DCB Bank Q1 FY21 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the DCB Bank Limited Q1 FY'21 Earnings Conference Call. We have with us today Mr. Murali M. Natrajan -- Managing Director and CEO, DCB Bank; Mr. Bharat Sampat – CFO, DCB Bank from the management team. 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: Good evening, ladies and gentlemen. Thank you for logging in on this call. We will take questions after about three, four minutes of my explaining certain details about the bank for this quarter and then we can go on to questions. I hope all of you have got all the details, both the 'Investor Presentation' and a very long 'Press Release.'

So, let me just explain a couple of points and then we can go into questions. Firstly, on the moratorium, there is a lot of stuff out there. So, we tried to simplify it and put it out exactly what our situation is. In terms of the delinquent SMA accounts which, in our annual report you can see, was Rs.1,908 crores as on March, is as on July reduced to Rs.475 crores which means that we have been able to make the rest of the portfolio non-delinquent or the account has got closed whichever way we have been able to resolve it. The collection efficiency is picking up steadily. I just want to tell you that the disruptions in terms of lockdowns are not over yet because we do get time-to-time from different cities, different districts where based on whatever infections and whatever control the government has to put, there are restrictions and lockdown that happens which disrupts our business. Even then, we have been able to steadily improve our collection. If you look at business loans, again, if April was 51.6, we are at 59.4. Home Loans was 56.9, it is 67.3. Even CV, which is a pretty difficult situation portfolio, even there we are finding success in terms of improving our collections efficiencies.

The other way we looked at our portfolio as to in terms of value, what percentage of customers have not paid anything to us say, from March to July, as well as from April to July. In Business Loan, we have 29.1% in value who have not paid, does not mean that they were delinquent, most of these customers are current customers as on February 29. Similarly, in Home Loan it is 21%, who have not given us any installment between April and July. Commercial Vehicles it is 48%.

In SME, MSME, we generally are the main bank, we looked at the churn, and we found that 91% of the customers have some credit churn in their account between April 1 to July 20, and of course, we have a separate portfolio team which are in constant touch with these customers.

MFI loans, again, we started collecting. In about 79% of customers, we have been able to collect at least one installment. So, the collection efficiencies are improving steadily.

And again, all this have been achieved without giving any top up or any additional facility or funding.

If I move on to the guarantee scheme, most of our portfolio in business loans category were individual. So, just like our bank, other banks and NBFCs have been demanding that if a business loan has been given to an individual, a sole proprietor, then we should be able to give the guarantee scheme. We are quite happy that has been announced by the government on August 4th. So, we expect about 40,000 customers, if all of them take it, to benefit out of this scheme.

As far as the non-individuals is concerned, we have already uploaded Rs.668 crores, 7,000-odd customers and we have disbursed Rs.75 crores. So, we are hoping that in August and September we will be disbursing the rest of the amount for all these loans.

The other point I want to mention is we have been doing structured telephonic discussions with our customer. Our credit team has been doing and put up one finding on May 26, 2020. We completed entire set. The findings are very similar to what we have put up in our website as well as on the stock exchange. So, we have been able to complete almost 48,000, 49,000 discussions and we find in several places customers do not want additional facilities. They are quite happy with change in their installment structure to match the current cash flows which obviously has been impacted by the pandemic and the lockdown and so on.

We have had to maintain a lot of excess liquidity. In the month of March and April, it was looking very difficult. So, we built up a lot of excess liquidity. We did not know how much of loans will come back, what would be the moratorium impact and so on. So that has had an impact on our NIM. But that does not worry me too much because as we speak, we are reducing our liquidity. Liquidity is not something that one day you can keep it, next day you can return because you must take deposits that have six months or one-year kind of tenor.

But the good news on our term deposit, especially retail term deposit, whatever work we started about two years ago is continuing. And we find that we can replace much of our bulk by retail term deposit. Retail term deposit has grown by a phenomenal 43% on a year-on-year basis, it was 51% year-on-year as on March, now it is 43% as the base is increasing. We have zero reliance on Certificates of Deposit.

Last point on “Provision.” We are supposed to keep 10% provision on the Rs.1,900-odd crores what was in March, that is down to 47-odd; however, we already had made a provision of Rs.63 crores in March. So, we have taken additional provision of Rs.32 crores. Customers who had asked for restructure as opposed to any funding, we have done a restructure of customers and there we have taken a provision of Rs.15 crores. Most of these customers were impacted by COVID lockdown. So, that is why they sought restructure.

