DCB Bank Q1 FY 2021-22
Results Conference Call Transcript

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

Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q1 FY'22 Earnings Conference Call. Joining us on the call today is Mr. Murali M. Natrajan – M.D. and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Murali M. Natrajan. Thank you. And over to you, Mr. Natrajan.

Murali M. Natrajan: Thank you. Good evening, everyone. I hope you have received Press Release and the Investor Presentation, and you had an opportunity to go through those details. I'll just make a few observations and then I'll start the question.

So first of all, undoubtedly, it has been one of the difficult quarters. I just realized this morning that this is my 50th quarterly call with all of you in this job. And in the recent past, I have not come across a difficult quarter like this, where the whole country had to deal with crazy kind of situation in terms of infection, issues on infrastructure, and customers were dealing with their personal challenges, their business challenges, our staff, we had to protect. All in all, a pretty difficult quarter.

I think we still managed to get a lot of positives out of this quarter. When I look at the quarter, I think our gold loan growth is still continuing to be quite decent. In this difficult quarter, we were able to sign up on a co-lending initiative with a very reputed company. And that started picking up speed. We managed to grow our savings accounts as well as the overall customer deposits and we further reduced our interbank deposits. The top-20 deposits, like I mentioned in the past is already below 7%, and we think that in about a year, year and a half, we should be at about 5% range, which would be the best in the industry. The opportunities for new loans were limited. And we were able to manage to keep the advances growth flat. And this has not been achieved by ECLGS; ECLGS more or less is flat in terms of what we have disbursed. Our capital adequacy continues to be strong. LCR was greater than 130%

One of the important things is the core fee income, not the treasury gain, the core fee income which did much better than the previous year first quarter, where it was also lockdown and other things, but probably we've learned our way through those challenges, and we were able to do a decent job on core fee income. We have very strong provision coverage, and we will talk about it more. But broadly 2% of our standard assets now are covered with the overall provision that we had. And last quarter means ended March was at about 1.8%, so we have improved it. This year, we have had to give salary increases. That was not possible last year. So, cost has gone up, at the same time, we are also adding headcount, because we believe the opportunities for growth are evolving. When we look at the disbursals of first quarter versus what we have seen in July, we feel very encouraged by the momentum that we are seeing in July. So hopefully we don't have a major disruption of sorts on third wave. I think hereon we should start building momentum again for the business. So that is how it looks.

All in all, despite the kind of challenges that has happened, we've been able to handle the quarter very well.

What is very important for you to observe, think through, is that unlike some of the other banks, we don't have a reliance on unsecured lending, MFI that kind of lending. What happens when you do that kind of lending? In good times, it is fine, but what happens is that in the month of NPA, you have to provide 25% and after 12-months you have to provide 75% giving hardly any scope for recovery and more when is no leverage with the customer, whereas we always have been doing - secured lending. And that is what is helping us to make sure that we have leverage with the customer. If you look at our collection efficiencies, it is starting to again climb up, there is a clear uptick we can see in July on current bucket and overall. So, recoveries and upgrades have been pretty decent in this quarter, even excluding the sale we have done pretty well on recoveries and upgrades. And looking at the initial numbers of July it is pretty encouraging. So that is where we are.

So, I'm happy to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Darpin Shah from Haitong Securities. Please go ahead.

Darpin Shah: In the asset quality that we have seen that Corporate NPAs have gone up on a sequential basis. So, if you can throw some light there?

Murali M. Natrajan: So, these are secured NPAs. We have exclusive security. These couple of corporates have had downgrades done by the other bank. And one of the corporate also had some creditor in NCLT. So that is getting resolved. One customer has promised to resolve it by September end or October, so we should be quite alright. Frankly, I'm not too concerned about that, because it looks fine to me, it's not a very difficult account.

Darpin Shah: So, there was just two accounts sir?

Murali M. Natrajan: Two accounts are there, yes. And our exposures usually are in the range of Rs.15 crores, Rs.25 crores that type of exposure. So, two accounts and one very small account exposure was there, and we believe that the kind of dialogue that is going on with the customer and with the other bank, we should be able to resolve it in the next three months.

