DCB Bank Q4 & FY'21 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the DCB Bank Limited Q4 & FY'21 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – M.D. and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Murali M. Natrajan. Thank you, and over to you, sir.

Murali M. Natrajan: Good evening. Welcome all of you. Saturday late evening, thanks for dialing into our call. I hope everyone has had a chance to look at the "Press Release" and the "Investor Presentation" and of course, the two pages that we have put on the stock exchange.

I have a couple of remarks to make and then we will open up for questions. 24th March 2020 is when we had the lockdown last year. And it was a very difficult situation for the entire nation and of course the entire world. And at the time, we were trying to figure out how exactly are we going to move the ship forward, what are going to be the challenges, what should we focus on, what should we do next. And at that time, if somebody had asked me to get or take a shot at what would be our profit performance for FY'2021, I wouldn't have given a very high probability of hitting the same number as we delivered in FY'2020. Even on an underlying basis, when we look at our performance for fourth quarter and for the full year, if we back off some of the excess provision that as a conservative management team we make, we seem to have delivered same or better performance than last year from a P&L point of view. Many complications we had to deal with, from lockdown, moratorium, extended moratorium, Hon'ble Supreme Court judgment, the various relief and other guidelines released by Reserve Bank of India, the impact of that on the system… and don't forget the bank even upgraded through lockdown and other things, bank upgraded core banking system to the next higher version. So, I would put this as one of the most challenging professional year in my life in all these years of banking, but thanks to the support of my team and the Board and the Promoter and investors, we are where we are at the moment.

Is the battle over? No, we seem to have started the whole situation once again, multiplied by say five times or 10 times of what we faced last year. I used to tell you that we continue to be confident. The experience that we have learned on dealing with this kind of situation last year is going to come once again handy. It is unavoidable for some level of stress in the book, but we have strong operating profit and we have a really good capital position, Tier-1 is 15.5% and total capital position is almost 20%, so we have a pretty strong capital position. And we have a robust business. Yes, it will focus on self-employed largely. It does get affected by lockdowns and curfew and restriction. But the fact is that most of it came back, I would say by February, March and we thought we ended March quite well only to come to a situation by first week or 10th of April whereby unfortunately the situation deteriorated a lot in the country, and the main priority of the country right now is to make sure that we plateau the second wave, reduce it, save lives and get back to our business as soon as possible.

If you look at the slippage for the full year, it is same or similar as what we had the previous year. Normally, you need about seven, eight months to upgrade/collect from NPA accounts, you have to work with the customer, you need to use the SARFAESI Act and so on. The disruption and our ability to kind of work out solution has been hampered by various restrictions and so on. The customers are very much there. If you look at our collection efficiency, barring a percentage or 2%, we have been able to collect at least one installment from almost every customer. And a high percentage of customers that paid at least three or more installments. We don't have any external collection agencies, all in-house collections and recovery process. So that is where we are.

We have added headcount since the last quarter. We were all prepared to press the accelerator and move forward with some more speed. Unfortunately, there has been some setback because of the drastic increase in infection. So what we are doing is we are preparing ourselves to be ready such that as situation starts to improve, we can try and normalize the business as soon as possible and as much as possible. That's where we are. Hope you have had a chance to look at the "Presentation."

I'm happy to take questions.

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

Akshay Chheda: I just had a few questions; the first one sir, can you please share the thought process behind investing in companies like India INX, India ICC and Techfino. Will we be seeing more such investments in coming times? The second one is what's the long-term vision you aspire for, do we also have the capability to scale up like say someone like Kotak Bank in the very long run? And the third one is what is the total percentage of secured loan books in our total loan book?

Murali M. Natrajan: So, we will give you an answer on the last, but I want to tell you that except for MFI, BC loans and to some extent some fintech PL loans, hardly we have any unsecured loans in our book, and I'll give you the exact percentage on that in a minute. We are currently focused on how do we get past the current situation that is there in the country and how do we build momentum in business and how do we make sure that we have as minimal impact on P&L as possible from loans that are likely to get best, that is our focus. If situation improves as soon as possible, we are planning to try and get our loan growth back and we have the capacity now, we have got a lot of stuff sorted out in the last few months, we were all ready to press the accelerator, in fact, March has been a very good month for us. Unfortunately, by April 7th, 10th, we have had these challenges, lockdown and so on. We believe that we should be able to at least grow by high teens provided situation improves as quickly as possible. Regarding our investments, from time-to-time, our management team keeps looking at some of the opportunistic investments. We are not interested in some big stake and all. We are all in very small investments. Many years ago, we made an investment in Annapurna, then recently, we made a small investment in Techfino, then we have made this investment in the exchanges. So we keep looking at more opportunities like that and if it is giving us some great valuation and having some great P&L impact or so, we just look for these opportunities and invest. So there is no big game plan here, it is just a simple management teams reviewing opportunities and making one or two investments here and there. Two investments have happened pretty quickly within a short time. Regarding your question on secured, we have information that about 95% of our book is secured.

Moderator: Thank you. The next question is from the line of Malar Hemal Manek, an individual investor. Please go ahead.

Malar Hemal Manek: I wanted to understand like what is the average duration and what is the average ticket size of the deposits and loan?

Murali M. Natrajan: Our main focus on deposit is retail deposit. If you see the press release, retail deposit, which is less than Rs.2 crores per ticket, has grown by 19% year-on-year. Generally, the retail deposit size that we get is somewhere between 1.5 lakhs to 2 lakhs. Our ticket size loan usually is only about 30, 35 lakhs. If you look at the press release, you will find that we are one of the most granular portfolio in loans that you can come across. Only 5% of our book is in the top-20 loan. 80%-odd of our book is less than Rs.3 crores in terms of ticket size. So we are one of the most granular portfolios in banking at the moment. To your first question, on mortgage duration, the actual duration that we give could be anywhere from 10 to 15 years or something. But actual duration customer may have only seven, eight years because they tend to repay. Deposits? We always encourage customers to take long term deposits like two or three years. So some months we get deposits which are 18, 24-months, some months we get some 30-months. So you can safely say the duration could be about 20-odd months.