In terms of NPAs, we normally recover almost Rs.60, 70 crores of NPAs on a quarterly basis; however, that has also been not easy in this lockdown. So, we have taken additional NPA provision on account which is another 22 crores and of course the usual NPA provision and floating provision. So that is how we come to Rs.85 crores.

So, in terms of business, we are focusing on home loans, gold loans, KCC, tractor, health insurance, fee income. Fee income did take a hit. Processing fee was quite negligible in the first quarter, and we could not charge ATM fees, we did not have CASA-related fees. So slowly things are coming back.

On that score we have been able to save quite a lot of costs. Our costs are down to Rs.193 crores. Usually it averages around 220, 225 crores. So, we have been able to save quite a lot of costs.

And as far as headcount is concerned, we are very slow in replacing the headcount that exists. So that is also helping us to reduce cost.

So those are my thoughts. I am ready for questions. Thank you.

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

Sachin Hemnani: I have a few questions, listing them together. Number one, how about COVID push outs of our earlier plan of reaching 14% ROE and 1% ROA? What would be the possible impact on our NPA and loan book if another moratorium is announced by the government?

Murali M. Natrajan: It is very hard for me to say what would be the impact on our book on one more moratorium announced by the government. But RBI has announced restructure program and have announced guarantee scheme for individual business loans as well. And speaking, lockdown is still a disruption, it is reducing. So, I do not believe that there will be one more moratorium. If there is, we will see. However, when we are discussing with our customers, steadily customers businesses are coming back not to the 100% that they had before March. Regarding your question on ROA, ROE, for the next six to nine months, our focus will be on doing the guarantee scheme, making sure that our portfolio is in control, put all the effort in collections and recovery, build our book on home loans, gold loans, KCC, tractor and any little bit of business loan that is possible in this kind of environment and focus on fee income. So that is our current outlook on business.

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

Rohan Mandora: I would like to understand like income from the number of customers who have not made any payments since April, how do we read into that number, what is your interaction suggesting and within this like what portion would you be worried about?

Murali M. Natrajan: What we are very happy about is that if you look at our collections on the delinquent account, that is one day past due to all the way to say 89-past due, from Rs.1,900 crores we have been able to bring it down to almost below like 400, 500 crores and hopefully by August it will go down further. Customers who have not paid even one installment, majority of them were under no stress in February. We are in discussions with those customers. Many of them just say that look, government have given moratorium and we will start paying you from September. “So, if there is a moratorium, why the hell should you bother us?” There are customers who have paid and even asked us money to pay back, “Listen, I do not have money now. I paid you. Can you give it back?” So, there are multiple types of interactions that are happening. There could be some stress on that. Who knows? Very difficult to say at this stage. When we come into September and we start collecting we will see, but at the moment, I feel confident because these customers are in contact with us and we have been in touch plus the additional benefit just in case a customer is in any temporary financial difficulty, we also have this new guarantee scheme program which could be applicable to them, which we would use whenever a customer requires. So that is how we think about it right now. Of course, we will continue to make efforts to get customers out of moratorium and the number has been coming down steadily.

Rohan Mandora: And sir in the opening remarks, you mentioned that some of the customers indicated that they would look for change in the repayment structure to match the cash flows. So, will the rescheduling of loans post-moratorium take care of that or will these need to be restructured?

Murali M. Natrajan: No, if the customer schedule is changed, then it is restructured. This will be under the MSME restructure and we must take approximately 7% provision on that customer immediately. NPV provision is for the new schedule, of course. Many customers do not want money. They just say look, “I am paying Rs.28,000 installment. Can you reduce it to 24,000 or 22,000 and I am happy to just work on the new schedule?” Now that is fine. Of course, it will become a restructure for us, but if the customer is able to regularly service that, there is no issue on that. We make sure that such requests are processed only if there is actual business case. A customer is present; his business is running, and the cash flows are sustainable.

Moderator: Thank you. The next question is from the line of Manojit Vara. Please go ahead.