Darpin Shah: We have seen some increase in restructured book as well. What is the pipeline for 2Q?

Murali M. Natrajan: So, last time I told you guys that we are expecting about 5% restructure. Now, what we have observed in this second wave is that a lot of customers who refuse the restructure or thought that they will be quite fine and so on, they were not allowed to restructure because of the new regulations that apply to them, right, which came from RBI. And what we found is customers this time around were more open to restructure, because then they found that their monthly receipts or business is not enough to service the loan, they would rather take the restructure and then service the loan with a lower installment at least for part of the time. That is how the restructure book has gone up. Most of the restructure is in mortgages, SME and CV. We don't have except for about Rs.16 crores or Rs.17 crores of PL which is restructured. There is no issue in terms of unsecured loans or anything getting restructured in that. We have a very decent collateral coverage. I think that deadline for the restructure is September. We are evaluating the pipeline. There is some demand, but not too much. And we have been very selective in terms of who we want to restructure because unless and until there is some underlying business and cash flow, we are just not allowing any restructure. And the collection efficiency numbers that I presented also includes the restructure… those numbers that I've put on the press release.

Darpin Shah: So, the floating provision is part of PCR for us?

Murali M. Natrajan: Yes.

Darpin Shah: So additional contingent provisions which is outside PCR is Rs.108 crores and another Rs.189 crores towards the restructured book?

Murali M. Natrajan: There is a separate provision for restructure as well. I will tell you what we have done so that there is some more understanding of our provisions. We took our entire NPA, went product-by-product, looked at what is the historical loan loss given default, put some stretch on that default and set back what should be the provision that we should hold. So, by looking at product-by-product provision and like I said, we don't have any unsecured loan except the MFI unsecured and a little bit of personal loan, right. So, we look at the MFI loans and said, let us take the provision all the way up to 90% on that because we estimated not more than 10% to 15% as the possible recovery given the couple of geographies in which these VCs were operating. So, to that extent, product-by-product, we have looked at our provision coverage and we feel comfortable given the loss given default of these that we have very well covered. Over and above that we have another Rs.112 crores of floating provision for NPA.

Darpin Shah: Perhaps if you can just give the breakup of provisions on the P&L side for the quarter?

Bharat Sampat: P&L side we have provided for NPAs Rs.130 crores, sale to ARC resulted in Rs.5 crores more credit loss, that is given in notes to accounts, so that is 135 crores for NPAs, floating provision we have made Rs.3 crores and provision against standard restructured, standard asset provision etc., nets off Rs.17 crores which adds up to total Rs.156 crores which you see in P&L.

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

Jai Mundhra: Just on the quantum of slippages, so while it may not be very comparable, but if I look at for the entire year FY'21, we had around slippages which was let us say closer to Rs.680 crores and in this quarter, we have done slippages which is, let's say 500-plus. The slippages as I see from your Gross NPA, product wise disclosure they are across all products, except maybe AIB. So how should one look at the slippages trajectory if I look your collection efficiency also, even in the month of June and July, I believe they're still below pre-COVID levels, so how should one think of the slippages going ahead?

Murali M. Natrajan: So first of all, don't multiply it by four; don't do that that is not the way it is. I have looked at the slippages of retail across all the banks that have declared results so far and looked at what kind of range that they are there. It has been the slippage ratio on retail, and we are talking only retail because many of the banks have 50% of their book in wholesale or corporate lending. It appears to be anywhere from 1.32% for the quarter to 2.09%, 2.1%. So, we are in the range is what I would like to say. So, we don't believe that every quarter we are going to have this kind of slippage. This was a very unusual quarter. Even if the customer wanted to pay, the accessibility was a major issue in most of India; in fact, it was lockdown very severely in most of India. A lot of business as well as logistic NPAs what is contained in the current NPA. Look at the recoveries that we have been able to do in this quarter in spite of the fact that there was the lockdown. So, we work pretty hard on getting our recoveries up. So, I believe that probably some spillover might be there in this quarter and then hopefully if there is no severe third wave, we should be back to some normal level is what I believe from whatever we have looked at. July performance of collection seems to indicate that we are far better than what it was in April and May. If you see last year, last year also step-by-step the collection efficiency has been improving, for example, if we look at the current bucket collection efficiency for home loans, it is already at 98.6 which was 98.1 in March as an example, right. Customers who become delinquent say two installments or three installments, at times struggle to normalize their thing especially if their business is being affected even say 10% or 15%. So, it takes time to kind of move in that direction, but hoping no further disruption, we should be further improving our collection efficiency.

