DCB BANK

DCB Bank Limited Q4 FY16 Earnings Conference Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to DCB Bank Limited Q4 FY16 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – MD and CEO for DCB Bank Limited and Mr. Bharat Sampat – CFO for DCB Bank Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Murali M. Natrajan. Thank you and over to you, Mr. Natrajan.

Murali M. Natrajan: Good afternoon, Ladies and Gentlemen. Sorry for the short delay. We have already sent you all the detailed Press Release and Investor Presentation which we uploaded on the website couple of days ago, I hope everyone has received. So I would pretty much go straight into the questions that any of you might have.

But before I do that I want to request Bharat to provide clarity on two items, one is on ARCIL asset reconstruction sale which he will give you the details and the second one is on the Deferred Tax Asset. So Bharat, over to you.

Bharat Sampat: Thanks. What I would like to highlight is that while part of the reduction in gross and net NPA is due to sale to ARCIL, if we do not consider the sale to ARCIL we would still end up with Gross NPA ratio below 2% or 1.92% and Net NPAs would have been 1.01%. And second thing I wanted to clarify, because some of the analysts have been asking us on tax line, we have recognized Deferred Tax Asset on provisions made against standard assets and floating provisions, which has resulted in lower tax number for the full year. Last year our effective tax rate was 8%, current year full year is 26%, next year barring minor allowances for any accounts written off or small relief we would be having full tax rate at 34% plus.

Murali M. Natrajan: Thanks Bharat for the clarification. So let us go straight into the questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Rajat Deep Anand from Canara HSBC Life Insurance. Please proceed.

Rajat Deep Anand: I had two questions, one of them is regarding branch rollout and the second one is regarding all these new products that you are showcasing in the PPT. So firstly about branch rollout, I see you have increased branches from 160 to 198 in two quarters but that has been done while keeping cost income ratio under control. So are we missing something here, is this like back ended branch openings towards the end of the quarter which is why we do not see associated costs or probably the branches which you had opened earlier are coming on-stream so that is why it is not impacting your income ratio? And also, you have a rollout plan over the next one and half to two years, so what we see in these first 50 branch openings, is this kind of control on cost income ratio which be maintained or is it a correct trend to project into the future? This is what I want to understand.

Murali M. Natrajan: So point number one is that on April 15th we have already opened our 200th branch, so 198 was as on 31st March 2016, so since then we have already opened two more branches. The 200th branch was opened in Hyderabad along with our Regional Office by the Board of Directors. Now part of the cost is also because a lot of branches got opened in the last two months or three months, we like to open branches in a bunch because from a administrative point of view and also from execution point of view whether you take HR, Technology, Operations, it becomes a lot more simpler to deal with a critical mass of branches in one shot. Now regarding guidance on cost income ratio, etc, I would like to stick to the 30th October 2015 release that is there in our website as well as in BSE & NSE. So we are not providing any fresh guidance on what is likely to be the cost income ratio or where are we targeting our ROE, we are sticking to that guidance at the moment. In terms of number of branches to be rolled out, we had first announced 150 branches in one year, then we said 150 in two years, so we are pretty much pursuing that path. By October 2018, we expect the number of branches to cross 300, give or take a delay of 2-3 months that is how the whole team is now geared up in terms of execution. Yes, if we find that the branches that we are executing are not delivering to the kind of metrics that we have put for each of those branches, then obviously we will have to rethink whether we need to put all those branches. If we find the performance of the branches to our satisfaction, we will continue to roll out those branches as we have explained on 15th October and 30th October communication last year. Does that answer your question?

Rajat Deep Anand: Yes. And regarding these products which I see DCB with the Missed Call services, IMPS through branches, Smart Credit, if you can just tell me these are new products, right, and so are you the first bank to implement products like these and if you can just tell us how you are planning this entire approach?

Murali M. Natrajan: So for some reason many investors and analysts feel that banks like us would be left behind in some great technology race that is going on in the country. So we decided that we also need to tell the world as to what exactly is happening in technology. The kind of technology that is available it is not going to be a monopoly of only a few. So we are on a very good technology path, we were the first bank to issue Aadhaar based ATM which has been appreciated by quite a few different entities, we plan to rollout the Aadhaar based ATM to all our 400 branches in the next six months or so as soon as the pilot becomes successful. IMPS - I think we probably are the second or third private bank to provide that in a branch, IMPS is available in mobile banking and internet banking across I think in the banking industry. On UPI, which is not there in the Investor Presentation which was launched I think last week or so, we were amongst the top 10 banks who have now UPI enabled, so that puts us much ahead of other banks. In fact informally we understood that our application that we developed for UPI was one of the best. So regarding Zippy, Zippy is a product that we launched about six or seven months ago and it is a product where in three steps anywhere in India you can open a Term Deposit with DCB Bank, it also got an award and we have got customers even in non-DCB branch locations and it is a very simple product, it is available, it is mobile responsive as well so it can be used from mobile phone. We have a very good in-house technology team and based on whatever developments are happening we want to be at the cutting edge in terms of technology. So I just wanted to showcase to the investors that DCB is not likely to be left behind in this so called digitization that is happening in the industry.