Manojit Vara: You did answer unable to say how much of stress might preside after September. But in your sense, do you think much of the book which has not paid any installment will go for restructuring, for example, business loan of 29…

Murali M. Natrajan: I do not think so. Supposing the number that we have put out here was 35 in April. If it is 35 in April. then it has come down to 29. This number is coming down steadily. And most customers who are in touch, their businesses are coming back to some level of normalcy. And they believe that since the opportunity has been given for moratorium, there is nothing wrong in using it because they are legally right in using the moratorium. And as the moratorium starts to end, they are confident that they will serve. There is a customer, I heard the call itself, who says, "Guys, why are you bothering me? I am going to pay you from September. There is a moratorium. So, I am using that money for other business purposes." Simple as that. So that is why we must see how things pan out from September. Yes, obviously, there will be some stress that will start building from September. I have already said in my previous call also. I expect stress to last for almost six, nine months from September. But the good news is that we have now intervention tools available for us to kind of help the customer nurse back to help in case they are in difficulty which is the guarantee scheme is there, we can change the structure of their loan to suit their new cash flow. So, all that opportunity is there with us.

Manojit Vara: Second point is these localized lockdowns which has been again reinforced sporadically across geographies, in your service with your customers or talk to their customers, are you seeing again disruption to business activity, is this a negative surprise incrementally for you?

Murali M. Natrajan: No, it is a surprise. It is a problem for us, and it is a problem for them. Let us take an example of Odisha and we have given a target of some home loans or gold loans to a branch or a set of people. Now they have made their efforts and things are starting and suddenly, for three days or five days that area is shut down. That disrupts the business for us as well as for the customers, right.

Bharat Sampat: Also, what happens is a localized lockdowns impacts much bigger supply chain and the suppliers in this area get more impacted because suppose you are making a two wheeler and the two wheeler component somewhere in Tamil Nadu shuts down, then the rest of the parts are ready for you, you cannot complete the two wheeler and sell it. As compared, for us, the size of business, which we address, it is more localized problem for a shorter duration.

Murali M. Natrajan: In fact, I have heard a couple of calls anecdotally also where customers said that, "I am ready to start my business, but I just want disruptions to reduce because I do not want to start, stop and things like that, but I am confident that we can restart my business, that is not an issue." The only worry that we should have, and that data will come through post-September is where customer is not able to restart their business for whatever reason. Now, in our Structured D

iscussion that we have had with 48,000-odd, that number was very low single-digit when we completed our discussion by end of May. So, therefore, I feel that most of the businesses will restart at some point. And the exposure that we have for risky businesses like healthcare or hotel and things like that, it is very small. So, we are not worried about that.

Manojit Vara: This cumulative provision from Rs.95 crores for COVID-specific, what is the framework that we have looked at, how are you calculating? And, if you could mention whether this is enough or you will build further cushion in Q2 as per the current framework, some idea you can give?

Murali M. Natrajan: No, it is a COVID provision. It is based on looking at what kind of achievement we have had in terms of collecting our delinquent portfolio. If you look at it from that point of view, if on July end it is only say Rs.47 crores, we need only Rs.47 crores of provision. So, I just think that we have made a prudent provision considering the existing situation. And in any case, I think by end of March or something, we have an opportunity to adjust this provision. As a bank, we have always made more provision than required, you can see that historically.

Manojit Vara: But do you think this is enough to cover for the current stress we are seeing in the book or you will further build on it?

Murali M. Natrajan: No-no, as NPAs come up, you must make more provision. This is not for taking care of all possible issues in COVID. That is not how it could be. It seems to be enough for taking care of the potentially issues that might come up in the delinquent book that was there as on February-end.

Moderator: Thank you very much. The next question is from Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: My question is again continuing on provisioning things, what actually we wanted to understand is, will we continue to make additional provision in 2Q as well to be safeguarded once moratorium is lifted and can see impairment increasing from 3Q, 4Q onwards?

Murali M. Natrajan: Like in which category are you asking in terms of provision? If there is more NPA starting from let us say next quarter, we must make provision for those NPA as per guidelines. If we build our book, then standard asset provision also will increase, but this time, it does not seem like we will be able to grow our book to any meaningful way at least for the next two quarters, so that may not increase. We will continue to make Floating Provision. We already are holding close to Rs.100 crores of Floating Provision which we have disclosed to you. So, the provision will depend upon how we see the outlook in our portfolio. But given our operating profit and our margin of safety, we are confident that we can absorb additional provisions.