Jai Mundhra: No, no, just to continue on this, while I don't think anyone would be kind of annualizing this slippages number and also you have had at least 50% of the slippages in numerical terms have already been upgraded/recovered. But if I look at your collection efficiency, for the month of July, for overall portfolio, it is still lagging by let's say 500 basis points in business loans, and maybe 200, 250 basis points on home loan and even 1,500 basis points in CV loans. As you said, the new customers probably are doing well or the zero bucket customers are doing well. But the people who are already delinquent, they are still finding it a bit difficult. So how should one look at the slippages, I mean, would you be comfortable in saying that the slippages at least from a quarterly perspective have peaked already and then you should have a reasonable reduction even in 2Q or this would be difficult to tell at this point of time?

Murali M. Natrajan: If I look at July, what we are seeing so far, the preliminary numbers that have come and we are of course analysing the performance of the various geographies, products, and so on, seems to indicate that the major, major issues should be behind us. That's what it indicates. But we want to see one more month, see all the product performance and geography performance for August, and hopefully there is no disruption, then we can safely say that yes, probably the most difficult quarter is behind us. So, at the moment, we feel very positive about the results that are coming through for July and we want to look at August, and perhaps September and then we'll be able to say that, but I can tell you that we are breathing a lot easier in July and August than we were in middle of April and May.

Jai Mundhra: In your press release, you said that the people who have not paid any installments since the beginning of the pandemic… you've given some number, is it safe to assume that these are NPA number already, right, because someone who has not paid any installments since the beginning of the pandemic would have already slipped, right this number, what does it indicate, I mean, does it provide anything extra, I am failing to understand?

Murali M. Natrajan: It should give you comfort that despite the fact that customers are in some difficulty, we are able to continue to extract payment from barring a small percentage, we are still getting payments from these customers, that should tell you that their business is okay that they are willing to cooperate with the bank, that our collection team is able to reach out this customer and so on. So, that is the purpose of that message. You will not be able to say the same, say for example, an unsecured loan that will be very difficult because it will be lower in my view.

Jai Mundhra: The disbursement of course was challenging because of mobility restrictions, and you have had a tie up which you had mentioned on the gold loan side. What would be internal budgeted growth for maybe full year FY'22 because your target customers, even if they come for renewal or extra credit demand, you would have something in mind to do to calibrate that, right, so it would be a function of some supply as well as demand. So, what is your thought process on the growth?

Murali M. Natrajan: We don't give you any guidance on a yearly basis. But our thought process from the start of the year was that we should be north of high teens like maybe 15% is what we thought as a full year achievement for this year; however, we have been able to do only Rs.1,000 crores of disbursal in quarter-ended March, we actually did Rs.2,700 crores…of course, usually fourth quarter is a strong quarter. But the momentum got tripped because of the lockdown, and so on in April. So, we are rebuilding that momentum. I'm confident that if there is no further major disruption from here on, we should be able to build our balance sheet quite well and hopefully achieve at least north of 10%, 12% of growth this year.

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

Mahesh MB: Two questions from my side. Pretty strong upgrade this quarter. How should we read into it in the near term, has the situation improved, now to a point where you said this could be the normal run rate as well or it could be better than that?