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

Prakash Kapadia: Sir 2-3 questions from my side. One, just to add to the cost income ratio, if I look at the cost to income ratio for this year it is down 40 basis points at 58.4%, I heard the opening remarks which you mentioned we stick to our guidance, so doesn't 500 basis points or 4.5 basis points increase in cost to income for FY17 look too much of an increase based on this year's cost to income?

Murali M. Natrajan: So again my response is that, we have given you certain guidelines on 30th October 2015, we are unlikely to change it, so based on whatever trends you see, if you are making any estimates on that it is obviously up to you. But what I want to say is that there are so many things that happen when you implement a branch, for example, if you make a simple mistake of not getting a good branch manager right upfront you lose about three to four months in terms of meeting your 18/22 months breakeven, that can effect cost to income ratio of that branch. So we have factored in possible execution risk in pursuing the strategy of aggressive branch expansion. Second point you have to understand is, we started this journey of branch expansion with 80 branches, there are established banks which have got 300/ 400/ 500 stable or we can say mature branches and if they add 50 more branches the mature branches are taking the shock of the 50 new branches. For us the mature branches are perhaps 100-plus or something like that, therefore, when you put 54 branches the shock of that cost is absorbed by less number of branches.

Prakash Kapadia: Sure, because they are not contributing.

Murali M. Natrajan: Exactly. Therefore, maybe there is an opportunity but the fact is we would at the moment have that guidance and try and over achieve that.

Prakash Kapadia: I am sure you will do better than that. Secondly, on commission and fee income, it is up 17% this year at 1.4 billion, what is the sustainable growth rate for other income, core Other Income going forward and what will drive this line if you were to grow it in line with our Advance growth? So some of the initiatives like Bancassurance, Trade, Forex and with the branch expansion what would be the bigger driver to this?

Murali M. Natrajan: So the item that goes into the entire fee income other than Trade are customer related FX, Trade, ATM fees, processing fees and CASA related fee plus the bancassurance and mutual fund sales. Usually fourth quarter is a pretty strong quarter across the industry and so we have also had a pretty decent fourth quarter, these are the items that are driving this thing. There are times when we have taken some good steps, but it had to be pegged back because of whatever happened. For example, I think two or three years ago we increased the number of ATMs substantially and there was some change in terms of the pricing that can be charged, I think it went down from 17 to 15 or something and we had to completely rethink our ATM strategy. Now you see ATMs we have gone from 328 to 410 and we are finding remarkable success in terms of our ATM rollout. We also shut down ATMs. For example, we find that it is not meeting the metrics we just kind of simply shut down because it does not make sense to waste money on an ATM that is not being patronized by customers. So what is going to drive is not any one of it, it is going to be ATM fee, it is going to be Trade, we are training a lot and lot of these branches in Trade, but you see the training also just to get to a little bit more detail, you train, but unless and until they actually do a transaction the training does not tick. Therefore, we have to actually hand hold and make them do a transaction so that they become familiar with that, so it is a painful process. We are finding a lot of success in merchant FX, i.e. customer FX which is going up by I think you might see it in the presentation in the FX line that it is actually going up. We invested in one product, managers have got a lot of training done to the RM. So what will drive this is to get these branches to be well trained and make them do the transactions so the fees can come, all we pay for used kind of fee where customer does a transaction and you get the fees.

Prakash Kapadia: And is it right to say, because some of the branches are not too old in the system, by that sheer time correction also you will see some of these branches selling some of these products and that itself should get into the base to get us more than the 17% what we have done.

Murali M. Natrajan: See, we hope to do better obviously, see what happens is that you open a branch, we are very clear that we open a branch, do not sell insurance first. Some banks have a very different approach, we want to focus on all products all branches, which means that we are quite happy to do a mortgage product or a commercial vehicles product or a tractor if it is in rural area or gold loan. Whatever is the catchment area kind of need we sell those products and we make that planning that, you cannot just day one sell insurance because you do not have a base, there are no customers to whom you can cross sell. But once you build a customer base by various products either loans or deposits then these cross sell products come into picture. Of course, there are branches where we put it in for example in a Trade area, SME area and all in metro then Trade can happen even from day one. So different branches, I mean there is no one solution here, so different branches have to be approached very differently in terms of how we generate fee income.

Prakash Kapadia: And lastly, out of the current quarters, the other income out of 615 million, 395 million is commission what could be others, trading or miscellaneous income, if you could give some breakup?

Murali M. Natrajan: So we have had some pretty decent recoveries of bad debts, so that has been very good. So there has been a recoveries and that two or three things that we are pursuing for about few months all came together between February and March, so if it is a recovery of bad debt obviously it goes into miscellaneous income, there has been some very strong performance in our cross sell of mutual fund and insurance. FX and treasury also has been pretty strong in this quarter. Fourth quarter is always, I mean I have been telling my team that I want to name every quarter as fourth quarter because if we do four quarters like that then it is pretty good, but somehow fourth quarter across the banking industry seems to be, and we particularly had a pretty decent fourth quarter.