Darpin Shah: Second bit on the CV book. If we see, we are almost 13%, 14% as restructured and around 6%, 7% as NPA. How much more stress can we really see from that portfolio?

Murali M. Natrajan: I think across the industry, CV is having stress. We have our Chairman who also is part of a large company which is into CV and one of the directors also is in a large CV business company and I believe we get very valuable inputs from them on CV business. What I like about CV business is that customer may not pay full installment, but once their business comes to some level, we are able to collect some level of payment from customers. The only problem that happens in CV is either the customer does not have the vehicle, or it has been damaged or we just simply have no business at all. So, I believe that as the lockdown and the disruption start to reduce, even CV business will start to look better. But it will take time. It probably is one of the most difficult portfolios that we are dealing with now. I have no guess on what exactly would be the additional restructure or stress that will be there. But what is interesting for us is that if I compare with what it was in April, we have been able to improve our efficiency by almost 10% and we are getting signal from collection that this number could keep going up.

Darpin Shah: The moratorium number which you have given at 26%, so that is a sharp drop from 60% to 26%. How do you define moratorium, whether…?

Murali M. Natrajan: I do not think anybody else could have defined it better than what we have done, I defined exactly how we have looked at each and every portfolio, which customers have paid us at least one or more installments from April to July, which means despite being a moratorium, the person has come out of the moratorium and starting to pay and we looked at this portfolio, it is coming to 26%. The highest moratorium by that logic is only in commercial vehicle, rest are all far below all these numbers. And I have shown you what is there in SME, MSME, how many customers are having credit churn. I do not think any bank would have given you this kind of disclosure. They would have given you some go-go numbers on moratorium which you guys would have printed.

Darpin Shah: Disclosures have been really very good, sir. Just wanted to understand the definition. So, one or more EMI has been paid, so it moves out of the moratorium, correct?

Murali M. Natrajan: No, does not move out of the moratorium or move out of the moratorium. If a customer is in moratorium and he pays me the money… I have told you that only 26% have said they are in moratorium and not paid me anything. The balance 74% in the portfolio overall even whether they say they want to be in moratorium or not, they have paid us one or more installments.

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

Rahul Maheshwary: Two questions: First, on the LGD, which definitely as in your opening remarks, you said that the recovery is getting impacted by Rs.60 crores to Rs.70 crores per quarter, so, in a normal course of business, what was the LGD which used to get factor while making the provision and going forward in such pandemic and stress scenario, will the LGD get into a higher rate and your provision where you find it would be taking a little bit at an elevated level? This is my first question. Second for you, in your press release yesterday gave that the home loan. You have started with an external benchmark rate at 8.16%. No doubt home loan stands in your mortgage book at roughly 38%. How much impact do you think? No doubt, you would be tapping into the more, not towards the very high end salary with a very high home loan value, but any color on that how much it can impact your margin going forward or it can be calibrated through the reduction of the term deposits of cost of deposits?

Murali M. Natrajan: So, let me answer the second question first. If you look at portfolio growth, while year-on-year our book growth has been about 4% home loan growth has been 18%. So, home loan is not something that we are embarking upon today, (a). (b), +30% of our book is home loans. And we have made some credit changes to attract some of the best customers possible in salaried as well as in self-employed category on home loans. And we believe that based on the term deposit rates that are likely to steadily come down, which is shown in our cost of deposits coming down as well as cost of funding coming down, we are confident that we will make decent margin. I have already mentioned to you in many calls that don't look at margin in isolation, look at margin and look at risk weighted assets. The home loans that we do come at 35% risk weighted assets. Okay? So, if I say even 2% margin, and I am only using 35% risk weighted asset, it is a very good, profitable, good ROE book. And in our portfolio, home loans are 38%, which was disclosed in page 24 of last quarter results. So, we are confident that we can balance our book by building on home loans.

Currently doing business loans, there is a lot of business loans available, but issue is of approval rate. If we go and source 100 business loans, our approval rate, we don't believe will be more than 20-25. Because to find a good customer who has not been on moratorium, and whose business has bounced back to normal, is taking us time to find, and this will be a waste of our sales effort. So, if you do home loans, the approval rates are more like 65%, 68%, so it is more productive for us to do that and balance our book. That is what we are working on. Plus, we will also make sure that our book degrowth is limited. So that is the approach. And we are confident that this is achievable.