Malar Hemal Manek: In your FY'20 annual report you have mentioned the use of the data analytics in credit risk management and predictive model, the Big Data analytics in the default behavior scorecard and the optimization of cash loading at ATM. I wanted to understand this better, if you could elaborate or else we can connect offline.

Murali M. Natrajan: So the analytics team there is a separate team which looks at opportunities and risks using advanced analytics like the way we explain. And then we look at opportunities to optimize things. So like for example, you are talking about loading of ATM. If the loading of the ATM is optimized, you save on funding cost, you save on transport cost, you say on agency cost, that's one example. So obviously we can connect offline and say, but that is basically the job of the analytics team.

Moderator: Thank you. The next question is from the line of Anil Tulsiram from ContrarianValueEdge. Please go ahead.

Anil Tulsiram: Based on the Bank's track record for the last 10-years, I have full confidence that asset quality will be maintained and COVID challenges will be met, so no questions on that. I am just trying to understand our strategy. In the past, the Bank has repeatedly mentioned City Union Bank as its role model. So two questions on this. City Union Bank focus more on the working capital loan whereas we focus more on the LAP. Not for a second I am suggesting that bank policy is wrong, we need to change. Just trying to understand why? And second related question is DCB Bank employee per branch is close to double that of the City Union Bank, as a result our employee cost as a percentage of total assets is 40 to 50 basis points higher. So can you just explain this?

Murali M. Natrajan: First of all, we of course offer working capital loan, if you look at the pie chart in the investor presentation, you will find SME / MSME, majority of that portfolio is working capital kind of a loan. City Union Bank has an advantage; they have far more number of branches and they are far more concentrated on a particular geography. So, their strategy may be different to that extent. We find that we have expertise in loan against property. Even in loan against property on a case-by-case basis when a customer comes, we give certain kind of additional facilities to the customer based on cash flows, etc., We find that from a branch cost point of view, from a delivery point of view, loan against property is somewhat superior. In City, what happens, customer utilization is a very big variable, sometimes customer utilizes, sometimes doesn't utilize, but you block your capital, because you have to keep the capital for the entire limit. So that we find not very efficient. And also the maintenance cost is higher in CC, OD kind of a product. That is our outlook. So to that extent it is different. We are different, at the same time, we are similar to City Union Bank because the target market for City Union Bank is self-employed, our target market is also self-employed. The way we administer the product is very different, for example, I don't think City Union Bank does loan against property, but we have a separate team doing that. The number of people per branch is again a different model. We have a lot of outbound sales teams in most of the products who go and actually seek these loans, whereas City Union probably has a more branch-based model. What you should look at is what is our cost-to-average asset. Our cost-to-average asset this year probably is about 2.19. But that may be because of special action that we took last year. But we believe that over a period of time, we should be same or better than City Union Bank in terms of cost-to-average asset and that is what is more important.

Anil Tulsiram: Second question is can you elaborate more on the API banking strategy, what I meant is what is our strategy for taking help of the fintech on acquiring assets and acquiring liabilities?

Murali M. Natrajan: On a monthly basis, we are meeting several fintechs. Some of the fintech companies are good and they can scale up. We are trying our best to make sure that how can we make available APIs so that the fintech company can consume it and we can consume their APIs, such that we can have almost seamless kind of delivery to customers. This is a very long and big topic and complex topic which we may not be able to handle all of it here. Suffice to say that we have a separate team which is working with several fintech companies, some of which succeeds, some of which does not succeed. We sign up, we work on it, fintech is not able to scale up. Some of the fintechs are not very compliant. So that puts the Bank at risk. So therefore, we have to back off and say that, look, I don't think we can continue with this product, those kinds of things. So, it is a very long and big discussion which we have to have separately. Suffice to say that there is a separate team focusing on tying up with fintech and making it successful.

Anil Tulsiram: The next thing I want to understand is over the last few years the Bank has been excellent in deposit franchise and today we are one of the most granular deposits among the small private banks. So to ensure that these customers keep their money with our bank, not just on the basis of the higher interest rate, but because of the better service or whatever else, so can you elaborate more on this or will it be always higher interest or we can provide something else that they are incentivized to keep money with us?

Murali M. Natrajan: If a bank offers 7% interest on CASA and grow their CASA, you guys think that they are doing a very good job and you think that they're offering a lower interest. If the term deposit rate is maybe 25, 50 basis points among the comparative peers, you think that we are offering higher interest rate. So you have to compare it properly and see where it is. Obviously, our rates are far higher than Kotak Bank or something, they've different franchise in comparison. The way we make sure that customers want to have a product apart from slight improvement in the pricing is a product itself. We offer health insurance in our term deposit, we offer life insurance in our term deposit. All rolled into one and customers like it. You can't go to the market and say, I'll give you good service, so give me a deposit, doesn't work. But once you get a deposit, you better give good service, otherwise the deposit will go. That's where banking works.

Anil Tulsiram: What is the percentage of advances which are under floating rate of interest?

Murali M. Natrajan: I don't have that number, those are normal, not be disclosed here, so sorry about that.

Anil Tulsiram: The cost of funds from the small banks like AU Bank, Ujjivan and Equitas have come very close to our bank and they have also entered lap of ticket size of around 20 to 30 lakhs. So do you think we will have high competition from them or we will manage the competition the way we have managed in the past?

Murali M. Natrajan: I have finished 12 years in the Bank and started my 13^{th} year. We have always face competition from different, different segments in different, different point in time. Of course, AU is a competition, Equitas is a competition, HDFC Bank is a competition.

Whatever be the competition, we have to have operational excellence, have good products, have good ability to deliver and that is how we keep growing our book.

