DCB Bank Limited Q4 FY19 Earnings Conference Call - April 18, 2019

Management: Mr. Murali M. Natrajan – Managing Director and Chief Executive Officer, DCB Bank Limited
Mr. Bharat Sampat – Chief Financial Officer, DCB Bank Limited

Moderator: Good day, ladies and Gentlemen. And a very warm welcome to DCB Bank Limited Q4 FY19 Earnings Conference Call. Joining us today on the call are Mr. Murali M. Natrajan – MD and CEO for DCB Bank Limited, and Mr. Bharat Sampat – CFO of DCB Bank Limited.

As a reminder, all participant lines will be in the listen-only mode. 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 am now glad to hand the conference over to the Mr. Murali M. Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Thank you. Good evening. I welcome all of you to this earnings fourth quarter call. I am joined here by the team, DCB team which is here. I hope all of you have had a look at the press release, the two-page results and investor presentation that has been uploaded in the BSE, NSE website. So we can straightaway get into questions. Whosoever has any question, please we can start.

Moderator: Sure. Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anuj Gupta from Perfect Research Fund. Please go ahead.

Anuj Gupta: Can you throw some light on the current revaluation of owned premises and the time frequency in which we consider to revaluate the assets? I think lastly we have seen a revaluation in 2017 after 2009.

Murali M. Natrajan: I do not think we report those numbers, and I am not even sure how critical it is to our today's discussion. So I suggest that you contact Bharat offline and take those numbers.

Anuj Gupta: Sir, I tried to contact him offline, but I was told that everything is given in the annual reports and as per that only the disclosure is done.

Murali M. Natrajan: Yes, so those are our disclosures. So that is what you have to go by. We do not disclose anything more than that.

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

Darpin Shah: Sir, around 2 - 2.5 years back we had given a guidance of Q4 FY19 exit 1% ROA which you have achieved, so what next for us? How do you see things getting out there for us?

Murali M. Natrajan: So the way we are looking at the future is that retail, AIB, i.e. agri inclusive banking, commercial vehicle, gold loan, SME, MSME, the products that we do, which is small tickets, secured, largely secured portfolio except the MFI loans that we do and a very little personal loan we do, we continue that, there is no change in that strategy. We believe that we should be able to double the book in 3 - 3.5 years or so, and which is what we have been doing. If you look at this year's numbers also, if you exclude corporate loans which is only 13% of our book, we have grown our loan book other than that at 21%. So, if we continue to do that we believe that we should be able to double the book between three to four years. We will focus on continuously trying to reduce the cost-to-income ratio. Lot of the people felt that we have do not have any scope in reducing cost-to-income ratio, we will not be able to achieve, in fact if I look at our exit cost to average asset, it is 2.4%, which probably was about 3% for three quarters or four quarters, I am not very sure when it was, but it was not too far in the past. We will continue to maintain good quality assets. Barring any unforeseen situations, we think that our asset quality should hold. We have provided almost the same amount of credit loss as we had last year, and we have had a very good coverage. Our underlying coverage ratio is about 65%, 66% and overall coverage ratio is almost close to 80%, which means that we are providing well for the assets. And mind you, those assets are secured assets. We have also had phenomenal success in terms of getting back money from ARC for the SR. In the last quarter itself a lot of money came back, almost Rs. 10 crores, Bharat is telling me. So, maintain good quality assets so that your credit cost remains in the range that we have indicated, keep improving operating efficiency, keep improving utilization of capital. Look at our risk-weighted assets and look at our capital adequacy. In fact, our capital adequacy is higher than what it was at the start of the year, and you can look at the risk-weighted assets, our consumption has been, a lot of efficiencies have come in the consumption of capital. So I believe that in the future as we move forward, step-by-step all these metrics should increase. We have some desire to take it even higher to like 16% ROE or 16.5% ROE over a period of time.

Darpin Shah: So that should translate into an ROA of, let's say, 1.3%, 1.4% over next three years or...

Murali M. Natrajan: See, I can see about 1.25%, 1.3% for sure at the moment, but as things unfold, one of the job that we have to do much better than what we do today is on fee income. Unlike corporate book where you get lot of fees, here it's all very granular fees that requires a lot of hard work. We are doing that. We are finding success on that as well. But having said that, a lot more work is to be done.

Darpin Shah: Okay. And sir, just to know, you've mentioned in the ex corporate the book growth is 21%. So what has happened in the corporate accounts that it has fallen sharply? So any lumpy repayment?

