense I wanted to get your view, what is the right approach.

Murali M. Natrajan: In a retail SME business when we are putting capacity and you can see the capacity was 6,800 people in March 2020. We brought it down because opportunities were limited. SME segment was the most impacted in the COVID. So, the opportunities were limited. We also took a defensive position for about a few months to make sure that we understand the situation. Then we started steadily scaling back the headcount in the right areas mortgage, home loans, KCC, tractors, gold loans, and so on. So, as the productivity of these employees start to build, the Cost Income ratio and the Cost to Average Assets will come down. So, we have a path for that. And we believe that in the next two to three quarters, it should start to come down as the growth starts picking up from these capacities that we have built up.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum. Please go ahead.

Gaurav Jani: Sir harping on this point again, just a follow up on the gold slippages. Sir, how confident are we of recovering this in the coming quarter, the 144?

Murali M. Natrajan: Confident of what?

Gaurav Jani: For recovering the gold slippages that has happened in?

Murali M. Natrajan: Very high confidence level.

Gaurav Jani: Okay, because sir where I was coming from is, assuming that we recover at least a major part of it, a lot of provision reversals were also coming back in Q3 and then assuming a normal level of slippages, the closure number.

Murali M. Natrajan: In the last three, four years of doing gold loans and scaling up from 1,000 to 2,000 odd crores some isolated here and there, some fraud or some poor-quality gold we have seen in isolated branches. Other than that, I don’t recall having any NPA losses in gold of any meaningful nature and gold attracts zero capital. However, despite that Gold being zero capital, when it slips to NPA, we have to makes it 15% provision which is what we have done. So, that provision will get reversed, but some new gold loan may come up for which we have to make provision.

Gaurav Jani: Right. But sir that may not be as high?

Murali M. Natrajan: Hopefully if there is no disruption on third wave type of thing which disrupts our branch productivity, so then it may not be that high.

Gaurav Jani: Got it, that helps. Second question is to Bharat sir just a bookkeeping one, the presentation page number, basically looking at the P&L breakup of the Other Income and the profit on sale of investment, the amount of 163 million or 16 crore. So, just want to check what is this amount, because according to the August 21 circular we should actually and that level of following there is a netting of it against the investment depreciation right, so, just want to check this amount.

Murali M. Natrajan: No, some of it could be opportunistic IPO, kind of income as well. So, we are following whatever circulars RBI has to, some of it or the listing growth could also be some IPOs which we are allowed to buy more to subscribe and then as soon as it gets listed, we kind of sell it in the market. So, operator we have time for one last question.

Moderator: Sure sir. We have the last question in queue from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: So, just a couple of points. First is on the growth loss that you saw in December how is the situation in the last few weeks?

Murali M. Natrajan: Roughly good, it's pretty decent. People have come back to work and no business manager is complaining any lack of capacity. We had situation where like even some of the branches we had to run without tellers and all because teller, the whole branch has got infected. So, we have to send some substitute. See, the third wave did not have, it was not lethal, like the way second wave was, but the infection was pretty high and unreported infection was even more higher, in my view. So, I'm sure you also are aware of the kind of infection but fortunately, there was no problem. People were coming back to work within three, four, five, seven days like that, so January and February looking okay.

Dhaval Gada: And, just on this, the disbursement excluding Corporate and Co-lending if you see, the number is about between 2,000, 2,200 crore per quarter, what would this number be next, let's say pre COVID, like what's the kind of potential we can see next year, because that's our core segment that we want to.

Murali M. Natrajan: Our main focus would be to try and get the balance sheet, to grow at a rate which will help us to double in three to four years' time. We are pretty confident, our main leading product would be Mortgages within that Home Loan and LAP obviously, we are focusing on KCC and tractor because in banking, if you add any other loan then automatically 18% has to be agri we can't go try to buy this agri product from market because it'll be very expensive for us. So, we have a successful KCC and tractor sales business teams so KCC tractor will be another area that will grow. Gold loans, part of it will come from co-lending, part of it will come from our own branch banking efforts. SME and MSME would be essentially a branch driven referral product, we don't have any sales team so to say outbound sales team for this business, and then we have TReDS where we are very successful in it's a zero cost successful TReDS that we are funding SMEs for some of the good companies. So, that is also another product that is there and some tie ups with FinTech and so on. So, that is how we are moving forward. So, we are pretty confident that the capacities that we are building and exactly it may not like happen in a very linear fashion, but we are pretty confident that it is moving in the right direction.

Dhaval Gada: Perfect sir. And just one data keeping point, what's the PSLC income is it like 20, 30 crore during the quarter?

Murali M. Natrajan: PSLC?

Dhaval Gada: Yes, PSLC income, I think it's around 20, 30 crore just wanted to confirm that?

Murali M. Natrajan: So, first of all naturally, what businesses we do almost 60%, 70% of the business that we do is PSL. And therefore, we probably are one of those in the small Bank or small size Bank category, where we are able to sell PSLC and earn income. Now, the way I think it is accounted and Bharat can throw some light is that, we actually sell a lot of it in the first two quarters itself. However, it is recognized as on the number of days we have. So, therefore usually the fourth quarter number looks better than the first quarter. Please look at our P&L, first quarter, the salary increase cost comes in, fourth quarter entire PSLC, like the big chunk of the PSLC comes in. So, that is why there will be quite a lot of difference in the Cost Income ratios in the two quarters usually. Thanks very much for dialing into this call. And if you have any follow up questions or you have not asked any questions that you want to ask, please write to Gaurav or Bharat and we'll be happy to answer it. Thank you very much for your time and patience.

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

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