Moderator: Thank you. Our next question is from the line of Subhankar Ojha from SKS Capital. Please proceed.

Subhankar Ojha: So the FY17 guidance for tax rate?

Murali M. Natrajan: As Bharat mentioned the tax rate one year ago was around 8%, the year that we just concluded is closer to 25%- 26%. Barring any item that we cannot at the moment see, it would be closer to the 34.5% type of tax rate.

Subhankar Ojha: And secondly, so in terms of our overall advances mix mortgage till continues to have a dominant market in terms of 43%, where do you see the growth advances coming from in FY17?

Murali M. Natrajan: So if you see our Press Release we have said that our advances growth have been 23% and other than Corporate. Corporate bank actually is down for us this year, I do not remember the exact number but it was down by almost 18% or 20% from the beginning of FY16 to end of FY16. So if you back it off from both years then actually our growth on AIB, mortgages, SME, MSME, commercial vehicles, gold all that put together is 36% and these are all coming from our expansion of headcount and branches. So if I look at our loan book in March 2013 I think it was 6,500 crores, we are closer to 13,300 crores now, so which means we have more or less doubled in three years. So that is why we feel that if we continue to execute well we should be able to aim for double the loan book in say three years or maybe 39 months or whatever without changing any mix and we are quite happy with mortgage dominating because we are not doing large figure mortgages. We do small ticket mortgages like 30 lakhs - 40 lakhs type of average tickets, we are relying more on more distribution and more geographic reach for doing this business rather than trying to do big tickets to bulk up our advances book.

Subhankar Ojha: And finally, I missed out on one point, so despite our aggressive branch expansion cost to income ratio quarter four seem to have come down, so what was the reason behind that?

Murali M. Natrajan: Usually the Q4 income is very strong and besides that also many of the branches have come in the last three months so the full blown cost of that will come without fail next year.

Moderator: Thank you. Our next question is from the line of Jahnvi Goradia from Motilal Oswal Asset Management. Please proceed.

Jahnvi Goradia: Sir, I have couple of questions. First is, if I look at the base rate that was earlier there and even the one year MCLR, our MCLR rates are significantly higher than the other banks, even the small banks. So how are we able to be competitive in terms of the loan market and also would that imply that we would be doing like maybe riskier lending in order to maintain the NIMs?

Murali M. Natrajan: The biggest riskiest lending in our country is to lend to corporate bank at the lowest price and the slowest recovery from any loan book is from corporate. So what used to change our perspective, small customers are good, there is nothing wrong with small customers. If I give 100 small loans even if five of them go bad the chance of my recovering over a period of one year is much better than giving a 50 crores loan and if the loan even becomes stressed to kind of fix that loan, that is the philosophy I have, that is the philosophy the team has and we are quite happy with that philosophy and it seems to help us in keeping our portfolio quality steady. Now come to your riskier and non-riskier and all these things. One year MCLR for us is at 10.52%, our base rate is at 10.70%, actually it is 18 basis points lower. Second thing is, this MCLR which is being adopted by all banks actually gives us an opportunity to do less riskier assets in a shorter tenure because our rates are more, if you see our three months rate it is 10.12%. So I would argue that when it comes to some short-term loans we can actually do far less riskier assets at lower base rate otherwise I would have been stuck at 10.70% which is my base rate.

Jahnvi Goradia: So the SME and the mortgage book will be linked with a one year MCLR?

Murali M. Natrajan: The SME book is going to be linked with one year MCLR perhaps with quarterly reset, I mean you know that MCLR came into picture in April 1 and most banks have just been sorting out all their product issues and all, so all that will become clear in the next week or so. With respect to mortgage, if we give any home loans which are fixed rate for two or three years, if we chose to do a product like that than we will chose an appropriate MCLR.

Jahnvi Goradia: And sir the second question is, in the presentation you mentioned about Smart Credit that helps lower the credit card interest cost, so I was wondering since we do not lend to credit cards so if you could explain the product?

Murali M. Natrajan: We launched this product very recently, it is yet to find a lot of customers because we have not done enough of marketing and sales work on this as we have just been testing all the systems and process, there is like about handful of customers who have adopted this thing. It is very simple, if you have a credit card, for example, I used to work in credit card business in Citibank and Standard Chartered, credit card companies generally charge anywhere between 36% to 42% interest rate, so this will offer at a much lower rate, so all you had to do is just complete the form, we have an automated approval process based on score card, once that is approved you can simply transfer your expensive credit card balance to Smart Credit and reduce your interest cost on that, that is basically the product that we are offering and all that can be done on the net itself, on your desktop itself so that you do not have to do anywhere, you can fill up the form, transfer the balance, all that you can do on that. So that is basically the product.