Murali M. Natrajan: We are moving more and more in corporate towards short tenor, what do you call as less capital consuming kind of products, which are more to manage liquidity. We are being very selective in giving loans which are longer tenor or even, for that matter, the CC/ODs in multi-banking or in consortium kind of thing because we believe that given our cost of funds and the kind of pricing that is demanded by the market, it doesn't seem to actually help us in ROE. But if you do short tenor loans, it seems to help us in our liquidity management and it is also good in our earnings. So that is how we are kind of reshaping the whole book. And therefore, that is why it falls and some time maybe in the mid-quarter, it may be higher than the end of the quarter, but that is how the book was moving the whole of this year.

Darpin Shah: And sir, last question, if you can just throw your inputs on the mortgage book in terms of growth, competition, pricing, etc?

Murali M. Natrajan: See, we are focusing on -- we have introduced, I do not know -- I think we have mentioned before, we have introduced the concept of ROE calculator. So we are not blindly chasing volumes. There is lot of volumes available. If you just digress a bit, I have seen even recently like 1 week ago, a loan from our book being taken over by one NBFC at 100 basis points lower and double the exposure. And I cannot see any sense in trying to retain that loan at a liquidity risk and capital risk and no ROE or lower ROE. So I do not see, so I think the opportunities for growth is plenty, but if we have to draw risk appetite bracket and a ROE bracket, then that is exactly what we are chasing, which I think is allowing us to grow at about 18%, 20% in mortgages. Competition is still very tough, I wouldn't say from all NBFCs, but a few and then some banks, of course, are offering lot of competition. But I do not see any issue with the portfolio quality. Portfolio quality has been more or less stable. If you look at our gross NPA slippage and recoveries in the last quarter, we have had about Rs. 100 crores of increase in NPA and about Rs. 82 crores of recovery. And we will always struggle on recoveries in corporate NPA. We do not seem to have much struggle in terms of recovering SME and mortgage NPAs.

Moderator: Thank you. The next question is from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

Amey Sathe: So one question. On the margins side, so you keep comparing ourselves to, say, City Union Bank as a benchmark. So if you look at their margin profile, they're at 4.3% and we are around 40 basis points lower, so...

Murali M. Natrajan: Their NPAs are 2.7% or something, closer to 3%. Our NPAs are below 2%, so mention that also.

Amey Sathe: Yes. Then so my question was, so are there any factors that we need to work on so that probably we can bridge for the gap? And if that is possible, how much time it can take in your view?

Murali M. Natrajan: I think one of the things that we have to work on definitely and that is what we are working on which will also help our LCR more than today would be on making our retail term deposits even more granular than what we have. On the loan side, for example, we have only 5% to top 20 exposure or maybe 6% to top 20 exposures, whereas in the deposit side, we are probably at about 12% in top 20 exposure. So our intention is to bring that down to about 4%, 5% over a period of time. That is the work in progress for us. We have compared our deposit profile with City Union Bank and we think there are a lot of lessons to be learned in terms of how they manage their deposit profile versus how we are doing it, which we have put into action. We achieved our LCR, yet again we crossed 100%, which was a problem in some ways in the last quarter, which we ended at 80% and this quarter, we have ended at 105%, average is still about 90%, which we hope to address in the coming quarter. So focusing more on retail term deposits, shifting the goal -- shifting the scorecard of the branches to focus on more retail deposits -- granular deposits is clearly something that we are learning from them and that definitely will help us to have better cost of funds rather than some of these, I won't say volatile, but some of these low deposits that we have from cooperative banks that all tend to be price sensitive.

Amey Sathe: Okay. I think that helps. And second question, on the asset quality side, do you see any issues coming into the next year, anything that bothers you?

Murali M. Natrajan: Usually, I do not lose any sleep over mortgage, SME. Commercial vehicles showed some here and there uptick in NPAs, but didn't really bother us that much because we are confident of the recoveries of that. Usually, we get worried about any two or three corporate loans. Even, I think, this quarter we have had one corporate loan that has slid to NPA, but the NCLT process seems to indicate that we should be able to recover it in the next two quarters. So other than that, at the moment, I do not have any concerns.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Congratulations on good set of numbers. Just 3 questions. First is on, sir, what should be the normalized cost-to-assets ratio for our sort of business model? Say on a 50,000 crore book size, what should be the more normalized?