Murali M. Natrajan: We want to do better than this run rate that is our internal intention. See, the way upgrades and recoveries work is that you are working with the customer for X number of days, sometimes three months, six months, nine months and get fructify over a period of time because you have given him some solution, he is probably selling some other property and giving you the money or he's expecting some money and then he's giving it, all that kind of stuff. Some of the customers took restructure before and they come and pay off the entire money and close the loan. And they have said that they want to take a loan later. But right now, they just kind of close the loan. What we believe is the kind of effort that we are putting in collection, we have also increased the capacity in collection, and there is no choice because if your delinquency has gone up and our NPAs have gone up, you have to spend money on collection, ours is fully internal collection, we don't use any collection agency at all. That was also a bit of advantage for us during the lockdown because collection agencies I don't think a lot to work, but we were able to work as a bank, unless, until of course, we were prevented from reaching a particular location or something like that. So, we believe that we should do well on recoveries. I'll be able to give you some more trajectory on that, provided we get similar or better results in this particular quarter. But looking at July, we seem to think that it looks positive at least the recoveries point.

Mahesh MB: We've asked this question many times in the past, but I'm just kind of giving the question again, in the context of the numbers that we've seen, in the past you kind of indicated that you have a choice between exercising the collateral given that the LTV ratios are quite clear as well as compared to hand holding the customer in this period. Have you reached a point where you think you may want to revisit that assumption and start exercising the collateral to an option?

Murali M. Natrajan: We always threaten the customer to exercise the collateral, that option we never leave off the table. But the fact is the customer wants to cooperate and gives us a proper timeframe in terms of helping us to achieve like upgrade or recovery and all, we want to give them a chance. Otherwise, what happens is that if that goes to the market with too much collateral, we don't want to damage the valuation, we always tell the customer you sell and bring, in fact, and most of the customers who settle with us are selling the property themselves and giving us money. We have had some recovery and upgrade by selling of the property by the customer. It's not that it's all recovery just this thing. Of course, upgrade, usually money is collected. There are customers who have promised, saying that all 3, 6, 9 installments we will make it good because his business is picking up, he just wants a little bit of more time in those kind of situation. I don't think there's any magic formula or one strategy for any of the things we can do. There are situations where the government is not allowing auction of property or even gold for that matter was not allowed for a while. So, I think we have given some discretion to the collection, and we review it centrally at our Head Office. And the last thing you want to do is to go there and do some wholesale panic selling and things like that, which actually might not serve the customer or the bank's purpose, other opportunities are there to fix it.

Mahesh MB: One quick clarification, when these customers are selling their assets, these prices at which you see the valuation was done, it's still holding up or you've seen instances where customers have had to break down prices quite aggressively to clear the underlying loan out there?

Murali M. Natrajan: It depends on the desperation of the customer. Many customers when they have another property, and they can shift to that property and so on. They take their time and get the right price. Fortunately, for us, I mentioned in NPA, our average LTV is 40%, in restructured our average LTV is 52%. We never let go of the principal amount. Principal amount waiver is handled at a very high level. So, it's not possible for collections to do principal waiver at all. So, in smaller properties that we are dealing with like 50, 60 lakhs and all, I don't see any issue on the thing. We've had some challenges in property value say 2.5, 3 crores but those are very limited loans for us.

Moderator: The next question is from the line of Prakhar Agarwal from Edelweiss Financial Service. Please go ahead.

Prakhar Agarwal: A couple of questions to start with. When I look at your write-off numbers, even if I exclude the assets that we have sold to ARC, then also for last couple of quarters, that number seems to be running on a higher side. Given the nature of the book that we have in, what is the thought process regarding writing off those assets?

Murali M. Natrajan: Usually, we write off loans that are like, for example, could be MFI loan, could be some unsecured portion of say tractor, or could be loans that we have collected, and some balances left on those loans that we don't want to pursue because the collection cost of the loan versus that could be an issue. And of course, the last thing we want to do is to write off in any one particular quarter a huge number. So that's the way it is. Only 100% provided books are usually written-off, I mean, that is how we work. There is nothing like collection not continuing on the account even if it is written-off, because the collection team doesn't know that we have written-off or made a full provision, they don't know all that.

Moderator: Thank you. We move on to the next participant. Next question is from the line of Prabal Gandhi from Antique Stock Broking. Please go ahead.

Prabal Gandhi: Sir, in the high upgrades during the quarter, how much would be on account of OTR restructuring?