Jahnvi Goradia: So if I understand it correct, it is like an indirect funding for credit card, is it?

Murali M. Natrajan: No, no, we will be giving you a card also in this, you can continue to use this card that will be a plastic that will be given to this account, you can also use this card as a credit card to spend more at a lower cost. So you can use the Smart Credit account to transfer your balance and lower your credit cost, like you said indirectly, and you can use a card provided by us on this account to shop like you normally do shopping with your credit card.

Jahnvi Goradia: And sir last question on NIMs, if you see NIMs have been pretty high since the last few quarters, so is it some float income, are we doing something different or is it like a one-off thing and NIMs would taper down to maybe a 3.7% going ahead?

Murali M. Natrajan: For the last few quarters whenever I have said that NIMs will come down it has not come down it has actually gone up a little bit, so that I am far losing credibility on NIMs. But on NIM, I want to be always conservative and I believe that if our MCLR is 18 basis points lower than Base Rate, of course Base Rate also has to be adjusted now because if we see our cost of funding coming down we have to basically adjust the Base Rate. So I do see pressure of 25 basis points on NIMs. If you keep a very good quality book, if you maintain a portfolio quality, if you have upgrades in a particular quarter higher than the previous quarter obviously there are write backs of interest and that will help the NIM. So the fourth quarter is unusually high because of that.

Jahnvi Goradia: And sir in regards fee income, you explained a lot earlier but would it be possible for you to quantify in terms of how much is FX or how much is recovery as you used to earlier?

Murali M. Natrajan: We have provided some detail in the Investor Presentation and our belief is that is sufficient information at the moment.

Moderator: Thank you. Our next question is from the line of Raghav Garg from Banyan Capital. Please proceed.

Raghav Garg: The first question is just to clarify the NPA that was sold to ARC, so a majority of that came from the SME loan book?

Murali M. Natrajan: It is a mix of SME, mortgages and one or two accounts in AIB and it is 37 accounts amounting to approximately Rs. 58 crores, average ticket size is like Rs.1 crores - Rs.1.5 crores.

Raghav Garg: So then SME NPAs dropped dramatically in this quarter from Rs.52 crores to Rs.24.5 crores, so could you just comment on that?

Murali M. Natrajan: Some of it is also because of upgrades. See what happens is, like I said you keep pursuing loans for upgrades and so on, sometimes some two, three accounts come together and get upgraded in the same quarter, so we are particularly a decent quarter in terms of both controlling the slippages and upgrades and plus recoveries in terms of bad debts. So SME some of the accounts that we pursued for the last two years where we were not making headway or we made headway but it may have taken few more months for us to resolve it completely, though some of those accounts we have kind of passed it on to the asset reconstruction company.

Bharat Sampat: Also if you see page 13 of our presentation we have given how much we have recovered from sale to asset reconstruction company, so if you remove that from the recoveries figure for both the quarters last year and current year or full year last year and full year this year you can see that the recovery performance also has been very strong, in fact more than double what was there in last year and that has also helped reduce the gross NPAs.

Raghav Garg: The next question is circling back to non-interest income, if I look at your last three years you approximately did Rs.1.1 crores per branch, so is that kind of an operating metrics that we should look for or that just happened to be….

Murali M. Natrajan: No, new branches and all cannot give Rs.1.1 crores and all. Mature branches only can do a much better job on these. I explained a little earlier in the call. The first task is to get number of customers to either through asset product or deposit product or both to achieve the breakeven, unless and until you have substantial number of customers it is very difficult to do cross sell, we do not lead with insurance or trade because there is no customer to do that. Most likely we revisit mortgage, SME, gold, commercial vehicles or combination of these depending upon the location of that business. I would think we would be targeting more like 14% to 16% growth on core fee income which we have consistently maintained, once in a while you get a good opportunity to do some trade income which is separate.

Raghav Garg: Because it seems like your branch network has gone up by only 70 branches in the last three years and yet you have maintained that ratio so it seems very commendable that you are able to…. that means that your older branches are doing much more business on the non-interest income side, so I was just curious about that.

Murali M. Natrajan: Of course there is a lot of activities that are going on in terms of Trade, FX, mutual fund, bancassurance, all that. But again, it is a very painful process of satisfying the people, making sure that they actually do a transaction and making sure that they do second transaction, third transaction till it becomes a habit. So I hope we find more success but the work is on.

Raghav Garg: And then some source of loan growth - ex-corporate we grew 36%, so could you comment on like who are you taking market share from?

Murali M. Natrajan: I mean we get market share from everywhere, from NBFCs, from co-operative banks, from private sector banks. What we are not doing is we are not trying to take any market share on corporate bank, in fact we are quite happy to give away some share in corporate bank wherever we find that it is a kind of account that at an opportunistic moment if it goes it goes, I am very happy with that. Even on the last day we had some repayment and a large repayment came from corporate and we looked at the account and we felt that this is not the company that we want to continue to do business with, we happily let that loan get repaid. So we are taking market share on SME, retail, from everywhere. Also, when we do smaller ticket loans, there are lots of new-to-bank customers I would say, probably it is a wild guess but I do not have enough data to support my this thing, but 20%, 30% of that could also be easily new customers. Like if you see, that is why we have given you a sample of what kind of customers we deal with. There is a certain belief that Banks can’t reach these customers so I thought I will be a good idea for you guys to know that banks like us also do a lot of business with these customers.