Murali M. Natrajan: My dream is at some point we should be at 1.75%. I mean that is all we are thinking about it, and that is our dream. But can I achieve it or will the team achieve it like tomorrow or next year or something, maybe not. But I personally believe that it is possible. If we can cover 300 basis points, 240 basis points, then why would we not able to bring down to 200 basis points. But I do not think there is any ideal number we are pursuing. We think that there is opportunity for improving staff productivity. I think we are already at, I think I told you guys when we are looking at Rs. 10 crores, Rs. 11 crores of business per employee, I think we probably are almost close to Rs. 8 crores now. We were not too far ago at about Rs. 6.8 crores or Rs. 6.5 crores kind of thing. So I think it is possible to further achieve, but there is no ideal number that we have in mind.

Dhaval Gada: Understood. The second part was on credit cost. So what we have seen in FY19, in your view, is it running below the sort of moderate level which you sort of expected at the start of the year when you priced the loan or are we like broadly in line with those level? Like I am just trying to understand what kind of benefits are we seeing on the credit cost in this part of the cycle?

Murali M. Natrajan: So I hope the work that we are doing continues to give us benefit. We definitely did increase headcount in our collections. As you know, we have all collections in-house. We do not outsource any collections. We have more than 500 people in collections. Of course, if you had to pick up a truck or repossess truck, that will be outsourced, but other than that the entire customer contacts, collections, recoveries is all done in-house. We have been mentioning to you in previous calls that mortgage business or any installment loan business and all once it becomes NPA, the pipeline takes time, but once that starts to pick up, then more or less, the slippages start to match up with the recovery. So we hope that our recovery trend continues. This year, recoveries have been pretty strong, especially in the fourth quarter also we did very well. And we have done decent provision coverage. We are at about 65% -- Bharat, 65%, 66% underlying provision coverage. That also includes the floating provision that we continue to make irrespective of the profit or income or whatever we continue to make floating provision, which is part of our net NPA calculation. So I do not think there is any change. It is just going on as usual.

Dhaval Gada: Sure. And sir lastly, on pricing environment, I mean your thoughts now versus maybe six months back when we sort of started with the NBFC issue, I mean how is the pricing environment viewed?

Murali M. Natrajan: No, better if you see our fourth quarter, pricing has got a little bit of uptick. But I think the price, I am not saying it all disappeared completely, but it is not as bad as it was in July of last year, okay? But we have chosen to change the profile of our funding. We have taken lot more refinance from SIDBI, NABARD this year because we do have longer-term assets like mortgages and we need to support that with more longer-term refinance. Over time, we will rely more on longer-term deposits, which is like two year, three year type of deposits. I believe that maybe first quarter may have a little bit of issue on NIMs or maybe even second quarter, but overall stable NIMs. We are looking at 370, 375 basis points.

Dhaval Gada: Right. And just two data keeping questions for Bharat. One, what is the employee count at the end of the...

Murali M. Natrajan: 6,100 or something.

Bharat Sampat: 6,134.

Murali M. Natrajan: 6,134.

Dhaval Gada: Okay. And sir, second is on slide #9 we have this breakdown of other income. The balancing figure is sizable. So if you could just say what is the single largest item in that, which would be very useful.

Bharat Sampat: Page #9?

Murali M. Natrajan: Yes.

Bharat Sampat: On a full year basis, we have earned Rs. 28 crores on sale of PSLC, a lot of it has come in Q4.

Murali M. Natrajan: See, where PSLC where at first, it is recognized, like, the fourth quarter will get the entire recognition and then it goes back to a lower number again as we start building that fee income.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir, I have two questions. First, the fee income has been subdued in the last two quarters, which you also mentioned in your opening remarks. So YoY, it has grown at around 5%. So going forward, what can be the trajectory for next year? And second question is whether you will need to raise capital over next couple of years or existing equity level suffice us to not raise capital?