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

Rohan Mandora: On the collection trends in April, how is the trend if you could share some comments on that? And also given the fact that in the previous year, post the Covid, it took some time for some of the borrowers to start repaying and currently also the numbers are there, the non-repaying customers took some time. So now with the current wave of Covid, how do you expect them to behave?

Murali M. Natrajan: The first cut numbers of April seems to suggest that the collection efficiency is slightly lower than what we've seen in March. That is primarily because customers are available. There is not that many contactability issue. What I want to tell you is the difference between what you see in the second wave and first wave is, I'm not trying to paint a negative picture here, I'm telling you the factual picture is that collection staff some of them are infected, some of the staff members families are infected, customers are infected, customers families are infected. So the whole system is somewhat distracted in trying to get past this challenge. So therefore, it does have an impact on collection efficiency. And the market is closed, I mean, you know, in some of the space, we are not allowed to go out after two or three o'clock or something in the afternoon even if you are an essential service. There are very strict guidelines which we have to absolutely adhere to. So there is some dip in the collection efficiency which I mentioned in terms of a comment in my press release. Now what we like about the recent announcement by RBI is, it may change tomorrow, but we really appreciate that is that they have not declared any moratorium. We believe that when moratorium is declared, then it takes time for customers to come out of the moratorium, which is what we faced last time, although from a 58%, 60% moratorium, we were able to kind of “wake up” almost entire customer base and get our collections up, that is dramatic improvement we have done since the August of last year. So, if you do moratorium, then there may be complications of what happens to interest and what happens to interest on interest. All these complications I think have been avoided by not declaring moratorium. So if the situation comes back to normal quickly, I don't believe the collection should dip as less as what happened last year. But again, we will watch and see what happen. That is my guess.

Rohan Mandora: Any quantification from April collection, how much decline it is?

Murali M. Natrajan: We will provide all that as we move along and declare our results in the next quarter. It's too early right now to say about it.

Rohan Mandora: NIM declined sequentially other than interest reversals on the two components, Rs.37 crores and Rs.10 crores. Is there any other one-off in that?

Murali M. Natrajan: Underlying NIM appears to be in the same range as 365 to 370 basis points. We are confident that would be our NIM. Of course, how the whole MCLR benefit, as we keep reducing the cost of fund, the formula is very much clear that we have to go back to the customer, especially those who are linked with the MCLR and not having fixed rate. So we believe that we should be in that range. There has been some quarter-to-quarter up and down regarding sub-reversal on NPA or reversal on restructure or whatever. But core underlying NIM seems to be quite okay right now.

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

Renish Bhuva: First question is on the provision and the health of the portfolio. I mean, as on March 21, do we believe that whatever impact is there due to first wave in terms of recognition and credit costs, we have built it in any incremental stress related formation and the credit cost will be limited to the second wave or you still believe that there will be some spillover of the first wave?

Murali M. Natrajan: The existing customers, some of them have not been affected by first wave and some of them have not been affected by second wave. The existing customers, some of them may not have been affected by first wave, but may get affected by second wave. So it's very hard for me to segregate who is affected in first wave, second wave and all these things. I was like holding my heart in my palm wondering as to what is going to be the announcement by RBI. Fortunately, there is no moratorium. When there is no moratorium, no, it's a slightly easier dialogue with the customer. In fact, we have sent SMS to customers and all saying boss, no moratorium, continue to pay. Moratorium give some kind of inertia and some kind of a challenge whereby it's very difficult to have a dialogue with the customer on his repayment. I am not saying customer should not be given moratorium, but that should be left to the bank to see what kind of moratorium is required. For example, if you restructure loan you can give a three or six months moratorium for him to come back to some business and start repaying. That's a pretty decent way to handle the thing. What we believe is our NPA slippage last year and the year that we finished is pretty much the same. And if you look at the NPA that we started with the year before, we would have provided almost 80%, 90% of that NPA. When you get a sudden increase in NPA because of all the Supreme Court and all, it takes time for us to build the provision. Second point I want to say is provision also is a factor of the recovery. We are dealing with secured business. I am telling you given the small ticket size and all, customers will not let go of their property and things like that. But you have to give that time to customer to rectify his account and maybe they want to just liquidate something and pay, whatever it is, it is better to do that way, that is how we are trying to get the collection. Currently, what comfort I can kind of present here is that if you look at page three of our press release, if you look at it, provision for NPA is Rs.489 crores, and include the floating provision… we have been creating floating provision every quarter and we have never used the floating provision. So we have just kind of presented that to you separately. Then we have Rs.287 crores of provision for restructured asset and for other contingency. So, as we enter 2021, yes, we are facing second wave, yes, maybe collection efficiency will dip and all, but I won't call it cushion, but I would definitely call it as some kind of quantum that we are carrying forward and we kind of tried to assess the situation from a comparison with other banks and all, we seem to be in a reasonably good provision situation is what at the moment. What will happen in the coming quarter? The management is very clear, always make conservative provision because that helps the balance sheet to strengthen and we are only making provision, we're not doing write-off, so, it should come back to the recovery.

Renish Bhuva: Actually, my next question on this reconciliation. So, this Rs.489 crores is including floating provision, I mean, if we look at the calculated provision coverage on the gross NPA, net NPA, so, we are utilizing floating in Q4, right?

Bharat Sampat: Renish, for floating provision, RBI gives two alternates; one is one can count it probably towards Tier-2 capital where there is limitation on what we can count. Standard asset provision which we make goes into our Tier-2 capital. Floating provision which we are making, other option RBI gives is if you do not take it as a Tier-2, then you can write it for net NPAs, but it does not mean that that 180 crores is absorbed against actually specific NPAs which are over there. Specific provision for gross NPAs is that Rs.380 crores which is mentioned over there. Rs.287 crores is mentioned in the assets which are not slipped, they are standard and to make additional provision they are restructured or stressed, but they are standard assets. RBI guideline which I am saying is recorded in Tier-2 capital base.

Renish Bhuva: So, if I understand correctly, floating provision since it's not a specific provision, in case there is a higher recovery, we can write-back?