Murali M. Natrajan: Very minimal on account of restructuring. Let me put it this way, even when we do restructure, some very high level of approval will be required if you are restructuring a customer who has not paid the installment. Because normally we tell the customers, please get the installment done and then we do the restructure

Prabal Gandhi: Also, sir, on the high recovery side, we had seen strong recovery, which are the segments which are contributing to the strong recoveries which are fixed….

Murali M. Natrajan: Whatever is our underlying business is what is contributing, mortgage, CV, SME, they are the ones who are contributing. That is what is in NPA, that is what is contributing.

Prabal Gandhi: But any specific segment, for example, CV or mortgage business is better than the others or before others?

Murali M. Natrajan: Nothing like that, mortgage will always be the biggest contributor, and CV probably would be next, gold would be another one that would contribute, SME also contributes. That is how it is, there is no, I mean, it's like maybe in one month something might do better, but generally that is a trend.

Murali M. Natrajan: Because the reason I am asking this is, because in segments, for example, CV we have 15% GNPA and other segments also. So, I just wanted to understand how quickly can we recover and how quickly things will normalize from there?

Murali M. Natrajan: So CV loans, what we have seen is, as soon as the customer starts to use his asset, you start getting payments and recoveries. So, the NPA is also a direct function of the non-functioning of the asset, and the recoveries and upgrades is also non-functional, unless and until the prospect met with an accident or something like that. You see higher NPAs because the book is on a decline because new loans have been very limited on CV, that is also one reason. So, we are already seeing continuous improvement in CV, and July recoveries were better than June. And if God forbid, there is no serious third way, I think we should be doing fine.

Prabal Gandhi: And sir, in terms of gold, are we able to auction now?

Murali M. Natrajan: Yes, we do e-auction, we do very successful auction. And touchwood, we didn't go haywire on giving 90% LTV and all. So therefore, we didn't have any problem. I know some of the companies have had problems because they went a little overboard on 90%, we restricted ourselves on those loans, the competition was very tough, but we still restricted ourselves. So, therefore, we don't see too much of issue in gold.

Prabal Gandhi: And the auction run rate has picked up to the level that was earlier?

Murali M. Natrajan: Yes, our auctions are usually successful, there's no issue.

Prabal Gandhi: Just last one question, can we get interest reversal in the quarter?

Murali M. Natrajan: We don't present those numbers, suffice to say that if you have higher NPA then you have higher interest reversals, that kind of hurts the NIMs. And that is a major reason for us. Plus of course we are maintaining higher liquidity because given the current situation, it is better to maintain higher liquidity.

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

Sri Karthik: A few data point questions. The 97% collection efficiency that you reported, including restructuring, if we exclude restructuring, is it materially better?

Murali M. Natrajan: It would be better, but it will depend on month to month, because sometimes the restructured account may not pay that particular month and pay two months. But in this, we have said, whatever has been billed in that particular month is the denominator, and whatever has been received from the customer is the numerator. There are customers who are bucket zero in restructure, they are included in this. See, this restructuring while it is a restructuring, restructuring is not unsecured loan restructuring, I just want to tell you that. This is not unsecured loan restructuring, this is all secured loan, only Rs. 16 crores I have put. We have not restructured some MFI loans and things like that. So, if a customer's business is not there and he comes for restructuring, there is a process to check what is the reason why he is asking for restructure, is his business running, can he service the loan? If he says give me 12 month moratorium, we say why can't you take three months. There are customers who have asked for 12 month moratorium, and when we tell him what is the installment he has to pay after 12 months, they got scared and said only give me three-month moratorium and started paying also. Because they think that 12 moratorium means the installment will be the same as what he was paying, that is not the way it is. So, restructured loans are loans where we have examined each of those customers, looked at their collection have come back with a feedback as to what the customer can do, not do, there is an approval process, collections cannot restructure anybody they want just to prevent the NPA it gets through the credit underwriting process. Credit underwriting decides based on the data presented whether it is okay or not, there is a policy given on restructured over and above whatever policy has been given by Reserve Bank of India. That's how disciplined we are doing this restructure, that is why we have a lot of confidence in restructure.

Sri Karthik: Thank you. The gold loan NPA, the total Gross NPA book?

Murali M. Natrajan: We are trending some Rs. 65 crores, something like that is the gold loan NPA.