Murali M. Natrajan: The amount of work that we have done on efficiency and utilization of risk-weighted assets and then obviously capital, I do not think we need capital for at least six to nine months and we will see how the trajectory goes this year. So we are quite -- a lot of effort that we put in from last year's fourth quarter onwards is starting to show some decent result for us. So I do not see us needing capital at least for nine months, which would mean that we probably would be moving to next year on this, right? Regarding the fee income, core fee income is doing well. We are seeing very good traction in our third-party distribution fee income. Year-on-year, we are seeing improvement in that fee income, in line with our expectation. We probably need to do a lot better than trade fee income. We are seeing pretty decent traction on foreign exchange merchant income. ATM fees has been a little up and down because there is a lot of flux in terms of upgrades of ATMs that we need to do to meet the regulatory requirement and that has caused some level of disruption in terms of ATM fee income. Rest of it is all -- I mean, if you look at our PSLC income, it is better than last year, and fourth quarter has been phenomenal in terms of PSLC income. So I think that 14%, 15% growth in core fee income seems like a very good possibility for us.

Moderator: Thank you. The next question is from the line of Ravi Singh from HSBC. Please go ahead.

Ravi Singh: If I haven't missed it, I mean what are we saying about branch expansion from this year onward? And related to that, I mean, clearly very good work on the retail deposits, growing retail TD growing at 30%. So even if, for example, branch expansion is lower than what we have done in recent years, is it likely to sustain because I would expect lot of large number of branches will be maturing over 12 to 24 months and what sort of breakeven or productivity improvement you are seeing on the branches which you opened during those two years of accelerated expansion?

Murali M. Natrajan: See the cost-to-income ratio improvement is a reflection of the holding cost steady and getting more out of the branches. So obviously, the branch expansion plans are playing out. I wish all the branches work exactly like the way we want, but I shouldn't complain because there are branches which are doing phenomenally better than what we expected them to do. We believe that a lot of our branches still have capacity, two types of capacity: one, we can put more people in that because we see a business opportunity; and two, the existing people that we have put also can produce more. We have to again refine our scorecard and so on. So I do not see any issue. Branch expansion, we believe that 15, 20, which is what we have been guiding, is what we have in mind. And once we get much better profitability numbers, ROE and all, we will evaluate whether we need to expand faster. At the moment, we are looking at 15, 20 branches.

Ravi Singh: Okay. And while you mentioned the impact of demonetization and GST in these last two, three years, I will assume this was more on the growth rather than any asset quality or margins-related impact. So...

Murali M. Natrajan: Definitely. Please look at our transcripts of December 2016 and all. I'd remember taking Rs. 33 crores additional NPA because of demonetization. See, there is the positive and negative impact of demonetization. I cannot say everything is negative, I cannot everything was positive.

Ravi Singh: So broadly, are you seeing things normalizing the segments which you cater to? Is it coming back after taking impact of GST and demonetization in terms of credit demand and the cash flow performance, etc?

Murali M. Natrajan: GST, I think more or less I think I mentioned even in the previous calls, we are seeing definitely -- that seems to be -- those kind of issues seem to be behind in terms of SMEs who are dealing with that. Those who had to kind of collapse, I think they are finished. Demonetization, even this current quarter, one or two customers we had struggle and their business models got affected during demonetization. Even two years after that, they are not able to fully recover from them. So hard to say, but I would say that situation is more or less normal. See, the situation can never be normal I will tell you because SME -- there may be economic reason, demonetization, GST or some reason, but they themselves also create lot of reasons for us to worry about. For example, they will go and make some stupid investment, they will have some family dispute, they will suddenly discontinue a product without even understanding how they will go and invest in. So they themselves create lot of problem for the bank as well as their own business. So those are things that bother us more than GST, demonetization, at least as of now.

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

Hardik Jain: Sir, firstly, on the cost side, so you mentioned that incrementally, we will be doing 15 to 20 branches. So operating expenses should grow at what 8% to 10% or you think it can grow a bit more also?

Murali M. Natrajan: We do not give specific cost guidance, we don't do that.

Hardik Jain: But it will be more or less in line with the inflation? I mean...

Murali M. Natrajan: It depends. I mean there is a lot of work that we do which kind of even though there may be increase of expenses because of inflation, because of productivity that cost may actually come down, process change requires -- process changes sometimes help remove cost that gets added. So generally, our idea is that step-by-step reduce the cost-to-income ratio.

Hardik Jain: Okay. And secondly, sir, you mentioned Rs. 28 crores PSLC income. This is for the full year. So how much would be in Q4?

Murali M. Natrajan: Q4, do you have the number? We do not have the details yet. Do you have it?

Bharat Sampat: Rs. 13 crores.

Murali M. Natrajan: Rs. 13 crores.

Bharat Sampat: Yes.

Hardik Jain: Rs. 13 crores. And lastly, you mentioned...