Bharat Sampat: Yes, RBI recently announced that you can look at floating provision with board approval. Earlier it was only 1/3 and with RBI and board approval, now, they said you can utilize up to 100% and that too with board approval. So, that flexibility is there with us.

Renish Bhuva: So, basically for Covid-2 for our practical purpose, we have a pool of Rs.287 crores, I mean, that is the contingency buffer we have as of now?

Bharat Sampat: Rs.109 crores also in a way is the contingency buffer in that sense.

Murali M. Natrajan: It is a way of presenting. You can see Rs.287 crores and move on, that is also we don't have any problem. Let's say for example, you started with X amount of NPA this year, the formula that we have in terms of making provision for that is always higher than what is prescribed by RBI. It's the way the policy works in our bank, because we want to make sure that we are always ahead on provision and of course, if the recoveries are there, we kind of reverse that provision.

Renish Bhuva: Our provision policy must be on LGD base rather than IRAC norms base is what you are trying to highlight?

Murali M. Natrajan: Not fully, but partly.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: Just a couple of questions. So, firstly, in your opening comments, you sort of spoke about being able to deliver mid-teens growth if we see a normalization of this pandemic in the next couple of months. Just wanted to understand from your end that while you have added capacity, once Covid sort of eases out, would you be more conservative and sort of wait for a little more time to understand how the cash flows of customers will get affected post-Covid or would you start lending where you have comfort, just wanted to understand that?

Murali M. Natrajan: That is what we did last time also, you see last time also because of lockdown and stuff like that, we had to wait for certain level of cash flows to be visible for us to lend. I am taking all that into account. See, for example, we have grown gold loan by more than 150%. I was talking to some very big gold loan company Chairman also. The challenge is customers fear and inability to reach the branch for gold loan as an example. When situation improves, I don't see that becoming a problem for us, so we should be able to lend them. When I look at our SME working capital kind of loans, we can see the churn and we can constantly see the thing. So, we should be able to do well. We are talking about home loans, we talk about small salary home loans or even small outbreak, within a short time, we should be able to see some of the cash flow. So obviously, we are going to take cognizance of what is the cash flows and all. What I'm trying to say is that from a capacity point of view, we are quite ready and we feel confident that if situation starts to smoothen out and better, we will be out there, that's basically what we are saying.

Pranav Gupta: Second question is just wanted to understand your perspective on SARFAESI versus restructure. So, obviously, there was a Supreme Court circular, we were not able to enforce any recovery measures till date of March. So, given the second wave and we will see cash flows and we will see collection efficiencies drop, once you start seeing a recovery, will you sort of look to do more recovery proceedings versus a restructure or how should we think of this?

Murali M. Natrajan: There is no magic formula in that except one is that SARFAESI for account that has slipped into NPA should always be used as some kind of, I would not say threat, but some kind of a pressure on the customer. Even in the past, I've told you, 90%, 95% of the customers always settle, because customers feel that if they sell the property, there's a better value than bank selling the property because the property will lose the value and the customer won't get any access to cash flows that may be available to him. So our usual go to question is to force the customer to settle with us. Okay, fine, let's do the restructure on this and push it forward, that is not how it is. We track restructure performance separately to see how customers are repaying. The reason we do that is if customer has said that he's going to be all right, the business is looking up, he can pay 50% of the installments we want to make sure that we give him a chance. That way, what happens? 12, 18 months down the line if the customer situation improves, it'll be better for the customer as well as for us. NPAs don't earn any money. So I don't think there's going to be any change in strategy, but given RBI's current announcement that has happened, I do feel that customers will ask for restructure, again, we will do case-by-case, look at it and see how best we can tailor that for them.

Pranav Gupta: So just a clarification on this. So had the Supreme Court order not halted SARFAESI, Do you feel that we could have seen accretion to NPAs which would have been lower than or much lower than what we saw given that collection efficiencies through March have continuously improved post-moratorium?

Murali M. Natrajan: I think we probably would have done a far better job on recoveries and upgrades, because if the courts are not functioning efficiently, if you can't take help of the lawyers on a continual basis to serve the notice, there's a lot of logistic challenges, how do you go and paste the notice in a house which is under say, for example, mini containment or something and so many complications are there in Covid kind of situation? I think we could have done a far better job, but the fact is, I think the team is quite geared up, I mean, we keep doing collections when you have got two, three times, the spirit of the team is very high, I do not see any demotivation and something because they are afraid and all, we deal with all these things. But having said that, I think when the situation improves, we have already demonstrated to the investor that our collection efficiency, we are the first bank to put out the collection efficiency as a number to track and other banks followed, you know that. So, we will continue to look at that metrics and see how we can improve.

Pranav Gupta: Sure. Just one last question, if I can squeeze in. So, wanted to get some sense from you on the extension that you received from the RBI. While I understand that the Bank might have applied for a three-year period, but only one year has been received. Is there any anything additional in the communication that we have received to suggest why the RBI might have offered a one-year extension rather than a three year? Because, as per the new paper you are eligible, right, to receive an extension, just wanted to understand that.

Murali M. Natrajan: In general, I mean, this is my understanding, in general all banks apply for three-year extension for CEO, and RBI has been giving only three year extensions. The extension process with the regulator is not an interactive process, whereby the bank will come to know in advance, it does not happen like that, it is a process whereby you put in your details, they may seek some additional details. So, whatever communication has come from RBI, we have put it out in the exchange for you. If there is any additional communication, we would be responsible enough to put it out for you.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM. Please go ahead.

Himanshu Upadhyay: I had a question on this collection efficiency what we present. So, business loans and home loans, okay, so generally what we read and what impressions we get, or maybe my impression is wrong, you can correct me if that is the case, that home loans are more stable than business loans. But in collection efficiency what we are seeing for us is, business loan is doing much better than home loans.

Murali M. Natrajan: Where are you reading, can you just guide me on that?