Rahul Maheshwary: Sir, that's very fantastic to hear that RWA for home loan is 35%. Any a number on LAP, which is a business banking…

Murali M. Natrajan: LAP number will be 75%, It will be called regulatory retail, if you look at this thing it will be 75%, if you look at our risk weighted assets, for the last two years we have achieved phenomenal efficiencies in utilizing risk weighted assets. Now, what was your first question?

Rahul Maheshwary: Sir, the first question on LGD. Any color on changes?

Murali M. Natrajan: Got it. Now recovery, if slow, does not mean LGD is going to worsen. Okay? So, what happens? Recovering customers must be contactable, even NPA customers' business have been affected, right. They were affected that is why he went into NPA, he probably is more affected, they want to sell the property. To sell the property, there are logistic issues because the registrar is giving only a limited number of tokens for registration, or for finding the buyer and showing the house and all there are restrictions on society, society is not allowing even carpenters to come and work. So, it is more logistic issue rather than any LGD issue. Even the recoveries that we have been able to achieve, about Rs. 10 crores odd in the quarter, we have not had any LGD problem on those recoveries. So, I think it's a matter of time to rebuild our recovery. We operate on small ticket loans, property prices, the last month we checked on those, hasn’t corrected dramatically in that category. In fact, even builders, to the best of our knowledge, have not reduced the price on those categories in any meaningful manner. That's what we understand

Rahul Maheshwary: And sir, normal LGD, as per your previous commentary, it stands at 15% in your entire mortgage?

Murali M. Natrajan: We don’t recall having given any commentary on LGD. All I have said is that the loss given default, because we are operating at an average LTV, which is also in page 24, less than 50% of the thing, our average loss in any of these cannot be more than 20%, 30%. And I think Bharat has explained that more to justify the provision coverage ratio.

Moderator: Thank you very much. Next participant is Gaurav Jani from Centrum Broking Limited. Please go ahead.

Gaurav Jani: Thank you for the additional disclosures. Firstly, just fundamentally wanted to understand, since this new restructure scheme has been laid out by the RBI, so barring the corporate book that we have, I mean, the SMA restructure, SME restructure scheme is fairly simple, but the other is sort of a bit complex. So, if we could just break it down in terms of our book, what proportion would be eligible for the normal SME restructuring and what would be eligible for the non-personal book loan restructuring? That is one.

Murali M. Natrajan: To the best of our understanding, reading the details of the restructure norms, we may not need that restructure for our portfolio. However, in corporate book, we are in multi-banking consortium. If some other banks were to initiate any restructure, we will have to follow that. Even in corporate loan, any account that was SMA in February, a lot have been recovered. And at any point in time, I have always mentioned that we have not had more than two, three accounts in stress, even prior to COVID. So, if any other bank initiates some restructure, I think that will impact us in corporate book, which is anyway very small, which is only 12% of our book. The rest of it, when I look at the restructuring, we will see. One more option that is available to us, which we will use selectively is that our LTVs are below 50%. If a customer is having some difficulty and needs additional funding, we are well within regulatory norms to give them a top-up within their ability to service the loan. So, that option also we can use in the coming days. Because if you are just a Personal Loan, then there is no security available for you to do anything. We don't have that kind of book in any meaningful way.

Gaurav Jani: Sure. Lastly sir, if you can just quantify the amount of excess provisions, we have on our balance sheet, barring the NPA provisions, that would be helpful. So COVID has been…

Murali M. Natrajan: We have given you detailed amount of provisions before, Bharat. 99 crores in floating provision 117 crores roughly in standard, 130 crores in standard assets provision when code provision is 90 crores.

Bharat Sampat: Balance sheet wise we have Rs. 99 crores in floating provision, Rs. 120 crores roughly in standard asset provisions, then COVID provision is Rs. 95 crores, rest is all NPA provision.

Moderator: Thank you very much. Next question is from Sri Karthik from Investec. Please go ahead.

Sri Karthik: I have a couple of questions. If I look at your moratorium number, you come to over 26%, and when I compare that with your collection efficiency improvement from June to July, it feels as though by end of August you might end up closer to 20%. How are you thinking about that number?

Murali M. Natrajan: What will be 20%?

Sri Karthik: I mean, if you if you look at the improvement to collect efficiencies that you reported from June to July, and simply use that to extrapolate that for August end. Looks like that by the end of August there will still be about 20% in the overdue bucket.