Murali M. Natrajan: Last year also we would have had -- last year, it was Rs. 10 crores, this year it's Rs. 13 crores.

Hardik Jain: Okay. And you mentioned we recovered some Rs. 10 crores from ARC, so that also included in other income in Q4?

Murali M. Natrajan: No, no. That is the SRs that have come back. Bharat, can...

Bharat Sampat: If you see the presentation, where we have given, on page...

Murali M. Natrajan: 13.

Bharat Sampat: 13, NPA numbers, there is a line below. The point we are trying to make is total of Rs. 74-odd crores of security receipts were issued to us against sale of NPAs to asset reconstruction companies. These assets' underlying collateral is being progressively realized by asset reconstruction companies and they are redeeming the security receipts in hard cash. So we have received back money and now it's down to Rs. 38 crores leftover out of Rs. 74-odd crores we started with. In last quarter alone, Rs. 10 crores was released and if I am not mistaken, over the last year approximately Rs. 25 crores have got released. As compared, if you see the security receipts against sale of corporate NPAs, very few banks have realized anything. They have started providing for it.

Hardik Jain: Okay, but it does not come into the P&L, right?

Bharat Sampat: No, it does not. Not at all.

Murali M. Natrajan: Okay. It is an asset that is not earning us anything, but when Rs. 10 crores comes back that means that much more benefit we will get.

Bharat Sampat: The Rs. 25 crores which was released in last year, I will be able to deploy that fund reduce the drag on my P&L, add to the asset, so that I will be able to deploy alternately and also it releases capital which is blocked, right?

Murali M. Natrajan: Rs. 25 crores, that means it's equal to one branch CASA, right.

Hardik Jain: Okay. And sir, just last 1 question. So after the demonetization and GST in some of the call you mentioned that when you meet the clients, they had started to disclose higher income and thereby requiring the higher limit working capital limit. So do you see that thing continuing? Or you feel that, that was just during the start of the GST and now, even now the...

Murali M. Natrajan: I got your question. I feel it is continuing. I definitely see that in our SME, MSME business where we give working capital loans. I hope it continues, but at least for the last one year or so we have seen, or at least last two to three quarters we definitely have seen improvement in process.

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

M.B. Mahesh: Just couple of questions. One to Bharat. The question on where is these RWA gains coming from in the portfolio? And if you could give some color on the provisions? Question two, Mr. Murali, just wanted to check have you ever thought of looking at products, which is in the higher yielding segment, north of 20% apart from MFIs, especially on the SME side? And also if you could just give a qualitative comment as to, are you comfortable with the productivity levels that you are seeing of your employees?

Murali M. Natrajan: Productivity levels are improving, but we do not have any like ideal number or any happy number there. The way it works is, if you are familiar with branch banking, the way it works is that you just have to keep pushing the envelope on productivity. And for that what you have to also do is you have to take away some of the non-value adding work because they will complain saying that they do not have time to do more volumes, then you have to say where are you utilizing your time show me, and then we, at the back-end, have to figure out how to improve the process. So it's a continuous battle in terms of how you improve productivity, not just in front-end, but definitely the frontline thing. And that is managed through scorecard, that is managed through process improvement, that is managed through product mix. It is like a whole process that keeps happening there. I think that we should be targeting at least Rs. 11 crores business per employee. We have close to Rs. 8 crores. We keep presenting that to our employees to tell them as to how we can do more, other banks are doing better, et cetera. Of course, you have to take into account that our corporate loan book is very light. That can help improve business per employee, but that is not the way we want to get it done. That is point number one. Point number two, you asked me about risk-weighted assets. Okay. So how the improvements are coming I will tell you. We have several products, ranging from requiring capital at 35% to 50% to 75% to 100%. Okay. Now the ROE calculator that we have given to the business manager, he can put all these parameters and he can clearly see for each loan what is the kind of risk-weighted asset he is consuming and what is the price he is charging and whether it is making sense from a ROE or not. So that changes the behavior and they focus towards less risk-weighted assets consuming loans which give them better results. For example, in SME, I can do a loan, which is 100% risk-weighted asset or I can do a loan which is 75% risk-weighted asset in terms of this segment. So they choose to do the one that is consuming less. Second thing is, we examined our portfolio and we looked at which are the customers who are consuming 100% risk weight and are not giving us a return that we desire. So we went back to them to see whether they would be open to repricing so that we get the ROE. Of course, we have to make sure that MCLR and all that is respected or they take away the loan to some other bank who can afford to take that loan because of their cost of fund being better. This is how we have thought about. Of course, Corporate, it's very simple. rated companies give you better risk-weighted assets than others. So that is how we have done there is no magic off in this, it's just the same loan by loan focusing on risk-weighted assets.