Himanshu Upadhyay: This is page number four of the Press Release what you have given.

Murali M. Natrajan: So, home loans is at 96.8%, business loan is at 95.2%. Customer, including delinquent and restructured in home loan is 1.43%, which is slightly higher than this thing. And if you look at three EMIS paid, it is 95%. So, it could be like a small bunch of customer or maybe some slightly higher ticket size or somebody who would have passed this. So, I would not read too much into this as a difference in portfolios and all, both are self-employed portfolio largely. So, I would not consider this as some major difference to be explained.

Himanshu Upadhyay: But the risk weighted returns would be similar for both the products, what has been the observation?

Murali M. Natrajan: Home loans generally are at a risk weight of 35% to 50%, and loan against property is generally at a risk weight of 75%.

Himanshu Upadhyay: No, I was asking our own observations, what has been in our case.

Murali M. Natrajan: We have made sure that our pricing metrics and our risk metrics deliver greater than 14% return on both these products. Customer to customer it may differ, but our hurdle rate is 14% ROE on all these.

Himanshu Upadhyay: And one question was on gold loans, this is slide number 12 of your presentation. We see a significant amount of jump in the stress, or I would say, Rs. 69 crores to Rs. 52 crores in one year period.

Murali M. Natrajan: Rs. 6.9 crores to Rs. 55 crores, this goes up and down. We bunch up the auction process for customers and we give a fair chance to customers to repay the loan, because these are all their personal jewellery. So, I mean, we keep looking at various ways to make sure that we are not putting on some fraud or spurious jewellery. So, as, and when we are able to do auctions, these numbers will start coming down. So, I would not be concerned about that.

Himanshu Upadhyay: And one last question, on the FD side which we give, what strategy we used very efficiently over last many years to get granular deposit franchisee and increase the penetration. But how the relationship or the strength of relationship, have we any important learnings from that thing that we have been able to increase the depth of those relationships? And how do you evaluate your own performance over the years?

Murali M. Natrajan: So, first of all, the scorecard of the branch is skewed towards getting retail term deposit and then cross-sell CASA to the customer. Secondly, I think the product team has given some good products like these health insurance and life insurance, which has been packaged into the product. Third is, our analytics team tell me, based on a sample data of the term deposits, if for example a term deposit customer comes in, in January of a particular year at Rs. 100, they deepen their relationship to almost Rs. 150 or Rs. 160 by end of the year. So, it seems to be quite working well for us from an existing customer deepening of relationship as well. So, that is how we have been getting term deposits and reducing our bulk deposits.

Himanshu Upadhyay: Okay. And generally, the conversion rate, has it improved drastically over four, five years?

Murali M. Natrajan: What is conversion rate?

Himanshu Upadhyay: So, cross-sell ratio for those customers and the depth of relationships…

Murali M. Natrajan: So, it has been three years since we embarked upon a full retail term deposit strategy, September 2018 is when we started. The initial results are quite encouraging. And we believe that as we put more and more effort on this from our call center and branches, we should be able to do better.

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

MB Mahesh: Just a couple of questions from my side. On the AIB increase in NPAs, could you just kind of discuss what's driving that.

Murali M. Natrajan: So, much of the NPA is coming from MFI BC portfolio and we have not completely utilized the FLDG of some of these BCs yet, we are giving them a chance to collect. The recoveries were shaping up quite well till end of March, then, unfortunately, we hit a wall in like 10th or 12th of April. So, the MFI BC portfolio, recoveries would be slightly long haul from a full recovery point of view. But part of it will be covered by FLDG.

MB Mahesh: Last quarter you indicated about Rs. 55 crores is secured by FLDG. That is the same amount that we are looking at this time around as well.

Murali M. Natrajan: It could be higher, because the FLDGs have different structures, depending upon the performance of the BC.

MB Mahesh: Okay. Second question is on the restructured loan segment as well as the ECLGS. On the restructured loan, which product segment has seen the maximum amount of offtake?

Murali M. Natrajan: Mortgage and CV. When I say mortgage means largely loan against property and CV. And we are tracking how these customers are performing. We have done proper evaluation of these customers. ECLGS, do not confuse with the restructure, that is a separate product. And like I mentioned, we have always been very careful to just give, because there are a lot of customers who used to call us desperately for ECLGS. And we have been very careful about giving the disbursal, because if the customer's business is not going to survive, no point in just taking ECLGS and applying only to get affected later. So, we have been very careful. And we intend to be careful because we can disburse all the way till September.

MB Mahesh: Perfect. And just one clarification, collection efficiency will include arrears as well, right?

Murali M. Natrajan: What we bill is the denominator and what we collect is the numerator.

MB Mahesh: Collection includes the past use as well?

Murali M. Natrajan: It does not, no.

Bharat Sampat: The collection against the billed amount. Billed amount for the month and collection against that billed amount. Previous month does not include.

Murali M. Natrajan: But that includes even restructured loans.

Moderator: Thank you. The next question is from line of Amaan Ilahi from Investec India. Please go ahead.

Amaan Ilahi: Just two questions from my side. Firstly, when do we expect our NIMs to glide towards the guided number of 365 to 370 basis points? And secondly, this year, obviously, first half we did not see much of our lending happening, so obviously our costs were lower, especially cost to assets. And our cost to assets for the full year is in the range of 2.1% to 2.4%. So, how much can we expect this to increase for FY 2022 and FY 2023 as we start to increase our lending activity?

Murali M. Natrajan: One thing you guys have to clearly understand, and you could give us credit, especially how we implemented 150 branches in 2015 onwards, and still had the cost metric pretty much come under control. So, just give us credit that we understand how these costs move and how we control these costs. So, in near term, cost will increase, because last year we have not been able to do the kind of salary action that we intended to do, which we will hope to do for at least part of the population.