Raghav Garg: My next question is, should we see more investment like Annapurna to get better distribution for us?

Murali M. Natrajan: Of course, this was an opportunity and frankly I am not even looking at it as an investment, it is more because we are doing a BC work and we are doing BC work because we also have to complete our priority sector lending, weaker section, agri, all those guidelines. So we thought at best that company which we have been working with for so long is not a bad idea to pick up a small stake. So I do not think that would be, I do not see that happening frequently.

Raghav Garg: And then my final question is just circling back to your cost to income ratio targets, the way I understood is that in the last two quarters you have taken the branches from 150 to 200 or so and then from here on your trajectory for the next six quarters is going to be no more than 15 to 20 per quarter in terms of new branches. So it seems that the guidance that you have given for 63% cost to income ratio or ROE of 10% in fiscal year 2017, it seems to me that you are ahead of the target or are you anticipating some permission along the road and that is why you are…

Murali M. Natrajan: There is always an anticipated bump, there are more bumps than opportunities by this thing, so we have to always prepare for bumps only, a lot of bumps are there. So I want to send you one slide, if you give me an email how I see success versus how sometimes market sees success, it is a very interesting slide just for you to kind of understand how we think about this. So we feel that when you are putting in 30-50 branches, even if some of these branches do not perform as per plan, all of a sudden you are looking at a very difficult cost to income ratio. And a simple thing like branch manager mistake in hiring which can happen right when you are hiring so many branch managers, or for that matter you chose a particular product as a winner out there but somehow it did not happen, I mean such things happen. For example, three years ago we chose a branch for a particular reason in Gujarat and I do not know, despite doing all the good work we suddenly figured out that that is not something that is going to succeed, so it took us about six months to kind of completely revamp the team and so on, so we lost the site. So we do see some bumps on the way and we want to be prepared for it. So I would stick to our 30th October 2015 guideline and not give any fresh guideline, hopefully we will beat that.

Raghav Garg: Because it seems that heavy lifting is already behind you and from here the journey should be less complicated because we will have so many mature branches…

Murali M. Natrajan: We definitely need to send you that slide since you are saying that….

Raghav Garg: Yes please, I will email by id to the IR person and I will be very happy to look at that. Thank you.

Murali M. Natrajan: Yes, it is a very simple slide and it will express my feelings in just one slide for you.

Moderator: Thank you. Our next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please proceed.

Manisha Porwal: Sir, just a broad understanding I wanted, we changed our strategy because of small banks and payment banks, I just wanted to understand that there is a new this thing you have also mentioned that you have not put in the presentation about UPI and you have one of the best UPI software also, so I just wanted to understand like is there anything extra competition or some more opportunity that you see as DCB bank given this thing? And also I also wanted to understand whether payment banks are more of a challenge for a small bank like DCB or it will be small banks?

Murali M. Natrajan: So you have asked a lot of things so let me see whether we can address all of that. Number one is, we do not see payment banks as that much of a challenge, we may be wrong but at least as of now we do not see it. We have met a lot of the payment banks potentials as well as those who have obtained license, I believe one of them has already given up their license, probably Cholamandalam or something, this is what I read in the press, I may be wrong, this is what we read about a month ago or something. I see that people talk about technology, I cannot believe that a bank even probably as small as us cannot embrace technology, to help you understand that I have put in some slides to say that we have a perfectly good team and technology and if need be we are happy to spend on technology to make it really robust and customer friendly. Why I feel like that, just do digest is that, if I spend Rs.100 in technology in three years it will be written-off and creates an opportunity on depreciation line for spending more on technology. So it always provides, the expense sticks to you only for three years after that you are still using that technology and you do not have to spend anything except for the maintenance of that software which is usually 10% or 15% of what you paid. Now regarding small banks, I explained in the previous calls as well that three, four of them we believe we will probably target the same small SME, retail, AIB of segment that we are operating in. Much of our loans are below 3 crores average ticket size, in fact not even average ticket size, the maximum exposure. So we believe that some of them would like to target that area, not that public sector banks are not already targeting that area. So we felt that there may be more competition coming from small banks than payment banks because payment banks cannot lend anyways. So we felt that without changing the strategy, so I want to correct you, I have not changed any strategy in terms of how we want to do the various businesses like CASA, gold, SME, mortgages and all, all we said was instead of doing 25, 30 branches per year we want to do 150 branches in 12 months because we faced a lot of issues and heat on this. So we said okay we still do not change much but we just shifted by one more year so it is 150 branches in 24 months. So we are only accelerating the number of branches so that we are slightly ahead of the game before all this competition comes in.