M.B. Mahesh: Murali, just a question on the high-yielding portfolio, which some of the banks have now started to concentrate?

Murali M. Natrajan: Good. I think we are not ready yet to expand into that. I think there is a lot of work that we can still do on fee income and improving the productivity of the branches. So at the moment, the management team's view is that not to introduce any such product. I think there is opportunity for us to do slightly better yielding loans in mortgage itself, which we could do. Other than that, right now there is no other plan. By the way, we do personal loans at 17%, 18%, but very small tiny portfolio.

M.B. Mahesh: Okay. Bharat, the provisions breakup?

Bharat Sampat: Yes, what provisions?

Murali M. Natrajan: The breakup.

M.B. Mahesh: The Rs. 348 million that you have. What is it? is it fully for loan loss provisions? Or is there any...

Bharat Sampat: The loan loss provision and there is more -- as we have explained in past, we do more than what is RBI baseline. Okay. That's why we are at 65% coverage. Loan loss provision is approximately Rs. 26 crores. Floating and standard assets is around Rs. 7 crores and Rs. 1-odd crore rounding off is on investments.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, 2020 target that you have achieved and you are very near to date, any further planning would you like to share?

Murali M. Natrajan: So over time, we want to cross 16%, and by God's grace, over time we will try to cross even 18%. Where we will cross that would be - improve fees, improve cost efficiency and loan growth. So there is nothing very different from what we are going to do, what we have done in the past. We are pretty confident that we can continue to improve our cost-to-income ratio. It may not happen linearly. Sometimes it is easier to put it on a spreadsheet and think that it can happen, but that is not the way. And take for example, first quarter, our cost will hit us because of staff cost increase. Revenues won't kick in. First quarter does not have PSLC benefit. So we are up and down there, but generally, directionally, we are very confident that in 2 years' time or maybe 2.5 years' time we should be able to cross 15.5%, 16% ROE and then consequently, the ROE. So that is the plan. So let's see how we go on that. At the moment, we are quite happy that at least we have come very close to what we have committed in our branch expansion plans we made.

Ravi Naredi: And what is the cost-to-income ratio is in your mind after two years and three years? Can you tell something?

Murali M. Natrajan: I did mention, I have been throughout mentioning cost-to-income ratio, I said, I think we should aim for below 2% cost to average asset, but it will take time. But we think that it is possible. Our business model, it is possible, we think.

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

Renish Bhuva: Congrats on the very good set of numbers. Sir, just 1 question on the loan growth. Because of the exits, loan growth for this year is actually lowest in last eight years. Some of this part might be explained by the corporate book unwinding, but would it be because of this new ROE metric what you have introduced at the branch level that some of the volume might be, the branch managers might be letting it go to some other banks to meet this ROE metric?

Murali M. Natrajan: 100% possible. Because we want to make sure that their liquidity, capital and credit risk we take helps us do deliver good returns. No point in just blindly pursuing any volume. So it definitely is possible. But I would say that when we introduced this calculator, at the beginning, we probably were refusing a lot more loans. The sales team starts to orient itself in the origination itself to a good set of loans that will actually achieve ROE. So the whole process does take time to fall in place.

Renish Bhuva: Right. So basically it's a follow-up question on that only. So at the loan growth of 16%, is there a scope for further improvement as we move ahead with the lower base on the corporate portfolio? Or do you see the same unwinding rate which we have seen in Q4 will be continuing through 2020 also? So what is your...

Murali M. Natrajan: Corporate loan, I will not comment because we see that as a short tenure opportunistic kind of the thing. We do not -- the feeling that was there with us several years ago is the same capacity that we are operating in Corporate. Other than Corporate, we have grown by about 21%, and we are confident that, that kind of growth rate is possible with our capacity.

Renish Bhuva: Okay. So that is very helpful, sir. And, sir, secondly, on the margin side, so in your opening remarks, you have mentioned that we will be sustainable around 3.7 or something, which will be like 8, 10 basis point lower than the exit Q4 margin. So what will drive this moderation? I mean do you think the FX yields are under pressure because of the competition? Or do you see the -- as we move ahead to achieve granular retained deposits, we might have to offer higher rates. I mean what will drive this moderation in margin side?