Murali M. Natrajan: See, you must understand one thing is that, there are delinquent customers and non-delinquent customers. Delinquent customers have already come down from 1,908 to 475. Non-delinquent customers, if they are in moratorium and they were like bucket zero or not any overdues in February 29, we personally believe that they will not have any excuse to say that they are in moratorium because legally August end, unless and until, of course, one more moratorium comes, which I doubt if it will come. So, we have already had dialogue. It's not that just because they are in moratorium we will not talk to those customers. That is how we have been able to reduce and get people out of the moratorium. So, I personally believe that for non-delinquent customers our collection efficiency should go up further once the moratorium declines. That is why, till we see the whole of September, it is very hard to say what exactly the customers have chosen to be in moratorium will have an impact on the portfolio. It is very difficult for me to say, but we will see, we are monitoring the situation.

Sri Karthik: And sir, my second question specifically on the commercial vehicle portfolio. I wanted to understand the restructured amount of roughly Rs. 239 crores of roughly 13.5% of the CV portfolio, is it part of the 40% collection efficiency or it is excluding or it's part of the portfolio that you have not been able to collect anything?

Murali M. Natrajan: We don't restructure the customer unless they give us some installment to demonstrate that. See, supposing the guy has just restructured, we don't restructure the customer. The current customer must demonstrate that he can pay us the money and only then we change the payment terms. Otherwise, there is no point in changing it, because that will only just simply cause a problem for us down the line, right. So, customers must demonstrate that they are able to pay. So many times what happens, when the customer says I can only pay you so much, we say, first you pay the two overdue or show me that you can pay, that you are actually willing to pay and your business can support and so on, only then we restructure. So, on restructuring the portfolio, barring any unforeseen situation, I do think that it should behave quite alright.

Sri Karthik: And just last one from my end. The current account regulations that have come up recently, how would that have any impact on our ability to deal with these customers?

Murali M. Natrajan: Deal with which customers?

Sri Karthik: So, the restriction to open the current account if you are a minority in the consortium.

Murali M. Natrajan: So our term loans, especially in business loans are our term loans; in SME, most of our customers are just banking with us and nobody else; in construction finance, they have to open a current account with us only because that is where the escrow account is for that project, so there should be no issues; and even in agri inclusive banking. If at all we will have any challenge, I don't think there is, but if at all there will be any challenge there will be a handful of account that we will have a challenge in corporate. We have already put a team together to see which account will be impacted and how. And we will deal with that situation. So, we are not going to be materially affected by this, in my view.

Moderator: Thank you very much. Next question is from MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just three questions from my side. One, have you reached a point on the deposit rates that you can pull it down even further, given that this year is going to be slow? Or do you think this is the rate at which is required to keep the balance sheet stable in differential to what the other banks are. That's number one.

Second, to reach a point where the Opex to assets has reached 2, which I think is probably the rate at which you probably would want to keep in your business. Have you reached this or do you think it is just a one-off given what the situation on the ground is?

And the third question is, on guarantee scheme, which you have indicated you have sort of put in about Rs. 1,400 crores. So broadly, which segments are taking this? And if you can just give us some color as to is it a replacement, why the customer is taking this, does he need this to restart his business or is he going to use this to replace an earlier loan? Thanks.

Murali M. Natrajan: So, Mahesh, let me answer the last questions first. On the 40,000 customers we are talking about, it is what we have determined as the eligibility based on his business. The guidelines came on August 4, so we are talking about just four days into this. And it was published on the website only a day before yesterday, where some very long FAQ which we have gone through and so on. Okay? So, we have just told you what the eligibility within our portfolio is, where we can use this intervention to support the customer. That is point one.

Point two is, when we have done structured discussions with about 49,000-odd customers, it appears that not more than 10%, 12% of them indicated that they want more funding, including salaried customers. That 49,000 that we have had, discussions include salaried customers as well, right? So, it doesn't mean that all 40,000 would take it.