Now coming to UPI, UPI is a ground breaking capability that has been created by MPCI, we are one of the top maybe 10-15 banks that went live on that particular date. We informally understand that we have a pretty robust technology. There is lot of enquires as well as demand coming on UPI from various quarters, the huge case is building up but once it kind of becomes full blown I do think it will be a pretty revolutionary way in which people will be making payment between each other or even from B2B, etc in the days to come, but we are well prepared for that, that is what I want to tell you.

Manisha Porwal: Sir, I just wanted to say, now if I put like DCB with the larger banks, as a UPI player you would compete with these larger banks, right?

Murali M. Natrajan: We have to compete with everyone, there is not a single one, you have to compete with NBFCs, you have to compete with small banks, you have to compete with large banks, I mean it is every day competition out there, nothing is easy. So we are showing you a growth of 36% without corporate on this competitive environment.

Moderator: Thank you. Our next question is from the line of Mithun Soni from GeeCee Investments. Please Proceed.

Mithun Soni: Sir, first question on this growth what we have achieved, when we go to get the business what is the value proposition, is price the value proposition or what is that we are giving that brings the customers to us and gets this 36% growth to us?

Murali M. Natrajan: I do not know how to answer this one, because seven years ago also people keep on asking me what is your proposition, seven years ago our advances were Rs.3,000 crores now it is around Rs.13,000 crores.

Mithun Soni: My perspective is that are we priced in line with the market or we are priced a little lower, how are we priced?

Murali M. Natrajan: The proposition is situational, when you go and give a loan there are three people standing with that customer, could be an NBFC, could be a private bank, could be DCB Bank. If your RM displays good understanding of the customer needs, approaches the customer and does the loan faster yes you get the loan, there are many times when we have given sanctions, customer does not take it because somebody else has given the loan.

Mithun Soni: I mean the value proposition can be very faster loans, deeper understanding of customer needs or in some cases even some banks also do is simply just reduce the prices. But for us what is our way to reducing the yields or reducing the price fall in this strategy, so we are more comfortable with other risk strategic or more on the pricing front?

Murali M. Natrajan: It is common, there is no one strategy, there is a pricing grade, supposing you are dealing with self employed, some self employed customers can give you only bank statements, you have to have the capability of reading the bank statement and being able to come out with a proposition on how much loan you can give and then you have to do that fast also. We invested in a technology called Neo to be able to process our loans faster just about six months ago and still we do not believe that is good enough, we need to be even better than what we are doing. So there is a combination of strategies, there is no one strategy, there is no magic bullet in this is what I want to tell you. And there is enough and more competition, obviously DCB bank also wins in places and loses in other places. That is how life is. What we do not do is we do not compete in the corporate space, we compete a lot in SME, AIB, relationship matters a lot with the customer, SME is a very relationship banking, if you do a good relationship with the customer then he is willing to give you more business and may not mind a 25 basis points issue.

Mithun Soni: Yes, I agree, we have studied in many other banks which are like south based banks. But sir, in most of the SMEs where we would be, sir we would be the primary banker or there would be couple of other bankers, what is our…?

Murali M. Natrajan: When we do a cross sell which would be probably 30% of our loans to our existing CASA customers, very likely that we will be the primary banker, if we are able to get loans from some other banks, supposing we take over a Rs.20 lakhs or Rs.30 lakhs loan from some other bank than obviously that bank was a primary banker and then we become the primary banker. In small ticket loans usually we are the primary banker, but if the ticket size increases beyond say Rs.3 crores there is likely to be more than one bank.

Mithun Soni: And sir another question on this strategic front, like you rightly want to increase as you said the branch network to get a certain level of scale, but there are few trends what we are seeing in the industry. One, the level of transactions at the branch level has come down to about almost 8% to 10%, most of it is online and things like that and technology is going to play if not today in the next three to five years. So while we do not have branches, to some extent we may not need as many branches of that big size of the branch. So when we are opening so many another 150 branches what would be the size of these branches per say and is this the only way or you feel that technology can be used in a big way, or since you already have it to improve our differentiation to the competition because everyone even if you look at the big banks…

Murali M. Natrajan: Technology is not a choice, technology is a must. We do not see technology as a choice, we have to be fast, we have to be quick, we have to provide a superior customer experience and it is undebatable need in the market and it will only get more and more sharper as we go along. And we believe that we may have been slightly late maybe last year but now since we have explained the strategy in October 2015 we have taken some really big strides including proof is there for you that we were the first bank to do Aadhaar based ATM pilot and it was used by two customers and we have put the face of the customer there on your investor presentation. So very little choice in terms of putting the right technology and giving very good customer experience, so that is a given. Now with respect to reach, how do you reach the semi-urban rural areas unless you put a branch, because even today if you just put a website it is not that customer will come there automatically, maybe it can happen for personal loan but how does it happen for mortgage, how does it happen for commercial vehicle, how does it happen for tractor loan, or even for that matter SME where you have to go and explain the product. We have a product called SME Flexi, it requires some explanation, you can read it on the website but in how many languages can we put and customer can understand, we do business in so many states, we do business in Chhattisgarh, we do business in Orissa. So local presence is very critical for acquiring customers, for transacting and collecting, yes we have a product called M-Collect, actually an officer goes deep into away from branches like 50-60 kilometers, uses his smartphone, collects cash from the customer because customer wants to pay cash and give the receipt and updates the system just by using their smartphone. So yes, there is a balance to be achieved between physical distribution and technology.