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

Rahul Maheshwari: I have just two questions. First, can you highlight from the customer's point of view that how the business cycles are working or the payment cycle which was halt in April and May month of many SME customers or the retail customers which are there, please can you give some brief on a product wise on the customer's business point of view?

Murali M. Natrajan: So, two geographies as per our information that took the longest time to come back to some level of normalcy was Karnataka and Tamil Nadu, they probably started the lockdown later and they also went on for some time. Kerala continues to be a problem, but we don't have much business in Kerala so that's not a worry for us. North seems to be doing quite all right. And I ask very simple question to our portfolio managers as well as sales team, and more importantly, the collections team, as to what exactly is the customer saying? Is he paying? what device he is paying? If he's not paying, why is he not paying and things like that? So, the dialogue which was quite difficult in April and May started getting better and better towards the end of June and was as far as July except for the fact that you had to deal with a higher stock of NPA, the July discussions were far more easier, because the customer responses were far better and so on. So, we are also continuously looking at what is the stock of customers who are continuously paying us at least one installment, even though they are NPA. We are looking at that and asking the customer, why can't you take some temporary loan somewhere and upgrade yourself so that in future, in may be six months, 12 months down the line, you could have a better credit profile. So, all those are happening. The important thing is that if you don't get distracted and hit by a severe third wave, I think customer have also figured out how to work through these issues. Of course, if a customer has died, or his business is completely shut out, then his relatives are looking to just simply square up the loan and move on. That's how it is working. I think as we speak, even Karnataka and Tamil Nadu are also getting better in our collection reviews.

Rahul Maheshwari: That's helpful, Murali. But just what's your trend line which I want to see is that, if the third wave doesn't get very severe as compared to what we witnessed in second wave, can we say that the worst is over and the growth which you mentioned about the mid-teens. If the growth of mid-teens takes place, which would be the major segments that which you are looking for the growth that would be in excess as compared to what we are seeing on gold loan portfolio?

Murali M. Natrajan: Seem, Rahul, I know the problem is always caused by 5% to 10% of the customers. In our portfolio, don't look at CV, CV is a very sensitive portfolio from an economy point of view, like if the truck doesn't run then he can't pay money type of thing. And it's only about 5% of our portfolio and probably declining as well. So, let's look at home loans and business loans. Home loan opportunities are there, we have grown home loans, it's now 22% of our book, I think maybe in a year, two years time, it may even be 30% of our book. And it's a good ROE book, in the sense that we don't book loans unless currently it gives us 14% ROE in that book. In customers who have been able to manage both first wave and second wave, those type of customers are very, very valuable for us. And similar customers, whether it could be a trader, we do a lot of wholesale traders and shopkeepers who are doing some level of packaging, I mean, you name the profession, we do it. Except for a beautician or some spa, or some restaurants, most of these guys come back pretty quickly unless and until they have borrowed like hell from the market, and they are not able to maintain their record. So, we feel very positive about this aspect of it while dealing with these challenges that are thrown in our first quarter. And we are also adding headcount; we are going to also expand branches because we feel that some of these opportunities are pretty intact. And it may take time, but it is pretty intact.

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

Mona Khaitan: Sir, what was your LTV on your gold book?

Murali M. Natrajan: Except for a very short time, for a select customer we gave instead of 90% somewhere around 85%. And how we do it is, we actually reduce the gold rate, so actually we end up only giving 85%. Other than that, most of our book is 75% and below, and that is a reason why, touchwood, we haven't had any major challenges in managing our gold loan book, and we are growing that also.

Mona Khaitan: Okay. So as on March is when it was around 75% or thereabouts for the overall book?

Murali M. Natrajan: It would be lower than 75%, because 75% is the maximum, not all customers are using the entire, and there are some repayments as well, right. And why do you ask that question? Because gold loan is the least of my problem at this moment.

Mona Khaitan: Because a couple of banks, they had raised their overall LTVs till last quarter, so just from that perspective.

Murali M. Natrajan: Yes, I mean, I mentioned to you that we are very careful in raising. And there is a short window given by the Reserve Bank of India to keep it at 90%, and there is always a temptation to grow your book at 90% and then customers don't pay then you suffer. So, we have been very careful about that.