Third is, we have put a special team in place to determine how this money will help the customer to fix his business and cash flows. Because there is a lot of pressure that, when I say not in a negative way, but there is a pressure from the department that is giving this scheme to make sure that the money starts to flow to the customers. But we are trying to make some gatekeeping there to ensure that we only give it to customers where it really would be helpful. So, I mean, it's not that, okay, money is available let's distribute, that's not how we are doing it. Otherwise, you can see that in the other category of Rs. 668 crores of non-individual, we could have distributed the money quite easily, but we didn't, we are doing it in a very selective manner. So that is my answer to your question. So, we will see how it goes in the next few months.

Regarding deposit rate, if you recall, there were some discussions on why our deposit rates were very high last time, and therefore our deposit franchise is weak and so on. I already indicated that our deposit franchise is not weak, we are in the category of our banks, we are doing phenomenally well on getting retail term deposits. Plus, now we have video KYC, plus we have called Zippi, which is electronic straight-through processing, five minutes at the comfort of your home you can open a retail term deposit, all that is working well for us.

I am not sure that 6.95, which is the peak rate I think that we are offering, is the final point, we could come down further. But there is a point beyond which if you reduce the deposit rate, customers are simply not interested and they will probably not choose term deposit, at least with DCB Bank as the option. We are also finding that a lot of these customers who are opening the deposit are automatically giving us some money in CASA. And that is a far less risky CASA and we are quite happy with that. So, I hope that answers that question.

MB Mahesh: Yes. The Opex part.

Murali M. Natrajan: Okay. Now, what we have done is that in-house we have put together 359, it started as 309 but later we have added 50 more projects. We have 359 digital improvement projects, some major, some large, some minor and so on, and we have put a team together. We believe that the cost that we have been able to reduce now is more like an opportunistic cost because of volume and whatever else. How do we make it into a sustainable 2.15% to 2.20 % is what our aim is? And we are confident, 18 months down the line, we should be in that range, probably better than 2.2% is what our aim is. 1.99% which is our current this thing, I don't think is sustainable because it is on the bad basis of not having enough volume.

Moderator: Thank you very much. The next question is from Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Thanks for the additional detailed disclosure. Sir, I wanted to check, a, the overdue loans. Correct me if I am wrong, but I just wanted to understand the accounting part of it. So, on 1st September, these accounts turn NPA?

Murali M. Natrajan: No, no. So, on February 29, let's say, somebody was 30 days past due, and assume that I have not collected any money from the customer. On September 1, he will be 30 days past due.

Jai Mundhra: No, that is correct. But I think that the loans which are into standstill, those loans would turn NPA on the 1st September.

Murali M. Natrajan: Wrong. I am telling you; I am explaining to you. So, when you say delinquent, it means the customer has missed anywhere from one day to 89 day, okay? So, if the customer is 89 days on February 29, on September 1 he will be 89 days, on September 2 he will become NPA. But that Rs. 475 crores are not all 89 days, that is not how you should read it. Majority of that is one day past due, five days past due, like that. Now are you clear? Because it is very important that you understand this.

Jai Mundhra: Yes, clear, sir. And just I mean in corollary to this. So, the standstill loan that we had reported in our annual report, that is very miniscule number, it is less than Rs. 100 crores. So that amount at least will become NPA on day first?

Murali M. Natrajan: Not necessary, you are talking about that Rs. 89 crores?

Jai Mundhra: Yes, sir.

Murali M. Natrajan: That Rs. 89 crores are included in this Rs. 1,908 crores. And we have collected some money from those, so that Rs. 89 crores may not be Rs. 89 crores right now.

Jai Mundhra: Sure. So that is clear now. The second question is, if you can comment on the Tier 1, because as you said that the delinquency probably, the don't under the moratorium, the outlook is not very clear on the collection part of it. So, if you want to…

Murali M. Natrajan: No, what is not what I said. Things will become clearer on customers who are continuing to be in moratorium post September, doesn't mean that the world will come to a major end or something in September. It is possible that delinquencies may increase in that, but we have intervention tools, we have tools like we can adjust our installment to suit his new cash flows, we can give him the money under the guarantee scheme to support his business. We can give him a top-up because we have very low LTV, we can give a small amount of top-up to support the business. Despite all that if the customer is not able to support his business, then of course it will result in delinquency and NPA. Of course, if in the lockdown the customers' businesses is completely shut down and he has gone out of business or gone bankrupt, that's a different story. We don't have that information now.

Jai Mundhra: Sure. Thanks for correction. But I just wanted to check, I wanted to know your thoughts on the Tier 1 adequacy at this point of time.