Mithun Soni: The reason why I am asking this question is, when I look at the other big branch banks the guy who is in the front end, he says that over a period of time technology will help him to further reduce his cost to income ratio, to they say 36%. Now what he is saying is that while I will still be opening branches as you rightly said, these branches may be very small with two or three people because that is only to give assurance. My question is, that okay we will open in 24 months about 150 branches but after that the idea would be that will these be working like spokes wherein these will get you the reach and then the idea will be to over a period of another 24 months bring down the cost to income ratio substantially below 50%, is that something what you are envisaging?

Murali M. Natrajan: Cost to income ratio for us is high because of size and also because we are spending a lot of money on frontline sales and distribution staff. Whatever you do it is not possible to eliminate, at least one teller will have to be there in the branch because there is a lot of cash in our country, I mean I wish there was no cash but unfortunately that is how the country is operating currently. If you think that it will get alleviated in five years, there is a chance that we may not need tellers in branches. So as far as we are concerned we believe that you keep investing till you reach a particular size like we have, we extend ourselves saying that at least 300 branches plus you should reach and keep spending on cutting edge technology, reduce transaction cost. So I believe that with respect to transaction cost we are quite competitive, I do not see any problem with that.

Mithun Soni: So post another 24 months after this expansion what we do how are we seeing our cost to income ratio trending?

Murali M. Natrajan: We have given you guidance on October 30th, first let us reach those guidelines then we will take a call on what is the next fresh set of guidelines including inputs on technology and what is going to be happening to guide the investor on where the banks would be in the next three years.

Moderator: Thank you. Our next question is from the line of Roshan Chutkey from ICICI Prudential. Please proceed.

Roshan Chutkey: Firstly, Tier-I has actually improved for us, what has contributed to this?

Murali M. Natrajan: Tier-I profit for the year would have gone into Tier-I, that can happen only in the fourth quarter after audit and results.

Roshan Chutkey: So is it only because of the profits?

Murali M. Natrajan: We have not raised any capital to the best of my knowledge.

Roshan Chutkey: And how much of the 133 crores of OPEX is attributable to new branches started this quarter?

Murali M. Natrajan: No, we do not present those numbers, it is in the total base. I think we have discussed this in our 15th October 2015 call that approximately we are spending about 60 lakhs per branch, I mean depending upon whether the price is small, big, all that. Somebody asked me a question what is the size of a branch, I mean in our spreadsheet we probably would say 700 square feet branch, I am just giving an example, when you go to that particular location there is no possible building or something that gives you less than 1,000 square feet, now what you do, you will have to end up taking a 1,000 square feet branch. Because see, there are a lot of characters there sitting and saying that some banks would approach them for a 700 square feet model and then they will be ready with that, it does not happen like that, sometimes you are left out, you get even a larger branch at the same cost for example. So our approximately cost is about 60 lakhs, it depends on the size of the branch and that we are factoring into our cost income ratio, whatever.

Roshan Chutkey: So how much of this 60 lakhs has been absorbed in this quarter?

Murali M. Natrajan: I am not presenting the number is that I am telling you.

Moderator: Thank you. Our next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, my question is regarding MCLR. Is there going to be a case where MCLR for different banks is going to be different, right?

Murali M. Natrajan: Yes.

Jayesh Gandhi: And since our operating cost will be higher our MCLR cost is going to be higher than the other banks?

Murali M. Natrajan: Yes.

Jayesh Gandhi: In such a scenario do we have to compromise on the NIMs to get a higher business, is it?

Murali M. Natrajan: So far we have not compromised on the NIMs if you see the trend.

Jayesh Gandhi: Yes, but how about next one or two years?

Murali M. Natrajan: I have always maintained that there will be a pressure of 25- 30 basis points on MINs, so I continue to maintain that.

Jayesh Gandhi: So are you saying that it is going to continue northwards of 3.5?

Murali M. Natrajan: Our model when we prepared it was at about 325 to 350 basis points, we have done way better than that. We believe that a more normal NIM for us would be like 350, 375 basis points.

Jayesh Gandhi: And sir next question is, are you in a position to tell us what is going to be the range of MCLR between most efficient banks and somewhat less efficient banks?