Mona Khaitan: And on the recoveries aspect, is it fair to say, if I can recollect from your previous conversations during this call, so, is it fair to say that recoveries will pick up very sharply in the coming quarters? Or will it take a couple of quarters for these accounts, once things normalize, to come back to pace and pay back their missed installment?

Murali M. Natrajan: Our deepest wish is that the recoveries should pick up sharply. However, we are to go in a very systematic manner and see. July seems to indicate that recoveries are better. Collection team is feeling confident based on, we have only got PTP, promise to pay. The promise to pay percentages and promises kept percentages are looking good. So, therefore, customer is also keen to get out of this NPA and so on, because these are our customers who are squeaky clean way back in March 2020 and squeaky clean in March 2021. So, therefore, they don't want to also spoil their record and they have gone through some real struggle. So, I believe that our recoveries should be good, upgrade should be good. But I want to see one more quarter before making it, of course, we are changing our strategy, we are making sure that adequate collection capacity is there. We are making some small changes in the organization so that more focus is there, some segmentation, analytics, everything is being done on that. And it is all in-house, we don't have any collection agencies and all. The problem with collection agency, and we have a lot of experience on it in the past many years ago, is that they will only collect from easy, low hanging fruits. But here the scorecard is designed such that they have to deal with each and every customer and show us the results, therefore, it is according to market better to do in-house. So yes, we are quite hopeful have a better recovery and upgrade in this quarter, then we will see.

Mona Khaitan: And on the AIB book, I see that your GNPA levels have not moved much sequentially, so is it fair to say that you have written-off a lot of your MFI slippage is, if any, this quarter?

Murali M. Natrajan: No, no, we have not written-off our MFI slippages. In AIB we have no challenges that I can see of other than normal challenges on tractor, KCC because of some lockdown challenges but I think we are quite okay, it's a manageable kind of thing. MFIs across the market, as you know, it's a very small book, we are talking about some Rs. 500 odd crores, MFI caused some problems for the entire market. And as mentioned in our press release, we have provided 90% of it. Whatever has slipped up to 2020 June, we have provided 90% of it.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital Markets. Please go ahead.

Bunty Chawla: Two questions from my side, first on the PCR per se, as the slide suggests that from FY 2015 to FY 2020, we have managed well the PCR above 70%, now it has moved to 59.4%. How one should see the PCR spend ending at FY 2022 level? And when should we expect this to reach 70%, 75% levels? And secondly, on the margins also, we have seen there has been from last four years from 4% it has moved down to 3.3%.

Murali M. Natrajan: Yes. So, margins is very easy answer because if you have higher NPAs, then you have to reverse the interest that you have earned, and that is what has caused the margin dip. We expect cost of funds to further reduce. We have reduced our deposit rates further, which will come into effect on August 15 or August 16. We have reduced our rates further. In most of the segments, we are able to hold on to our yields, except for some really highly competitive segments. Other than that, we are able to hold on to our yields. Barring any major issues on slippages, I think we should see some improvement in NIM is what my belief is, as I look at the financials.

Now regarding the PCR, like I mentioned, I don't know if you were there in my call right at the beginning. First of all, all NPAs up to March 2020 are extremely well provided. And then the new slippages we have provided quite a lot and we have looked at all the loss given default of each and every product, we felt that we need more provisions in MFI segment, therefore, we added to the provision about almost up to 90% we have provided on the slippages as on June 2020. We never shy away from making provisions, but please understand that we are not dealing with unsecured product, we are dealing with secured business. And over time, we are confident that we will continue to grow our provision coverage.

Moderator: Thank you very much. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I had a question on the treasury profits, the yields have been range bound over the last one quarter. And despite that, you managed to have Rs. 500 crores plus of treasury profit. So just want to understand, what is driving this? How will it finally reflect in lower margins recovery or **(Inaudible 50:36m)**…..in the market and you are generating a profit? Or is it because of the RBI buyback programs which is creating a window of opportunity?