Bharat Sampat: The MCLR implementation is such that when you change the deposit rates immediately the MCLR changes. So for example, let us say, I change the MCLR rate -- sorry, the deposit rate for a one year deposit, the MCLR has to be dropped immediately without the new deposits coming in the lower rates. That's the way MCLR formula operates. Whereas in a rising market, supposing I increase the interest rate of one year deposit, MCLR can be reflected immediately, right? So as we reduce the deposit rate in line with market we think that there will be some impact on MCLR and then, therefore, some impact on NIM for a while before it stabilizes. That is point number one. Point number two is that we are very clear that we want to achieve similar to what we have been able to do on the loan side in terms of granularity in the retail deposit side. So your point is right. We may have to look at some buckets, looking at maybe 10, 15 basis point higher to kind of change the branch behavior as an example, right. So the whole transition will take a little time, but we are confident that stable NIMs could be at 370, 375 basis point, we have modeled that.

Renish Bhuva: Right. So I mean -- So just a further clarification on that only. So as we try to implement these on a weekly basis, let's say, next six to eight months, I just tried to assume that our margin will not be impacted more than 8, 10 basis point, right?

Murali M. Natrajan: No. I do not think so. We have also done a lot of - we are quite happy that we were able to -- because of our good quality portfolio, we were able to attract refinance at a reasonable rate, although the rate is higher than the deposit rate, but it is long-term money and therefore it helps LCR, it helps the various liquidity buckets. So that also we have taken quite a lot in this current financial year.

Renish Bhuva: Right. And sir, lastly, if I may ask. So sir, broadly, as your long-term planning is to reach ROE of 1.25% or 1.3%. Sir, what is the driver for this improvement on the exit level, let's say, from 1% ROE? If you just can break it up into a couple of levers that would be really helpful.

Bharat Sampat: Definitely, cost would be a lever. And we expect that our fee income will also be another lever that has not been fully exploited. And we hope that the way we are doing product mix that we have not too much of sacrifice in margin, at least only near-term activity if at all. And we definitely think that if we maintain our quality of portfolio, then we should not have any surprises in our credit cost. So every line will be contributing some improvement, some benefit. Of course, overall business per employee is where we are focused on as to how that productivity can drive better results.

Renish Bhuva: So broadly, the productivity improvement will be the biggest driver?

Murali M. Natrajan: So that is what I cannot say. Even when we talk about efficiency, we look at capital efficiency, we look at people efficiency, we look at -- so everything, collection efficiency, so there is a lot, I mean I cannot say there is any one magic button that we have.

Moderator: Thank you. The next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma: I think most of my questions have already been answered. Just wanted to clarify on the capital raise part. As you mentioned, so we would not be raising capital for next six to nine months, that is what I think you have indicated?

Bharat Sampat: At least for six to nine months because with 16.81% capital and what plans we have and if we continue to drive efficiency in capital consumption, I do not see the need to raise capital.

Ashish Sharma: Okay, sir. And just one on the growth part. So the Q4 in quarter number, the year-end number of 16%, this is because we want to defocus from the corporate piece?

Murali M. Natrajan: Yes.

Ashish Sharma: But going forward, the run rate in terms of growth has to be, I mean, we have always been guiding that 20% to 25% is the range...

Murali M. Natrajan: No. We didn't guide like that. We have always said that we are aiming to double our balance sheet in 3 - 3.5 years, which whenever that it translates to is what we are aiming for.

Ashish Sharma: Okay, okay. And we stick to that sort of...

Murali M. Natrajan: We are absolutely working towards that.

Moderator: Thank you. The next question is from the line of Abhishek Mody from Asit C. Mehta. Please go ahead.

Abhishek Mody: Sir, one question with regard to MCLR. Now the RBI has already cut by 25 basis points, it is seen also. When, according to you, are we like -- not actually the time that you will be able to transmit the SMEs by June, July, any just idea?