Murali M. Natrajan: I think we have a pretty strong Tier 1, plus Tier 2 put together at 17.91. We are utilizing capital efficiently. If I book home loans and gold loans and small ticket loans, hardly any capital is going to be utilized this year. Our operating profit is strong. Even though we have lower fees and lower NII, we have been able to adjust our cost to create a reasonably strong operating profit to absorb additional provision. So, we are confident in capital.

Bharat Sampat: Currently the capital adequacy does not include the profit of the current quarter.

Moderator: Thank you very much. Ladies and gentlemen, we will take last two questions for today. Next participant is Aditya from GSK Investments. Please go ahead.

Aditya: Sir, I have a qualitative question. Sir, I wanted to ask you that when the situation normalizes, what are the segments that will drive the loan growth for the bank, say, for a time period of, let's say, three to five years?

Murali M. Natrajan: I am very not sure how to tell you about three to five years, standing where we are now. I can tell you for six to nine months. We are concentrating on home loans, there is a lot of opportunity for home loans. It may not give you great margin, but it is decent business from a risk as well as the utilization of capital. Second, we are doing gold loan business given our limited network we are doing whatever gold loan business possible. We are continuing business on agri and inclusive banking, tractors and KCC, we are continuing. And wherever business have been not impacted we are doing a loan against property and SME business there as well. So, all these businesses are continuing. I can't give you a sense of what will happen three to five years from now, I am able to see only how things may pan out in the next six to nine months.

Moderator: Thank you very much. Next question is from Mona Khetan from Dolat Capital Markets. Please go ahead.

Mona Khetan: Sir, firstly on the collection efficiency number. So, this number will include more than one installment paid by any borrower for that month.

Murali M. Natrajan: No, it doesn't work like that. Let's say we billed Rs. 100, we got Rs. 59.4, that's how it is. So, from June onwards, that is the first moratorium got over March, April, May; June onwards we are presenting all EMIs, unless and until specifically a customer has requested that his EMI should not be presented, okay? Which is less in number. So, we are preventing all EMIs, except specific requests. Because second moratorium we did not make it as automatic. Now, what is your question?

Mona Khetan: So, my question is, if a borrower has three EMIs due as on July, and he manages to pay two of the EMIs, would that be included in the reported collection efficiency number?

Murali M. Natrajan: To the best of how we have calculated here, we are reporting that month what we billed versus what we collected.

Mona Khetan: Got it. And just to clarify on the moratorium number of 26%. This implies that for the April to July period, for 26% of the book there have not been any installment payments?

Murali M. Natrajan: From April to July, yes. And majority of those customers, majority means super majority of those customers are current customers as on February 29th.

Mona Khetan: Got it. And lastly, on the CASA part, if I just ignore the ratio and focus on the CASA levels, which is around Rs. 6,500 crores or thereabouts for you, from a year-on-year perspective it has been declining for the last two quarters vis-à-vis an increase for the industry. And you have highlighted earlier that your shares of incremental deposits…

Murali M. Natrajan: How have they increased for the industry? Madam, we don't focus on CASA at all, we are focusing on retail term deposits. Those customers bring in CASA, that is the only CASA we are focusing on. We don't believe it is cost efficient to focus on CASA. Banks that have shown you very high CASA, you have knowledge on what happened to them on liquidity and margin and so on during the stress period. The CASA that has declined for us is not the retail CASA, the CASA that has declined over the period of last one and half, two years is CASA which are large ticket CASA. And I don't know what you are saying about the industry, whatever data I have seen on industry from March, it appears to me that customers are using their CASA to, I mean, for their liquidity. Because there is hardly any business and all that happened. So, I don't believe that CASA in the industry has increased, I will recheck my number again.

Mona Khetan: Sure. Sir, I was referring to the year-on-year period, not from March. But yes, that's helpful. Thank you so much.

Murali M. Natrajan: Thank you. Last question.

Moderator: That will be the last question for today. I will now hand the conference over to Mr. Natarajan for closing comments.

Murali M. Natrajan: No, there is one more question, right, that is left in the queue?

Moderator: No, sir. That was the last question.

Murali M. Natrajan: Okay. Thanks a lot. Thank you, everyone, for your patience, and on a Saturday spending time on this call. And if there are any further questions, very happy to receive your question, and we will try our best to answer that as well. Thank you very much.

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

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