Murali M. Natrajan: If any opportunities are provided by RBI on treasury, and we are eligible to use that opportunity, the investment team and the treasury team looks at the opportunity and decides whether we need to participate or not. We want to make sure that our yield is as intact as possible in treasury. So, that is a very important consideration for us, because we like the regular income as opposed to one-off incomes. However, when we look at the opportunity and see that we will not dilute the yields too much, then we actually take that opportunity. Many times, we actually give a miss to the opportunity that comes, because we feel that that is not something that we want to target.

Now, what is the yield that you are looking at that you have a question, if you can tell me that, then I can answer it specifically.

Amit Premchandani: Normally, what we see is that when the yields go down banks book lot of treasury profits. But what we have seen over the last three month or even six months, yields have been flat and there has been hardly any directional movement in yields, but treasury profits used to be quite consistent and significantly above the trend level, so just trying to understand what is driving it.

Murali M. Natrajan: No, there are some specific securities that RBI presents to say that we can, for example, in a normal operations or something. So, there we are able to look at our security, what we have, because if that matches with that, so some security may have been at 7.5%, some security may have been at 8%, whatever and they have been historic securities, I mean, if it is being offered by RBI in that auction, then we evaluate whether we want to participate or not. That is one. Second, every year you are allowed to transfer a portion of your HTM to AFS in the first quarter, and that is what we have done. So, there is nothing special driving all this, it's a very regular. Last year also we have done similar operations.

Amit Premchandani: What was the transfer to HTM to AFS?

Murali M. Natrajan: We don't discuss all that, that's not presented by us in our calls. We have already told you what we have made so that is all.

Moderator: Thank you very much. The next question is from the line of Rajiv Agarwal from Sterling Capital Management. Please go ahead.

Rajiv Agarwal: First, I would like to congratulate for this blockchain award that you won. What is this specific initiative we are doing in blockchain, can you just highlight it?

Murali M. Natrajan: My colleague here, Praveen, will respond to that.

Pravin: On blockchain, what we are doing is, on the third-party distribution piece we have automated the process whereby insurance which are issued, the entire flow has been done on blockchain. Secondly, on trade business, we have done blockchain for issuance of guarantees. The third one which we got was for the ATM chain, where the entire reconciliation bit of cash withdrawals is at the backend done through ledgers, which will ensure that reconciliation is instantaneous and customer disputes are resolved at the earliest.

Rajiv Agarwal: Okay. And my second question is that, just to understand, this Rs. 90 crores recovery we have shown, where we show it in the P&L, is this reflected in the Rs. 120 crores other income?

Murali M. Natrajan: Which recovery you are talking about?

Rajiv Agarwal: The Rs. 90 crores recovery shown in this quarter. So, where does it get reflected?

Murali M. Natrajan: Yes, if we recover from gross NPA, the gross NPA comes down. And the related income that was not recognized before will go into income. But if we do recoveries from say written-off account, that is not shown on this particular slide, that will go directly shown as an income. So, this is not income, this is recovery. And any related unrecognized income from these recoveries would have automatically been recognized by the system into the income.

Rajiv Agarwal: So, it has a double effect?

Murali M. Natrajan: If you do recoveries and upgrades, always the income improves, no question about that. And if we choose to, we will reverse the provision as well.

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

Darpin Shah: Just one question from my end. Any thoughts when we will start using these contingent provisions of Rs. 108 crores?

Murali M. Natrajan: The current thought is like this. Go hell for leather in reducing the NPA and make sure that the restructured customers stick to their commitments, that is our basic. And the way we have looked at it is that, we will try to ensure adequate, I know we are dealing with a secured portfolio, but we try to ensure adequate provisions. So, we don't have any plans right now to say when, how we will reverse these or utilize it. For that matter, we don't have plan to utilize the floating provision as well, we have never utilized it as we know in the past.

So, let's wait for one or two quarters, we see that things are getting better, and our recovery efforts are yielding results, we will take a call.

Moderator: Thank you very much. As there are no further questions on the conference, I will now hand the management for closing comments.

Murali M. Natrajan: Thank you very much for dialing into the call. I know it was Saturday late, I am sorry to keep you all so late. Please have a good weekend and look forward to talking to you again. Thank you.

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.