And the second point I would like to make is that our headcount is also increasing, they are increasing because we want to make sure that we have enough firepower when things improve, because we have the product, we have the distribution, but we want to make sure that we do that. To that extent, you should see some increase in cost in the quarter one, maybe even quarter two. But what we are confident is, we know how to make those people productive, we know how to make sure that our cost efficiencies are coming in, in the planned manner, and cost income ratio would start to drop, even if it increases in the near term. That is point number one. Second point is, cost to average assets, our long-term goal is 220. And there are several activities which are going on uninterrupted in getting that done, for example, the Mission 309 accelerated digital agenda, it is continuing, that is a separate review that happens to make sure that these things are doing. And as and when we succeed in actually getting some efficiencies, we hope to at least showcase some of that to investors.

Regarding NIM, underlying NIM is in the range of 365 to 370 basis point, unfortunately, this Supreme Court and these NPA, this kind of created some kind of noise in the thing. Like I said, barring any issues regarding restructured NPA, our underlying NIM is pretty intact, is what I would like to say. So, when the situation stabilizes, we did not anticipate this second wave and all these impacts. So, we have to deal with that in quarter one, perhaps even in quarter two. So, yeah, so that is where we are.

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

Jai Mundra: Sir, the restructuring numbers that you have given is the net restructuring number. And if I add the provisioning that we are carrying, it is somewhere around Rs. 1,100 crores, so that would be around 4.3% number as a percentage of loan. So, just wanted to check, this is the total restructuring under the, let us say, resolution 1.0. Or there is something else under implementation under restructuring 1.0?

Murali M. Natrajan: This includes all the restructuring that we did, even including the Covid package.

Jai Mundra: And there is nothing under implementation….

Murali M. Natrajan: I am saying that this is what the total restructured book for the bank. And I told you that we will be probably around 5%, we are at 4.3%.

Jai Mundra: Sure. And second, I mean, we have given good details on the product wise stress kind of a book, right, which a percentage of people have not paid an instalment. But I think if one were to look, because you have now started disclosing NPA and restructured, so whatever is NPA and whatever is restructured is anyway given separately. If you have any number which is, of course, not a part of NPA or restructuring, but is kind of having a stress in your view, I mean, do you have that kind of number?

Murali M. Natrajan: I think we are doing a fair amount of disclosure, so for the time being these are our disclosures.

Jai Mundra: Sure, okay. Any last thing sir, on the new RBI guidelines, right, so that also suggests that the Chairman should also be independent. Any thought process there?

Murali M. Natrajan: We have to follow the guidelines of Reserve Bank of India new governance structure. See, we are operating this bank under the Reserve Bank of India guidelines. So, whatever guidelines come we have to work through those guidelines.

Jai Mundra: And lastly, maybe it is too early to ask that you have being given one year extension and probably usually a bank starts having, like you also did, six months before the schedule term ends. But I mean, a clarity on this at least from your side would help that at least from the bank side, right, there have been various instances of one year extension given multiple times. But just wanted to check that how are you approaching this as and when the time comes, or this could lead to a rethinking at the board level?

Murali M. Natrajan: Rethinking about what?

Jai Mundra: I mean, having a three-year term for any MD, CEO is, I think, is more let us say desirable. So, in that direction.

Murali M. Natrajan: Even for MD, CEO that is desirable. So, what I want to say is that the Board further more cannot ask for extension beyond two more years. Now, we have usually applied six months in advance, otherwise, it is seen as incorrect process by the bank. So, most likely, the bank will approach RBI, for whatever the decision is by the Board, in October of this year. So, it is very too early to comment at this point. As far as I am concerned, I am proceeding as though I am here for some time and working with my team. And as far as the succession plan is concerned, the Board is well aware of what needs to be done, the Promoter is well aware of what needs to be done. And our bank has always taken succession planning and all very seriously. And we are very confident that it is going to work out quite well.

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

Mona Khetan: I have one question on the growth front. So, DCB remains a MSME focused bank, if you look at the recent quarters, while we have maintained caution on this segment, we have seen several of the larger banks increasingly become aggressive in this segment and delivering a growth of about 6% to 7% sequentially. So, why is this dichotomy and how do we read this? And does that pose a risk to our model in terms of growth and opportunity?

Murali M. Natrajan: As far as I know, there is no risk to our model. And I think we have done a pretty decent job in the fourth quarter. We are starting to increase our headcount. Of course, we may probably have to give it a pause for a month or so. And we are pretty confident that our growth rate, as and when situation improves, should be quite decent and we probably may not have to see the kind of growth rates, unfortunately, that we had to deal with in the last couple of years. Of course, the only condition is, we have to figure out as to how soon it improves. We have got our sales target market, whatever else needs to be sorted out all lined up. Unless there is any dramatic change that happens in the environment as soon as situation starts to improve I think we should be fine.

Mona Khetan: Sure. And on the PCR front, just wanted to double check. So, these floating provisions of Rs. 109 crores, it is already part of your PCR calculation, is that right?

Murali M. Natrajan: Yes.

Mona Khetan: Okay. And lastly if you could just throw some light on your branch expansion plans going ahead.

Murali M. Natrajan: At the moment there are some logistic issues, but we think that 20 to 35 branches are something that we should be able to do in the 12, 15 odd months. That is what we have mentioned. And we know how to run a branch, we are not worried about cost shooting up and things like that, because we know how the cost will go up and how we will bring it under control and how we will make it efficient. So, all those we are pretty clear about and we have demonstrated in the past. So, we also have identified where else to put our branches, what else to do. The situation was very different on March 31, or even maybe 3rd or 4th of April. Unfortunately, what has happened in the last month or so has kind of put some challenges. But having dealt with similar challenges last year, we are quite confident we will deal with it this year again.

Moderator: Thank you. The next question is from the line of Ashutosh Mishra from Ashika Stock Broking. Please go ahead.

Ashutosh Mishra: Sir, my question is a bit from the longer-term perspective. As our cost of deposit now has come down essentially, which may give us opportunity to launch a new product where we can capitalize or grow? Do we have any plan, anything pipelines in that because you are collaborating with a lot of fintech's and other?