Murali M. Natrajan: If you see the various MCLRs published, it is quite clear that it is ranging anywhere between say for us one year is 10.5 to I have seen some 9.5 also in MCLR, so 100 basis points difference is there. See MCLR of a bank if it is 9.5 does it mean that they are charging the customer 9.5, they could be charging 9.5 plus 200 basis points and I could be charging 10.5 plus 100 basis points. So I am just saying that I have seen a range of 100 basis points in MCLR.

Jayesh Gandhi: Sir from what I am understanding sir, MCLR is it not a determining factor of better NIMs?

Murali M. Natrajan: If you see MCLR what is the difference when you see, 100 basis points difference is there in Base Rate also, our Base Rate is 10.7, many of the banks have Base Rate of 9.5 or 9.6. So you please check the NIMs of those banks and our NIMs.

Moderator: Thank you. Our next question is from the line of Vineet Ahuja from LIC Nomura. Please go ahead.

Vineet Ahuja: Sir just one question on your CVC book, sir it has grown significantly in this particular quarter and what has happened is if you go back about three years this CV book along with the personal loan book has actually resulted in the NPA that has happened, so what are we doing differently this time, is the LTV low, how are we managing?

Murali M. Natrajan: We are doing better execution, that's why seven years ago the Bank had challenges in executing right whether you talk about personal loan, CV, corporate loans, SME. So if you execute well, if you put up credit process properly, if you have proper collection procedure, if you have the right segment that you are working in and if you have the good business manager.

We have incorporated whatever mistakes we did like over funding or some other issues that we had, we have taken care of all that, we probably have a very good quality portfolio in CV and we are doing this business purely for meeting our priority sector lending. I think over 80% of our portfolio would be priority sector in this commercial vehicles. We have grown only about maybe like Rs.200 crores or something, I mean it may look very big from a percentage point of view like 60% growth or something but the base is pretty small here.

Moderator: Thank you. Our next question is from the line of Sanket Chedda from ICICI Securities. Please proceed.

Sanket Chedda: Sir, just wanted some details on the accounts that you resolved in ARCIL for Mortgages, like what was the quantum and was it a normal housing account or the LAP account, SME LAP account?

Murali M. Natrajan: We have sold 37 accounts, mixture of… Sorry Bharat?

Bharat Sampat: Rs. 54 crores gross.

Murali M. Natrajan: I said Rs. 58 earlier, sorry I correct. So Rs, 54 crores gross, Rs. 34 crores of net NPA sold for Rs.20 crores. So 37 accounts we have sold and it is a mix of Mortgage, Home Loan, SME, AIB, that is what the mix is.

Sanket Chedda: No, I got the detail earlier, I was just asking about mortgages, if you can throw some more insight on Mortgages, like it was normal housing account or LAP account or SME LAP account or something?

Murali M. Natrajan: There are Home Loans, there are LAPs, these are all mix of these. Average ticket size is about Rs. 1 crore, if you say 37 accounts than 54 crores.

Sanket Chedda: And sir what would be the rate that you will be offering on a normal housing loan, like one year is at 10.52%?

Murali M. Natrajan: At the moment for the self employed segment if we offer at the MCLR it will be 10.52% pa with a quarter reset. Salaried people do not take loan from us because they get loans at 9.5%, 9.6%, etc, we also do not want to do business with salaried people because there is hardly any margin in that business.

Sanket Chedda: But then there is risk attached to it, right?

Murali M. Natrajan: Everything has got a risk attached to it, Corporate Bank you do there is a risk attached to it, SME has risk attached, so there is nothing without risk, if it is without risk than we have to put in Government Securities.

Sanket Chedda: Sir you were saying there lies a difference of 100 bps, probably like 130 bps in the lowest one year base rate that is by HDFC, ICICI, so you were saying that they might be charging higher tenure premiums manage like 200 basis points and you would be charging 100 basis points?

Murali M. Natrajan: We looked at all the various MCLR or various banks, it is not clear as to what scientific process the banks have used to calculate the tenure premium because we looked at various benchmarks like you look at G-Sec, you look at CD rate, you look at bank deposits of various tenure and so on, so the tenure premium is a pretty difficult one to calculate, so I am not clear how banks have used tenure premium, we have got one method, we hope that that is a good method but time only will tell.

Sanket Chedda: And I suppose sir in this quarter there was a slippage of Rs.15 crores to Rs.20 crores?

Murali M. Natrajan: It is there in the presentation, right Bharat?

Bharat Sampat: Presentation carries it.

Sanket Chedda: It is okay, I was just asking that what was this account?

Murali M. Natrajan: See, there will be many accounts, if you are doing business of small mortgages, SME, AIB and all many accounts slip in the quarter into NPA.

Bharat Sampat: Total slippage in Q4 which we have put on page 13 of the presentation is Rs.50 crores, it consists of various accounts.

Murali M. Natrajan: Thanks a lot for logging into the call. I really appreciate your time. Hope to catch up with you in the next quarter. And thanks for your support.

Moderator: Thank you very much, members of management. Ladies and Gentlemen, on behalf of DCB Bank Limited that concludes today's conference. Thank you for joining the call and you may now disconnect.