Murali M. Natrajan: No, the MCLR is the calculation of each bank on its own. It depends on their deposit profile and their linking. At times, it may have a direct linking with RBI and that is a discussion that has been happening, I guess, for the last few months with RBI in terms of their external benchmark and all. The way our MCLR is very simple. You have a cost of fund, which is how to calculate that is given by the regulator, the cost of -- banking is, I know a lot of press starts talking about bank is not passing on, and so on. I can tell you that MCLR calculation has a cost to average asset as an important item, so if a bank reduces its cost to average asset, it gets passed on to the customer. That is how minute the calculations are in MCLR and that is all audited by both statutory auditors and the Reserve Bank, RBI's team. So I cannot tell you exactly when it will happen, depends upon how our MCLR moves. At the moment, there doesn't seem to be any scope to pass on, but I do not know how the first quarter will conclude. This is being reviewed every month in our ALCO meeting.

Abhishek Mody: Fine. And 1 more thing, with regard to slippage, I think it is Rs. 985 million, if I am right. I just want a general idea, how much is it -- again, any idea, agriculture lending provisions?

Murali M. Natrajan: It is across. I mean it is there in our -- you can see in our page #13. Page #13, you can see our gross NPA -- sorry, these are all the gross NPAs, right?

Bharat Sampat: Yes.

Abhishek Mody: I just want the slippage. Slippage is Rs. 985 million, the breakup -- I just wanted a general idea.

Murali M. Natrajan: No, we do not provide the breakup. What you have in the page #13 where you can see generally what movements are.

Abhishek Mody: Sir, just one more thing, I mean are you seeing any pressure in agri sector, SME sector, any just idea with respect to that?

Murali M. Natrajan: Agri sector was under some pressure when we had all these waiver issues and all, but I think that the team was in a little bit of a panic mode immediately when it happened. But later on, I think they have got reasonably good control over the portfolio. So while we are having here and there some pressure, but overall we are still in control.

Abhishek Mody: And SME, sir?

Murali M. Natrajan: There is no big challenge. It can always cause us challenge. Any loan which is at Rs. 3 crores, Rs. 5 crores, Rs. 7 crores kind of loan, they always cause challenge. Small ticket fellows are quite manageable.

Operator, we have time for one more question.

Moderator: Sure, sir. Actually, we can take last two questions. The first would be from the line of Ankit Choudhary from B&K Securities.

Ankit Choudhary: So I am not pretty sure that this question has been answered or not, but basically the corporate loan that has declined on the quarter-on-quarter basis, so was there any loans that we have sold on during the quarter?

Murali M. Natrajan: No, no, no. Fortunately, the loan was paid off during this quarter, so that is why it has come down. It is a part of our strategy of giving short-tenor loan and sometimes it gets paid off in the quarter. It so happens that many of these loans are paid off before March quarter.

Ankit Choudhary: Okay, understood. Second thing was on this main part. So that you have explained 2 questions back only that whatever the increase that has been taken or decrease that take on the deposits it gets passed down on the MCLR. So if we see your cost of funding, both these things are more of a same direction. So I just wanted to understand the big thing that has -- apart from this thing, has there been any changes in the product mix or something of that sort which has taken a price increase or something of that sort which has led to your yield increase?

Murali M. Natrajan: Product mix was changing no, because if I am dropping corporate loans from, say, 15% or 16% to 13%, that means we are getting more traction. I think AIB has moved from 18% to 20%. I think SME has probably remained at 12% and mortgage is at 40%. So construction finance -- sorry, commercial vehicle has gone up a little bit to 7%. So product mix is changing. Certainly, it is changing.

Ankit Choudhary: Okay. And finally, on this GNPA on the commercial vehicle and construction equipment, so that increased, has it been more of a slippages or the less recoveries that has played the part over there?

Murali M. Natrajan: So we do not do construction equipment. We only do only commercial vehicle. So it is commercial vehicle and small ticket vehicle or some -- what is it called -- yes, right, we do not do that. But we just said, on the product disbursement system it is CV/STVL, whatever. So we do not do construction equipment. The slippage is there because we did see some challenges, market challenges in commercial vehicles, but recoveries are picking up. So I do believe that in the coming two or three quarters, we should have a much better performance in commercial vehicle NPAs.

Moderator: Thank you. Sir, we will take the last question from the line of Pranav Gupta from Birla Sunlife Insurance. Please go ahead.

Pranav Gupta: My questions have been answered.

Murali M. Natrajan: Great. Thanks a lot, everyone, for joining the call and thank you for your support. We will keep in touch. If, in case, somebody's question is not answered, please feel free to reach out to Gaurav or Bharat and then we hope that we can address your questions. Thanks very much for joining this call.

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