Murali M. Natrajan: So, like I mentioned, one of the new products we did very specifically in this quarter was TReDs, and we hope to scale it up. It is a pretty good product from utilizing the excess liquidity that you have on short term, it is MSME product, it is largely PSL, it is small ticket, it ticks all the boxes that we have. So, we have a separate team that is working on it and we have been fairly successful, at least in the initial stages, on TReDS. That is the new product that we launched. We also have tied up with two successful fintech, we can see some green shoots on that in terms of scaling up, one is in the agri area and the other is in regular business. So, we are also looking at some opportunities in co-lending space. Several NBFC have approached us, but we want to make sure that operationally and from a return point of view it is meaningful for us. So, hopefully, we should be able to do that as well. So, a lot of work is going on. Again, the speed will depend upon how well we can execute in these times, but efforts are on.

Ashutosh Mishra: Okay. Sir, similarly, on deposit front, as the deposit rates are historically lowest in India at this point of time, and do you see any challenges for bank like us in the future? Or how we are preparing ourselves for that?

Murali M. Natrajan: In 2009 when I joined the bank, one of the rating agencies asked, are you constrained on deposit? This is like 2009. I was looking at them and saying, what are they saying. But if you look at the way we have grown our retail term deposit, which the same strategy is being copied by some of the other banks, the way we have kind of managed our LCR, I do not believe that we have any problem in generating deposits. We have consciously chosen not to onboard a CASA customer first, because the cost versus their balances versus the stability, I mean, like with all the Google Pay and Paytm and all the other things, the reason to buy on a CASA has to be very strong for us to be able to do that. But if you do a term deposit and then have customers take the SA account, that seems to be a lot better from a loyalty as well as from a deepening point of view. Now that is our view. We can always throw money away, here is 6%, 6.5%, please take the SA, I am sure we will be successful also. But that is not what we are choosing to do.

Moderator: Thank you. The next question is from the line of Kamlesh Dadlani from Umang India Joint Investment Fund. Please go ahead.

Kamlesh Dadlani: See, the question is in relation to the growth. So, obviously, for FY 2021 management rightfully focused on limiting slippages, consolidating balance sheet and advances growth was only marginal, if we look at it, from the full year perspective. But what would be helpful if management can just guide us in terms of what is the growth outlook in terms of advances that we can look at, say, in a short-term FY 2022 perspective, and even in the medium-term perspective and where the opportunities for growing the loan book that management currently looks at? So, I think that will be largely…

Murali M. Natrajan: See, have you read the Point 9 on our press release?

Kamlesh Dadlani: Yes.

Murali M. Natrajan: So, I should assume that you have read it.

Kamlesh Dadlani: Yes.

Murali M. Natrajan: Okay. So, I am clearly telling you where we are focusing on, business loans, home loans, gold loan, KCC, tractor, loans to MFI, MFI BC loans. Year-on-year we have grown our home loans by 15%, gold loan by 172%, agri inclusive banking 7%, and you please remember that in agri inclusive banking, MFI loans were not doable for almost six, seven months. So, if you look at our performance on some of the targets that we are doing, we are quite doing all right. We have not had success in terms of growing commercial vehicle, because we have chosen to kind of limit our exposure in the near-term on commercial vehicle, right. So, the growth area will be the same, we have built the capacity from a 6,000-odd headcount in December, we have gone to 6,400. We were targeting a pretty decent growth in FY 2022 but looks like first quarter we may not have too much of surplus. But as things ease up, we are ready to start in full flow, the progress of whatever we were doing in the fourth quarter, especially February and March. So, we are pretty confident that we should get back to a much better growth path as things ease up.

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

Gaurav Jani: Just two questions, mainly on the recovery front. So, if I look at your recoveries in overall FY 2021 versus our past run rate, we have obviously lagged and obviously you mentioned the reason. But just wanted to have a deeper perspective as to what led to such a slow run rate. Because typically what we understood is, the second half, typically the last quarter was fantastic overall for the banking system in terms of lending and probably also in terms of recoveries. So, you could…. But the point being so, what this lead to this slow recovery and was it going to slow was it anticipated? That is the first part of my question. I will come to the second part later, thanks.

Murali M. Natrajan: So, we largely rely on putting pressure on the customer through SARFAESI and working through the customer on selling his property or part selling his properties so that he can reduce this loan, put him on a payment plan so that he can repay. So, many of those activities got disrupted in last year. We started picking up speed in February, March. Usually when you start picking up speed, it takes about six months for things to kind of gain some momentum. We have also had limited success on organizing the auctions in gold loan, because for Covid reasons we were just not able to get all the things together, especially in March, as things were getting a little tough towards the end of March. So, what I feel is that as the court process, the lawyer process, all that starts to kind of ease up, we should be able to step up our recoveries. The good news is that we hold the property, the LTVs are in pretty acceptable range, customers are cooperating, they all understand what the issues could be. So, I do think that there will be some pickup in the thing as the situation improves. So, while I am slightly kind of disappointed that our recoveries were not that good, but reviews in collection indicates that it will look positive as things move on.

Gaurav Jani: Sir, the second part is obviously how do we look at FY 2022 in terms of recoveries? Still early days, but could we revert back to our previous levels or still early days to comment on that?

Murali M. Natrajan: It is early to comment, but collection team is on full swing, except those who have been affected by Covid, they are working very hard to get customers to this things. The first focus is on making sure that as less number of customers slip into NPA as possible, and there is a separate team working on recovery efforts. And once that starts to pick up, hopefully by second or third quarter we should get some momentum back on this.

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

Nikhil Upadhyay: Sir, two questions. One is, if you look at like almost 4.5% of the book was restructured, and another Rs. 600 crores of book was booked as a Gross NPA. Now, if we look at over a year, like in this Covid we have seen the worst, from a lockdown to a part normalization of cash flow. So, for the rest of the book, the 95%, do you see any issues with their ability to generate the cash flows and in their business models? Or are you like comfortable that we should not see any issues over there, incremental issues?

Murali M. Natrajan: The NPA slippage is pretty much similar to what we had in the previous year. What we have had is a higher restructure and that has been as per my guidance. I have given this guidance almost two quarters ago that, that is what we are looking at, at the moment, based on the cash flows and so on. So, that can give you a sense of how well we understand our portfolio, as to what is likely coming through, because we do a lot of reviews of collections to see whose cash flow, how it is impacted, what can come, what cannot come and so on. Even in the Rs. 600-odd crores of NPA that we have had, had Supreme Court said that recognize the NPA on March 23, the picture would be very different. But the rule was that we should recognize from September 1. A lot of the customers of NPA may not have paid all the instalment, but many of them have started putting, in fact, for the country, in my own view, and this is my personal view. If we had started recognizing NPA only from March 23, many of the customers will remain standard, and that gives them a chance to properly rectify their credit rating and whatever else, and then actually become better. Unfortunately, the ruling was applied on September 1, I mean, we have to work with whatever is the ruling.

So, if I look at that, from the point of view, a lot of customers who were quite alright on March 23, but because they did not clear all three instalments from 1 September were NPA, and it is included in that particular group. So, we understand our customer portfolio pretty well. What happens is, when the lockdown and things like that ease, it takes almost three, four months for them to come back to even a 70%, 80% type of cash flow level. At the time, the bank needs to kind of understand what we should do to help. That is how we have kind of helped out a lot of the customers on restructure. We have not helped our customer, if nobody is saying anything we have not said that they can be restructured. We said, sorry, we cannot restructure because you do not have any cash flows to support. That is how we have handled the portfolio.

Nikhil Upadhyay: Okay. Which means then the rest of the book which we have as of today, even with the localized lockdowns which are happening now, we are pretty confident, like probably 85%, 90% of the book should remain stable, except in case some unforeseen issues come up like because of Covid some health issues and all. But otherwise, these business models are sustainable, and the promoters are also able to bring back the cash flows?

Murali M. Natrajan: We have not lent to any customer whose cash flow was not sustainable, business model was not sustainable, they all had excellent CIBIL record. To the best of my knowledge, very few customers would be below 700 or even 650, most of them would have been at 700 plus kind of level. These guys have been doing business for three years or more, many of these customers have had double income, in the sense their own business income plus some income from spouse or child, so there is a lot of combination of income. That is the reason we have been able to kind of bring the collection efficiency from 60% moratorium to all the way to what we presented to you in March. So, we are confident of the portfolio. But how these people will be impacted by this Covid, what business out, even I do not have experience in telling you how it would be, but we have to await and see how that pans out.

Nikhil Upadhyay: Secondly sir, on gold loan, you did discuss about it, but just one question which I wanted to understand. Like if we look at it, it is almost close to Rs. 1,500 crores of gold loan book in our advances. And we became aggressive enough in the gold loan book to grow it over the last one year. And still if you look at the NPAs, from Rs. 6 crores it jumped to Rs. 55 crores.

Murali M. Natrajan: Don't worry about the gold loan NPA, I do not know what you guys are thinking. Gold loan NPA there are auction, when we say we are going to auction, customer comes and pays, and that is about it. Unless I am sitting on the fraud, which is not the case, do not worry about gold loan NPA. Because I do not want to waste time on discussing something which is of no consequence in this whole scheme of things. So, stop bothering about gold loan NPA, it is not a fraud or anything like that, customers are not paying, it is their family jewellery, we will tell them, we will give them an auction notice, 95% of them or 90% will come and pay, rest of it we will auction, and the matter will be finished.

Moderator: Thank you. We take the last question from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: So, one question. I mean, given that the Wave 2 is seemingly obviously quite bad, and there is unfortunate mortality risk, so just wanted on understand, how do you take care of this mortality risk to our underwriting? I mean, what kind of structures do we typically do? Does it differ between term loans versus working capital loans if you can talk about that? And second of the 916 odd ECLGS, if we can have a split of what is individual and non-individual.

Murali M. Natrajan: Most of it, almost 60%, 70% would be individuals, I guess, or maybe it is 50%, 50% split, I do not have that data. But all of them are business loans, that is how you can give ECLGS, otherwise you cannot give ECLGS. We have been as careful as possible in giving ECLGS to most viable businesses, rather than just trying to use it for solving some near-term problem. Hopefully, that would be successful, time will tell. But as of the moment it looks okay. Regarding mortality, I somehow think that, over time, insurance pricing, health insurance, life insurance, all this is going to jump, if not already. A lot of our customers have taken insurance when they took this loan. So, to that extent, if there is any mortality, we should get payment from the insurance company. But over time, I think most insurance company will probably be relooking at their rates or probably already done it, I am not keeping track of that. But that is how we try to protect our portfolio. We have the underlying property, most sad thing to do would be to deprive the whole family of that property to satisfy the loan. So, we try and be as empathetic as possible under the circumstances and try to come to some settlement with those kind of families. As of now, we have not faced too many of those challenges.

Nilanjan Karfa: Right. Sorry, can I push a final question. The AIB NPLs, ultimately what the loss given defaults look like?

Murali M. Natrajan: So, much of that NPA is coming from AIB MFI BC loans. So, BC loans, part of it will be covered by FLDG, part of it will be with our agreement with the BCs to recover those loans. The ones that are not covered by FLDG will be slightly long drawn, where in some select cases, customers may have to be given some additional funding for him to repay the thing. So, we are working that out step by step. It was all going on quite well till March, now the collection has again slowed down in BC. I do not know what the other MFI companies are telling you. But we have information from BC that there has been some reduction in collection efficiency.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Murali M. Natrajan: Thank you. That was a very long 1.5 hour call today. Thanks for everyone's patience. Have a good weekend. Look forward to talking to you all in the next quarter. Thank you very much and stay safe.

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

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