"DCB Bank Limited Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q4 FY22 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – MD and CEO, DCB Bank Limited; and Mr. Bharat Sampat – CFO, DCB Bank Limited.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Murali M. Natrajan. Thank you, and over to you, Mr. Natrajan.

Murali M. Natrajan: Good evening, all of you. Thank you for joining this call. I'm talking to you from the boardroom, where we have Bharat Sampat – our CFO; Mr. Satish who is our Deputy CFO; Ajit who is our Treasury and FI Head; and we have Praveen Kutty who is our Head of Retail Banking; Venkattesh who is our Head of Operations, HR and Technology; then we have our CRO Mr. Sridhar Seshadri. So, we kind of have a slightly bigger team and the team members. In the first few minutes, I will give you some highlights of our performance. And then we will open up to questions.

First of all, our profit for the quarter is Rs. 113 crores, which is the highest ever that we have achieved in the last few years probably in the history of DCB Bank, and we are very happy about that. We sincerely believe that the COVID-related challenges are behind us, although we still have to deal with some part of the NPA and the restructure book. But looking at the collection efficiencies of the book and looking at the way we have been performing on recoveries and upgrades, we believe that we are seeing a pretty strong momentum and performance. We are very happy to tell you that we have 400 branches now. And after some kind of a slow installation of branches during the COVID, we picked up some pace. And we will continue to operate in the 25, 30, 35 kind of branches per year. And our branches are continuing to show breakeven in about 22 to 24 months, so the model is intact. We have not changed our strategy. We have strong belief in pursuing small ticket secured retail SME, MSME strategy. Given that COVID has more or less receded, we are seeing definite uptick in demand in the products and segments that we are operating. And fourth quarter, especially February and March has been pretty strong for us in terms of disbursal. And we are continuing to build frontline capacity to put the growth in a higher trajectory. Our intention is to double the balance sheet in between 3 years to 3.5 years, maybe 3.5 years to 4 years. That's the kind of trajectory we want to put the bank. One of the things that I want to highlight is that I will again go back to our call, maybe some of you were able to attend the call during the pandemic first in March 2020. We said very clearly that we have absolute confidence in our customer segment, our operating profit is strong. Even if we have to make a higher provision, we are confident that we don't need to raise capital and we'll be able to withstand the challenges posed by COVID. I don't believe that any bank would have shown almost 100% or high. In fact, in fourth quarter, our recovery upgrade is 100% about the slippages and the slippages have a large part of gold loans and gold loans is 100% secured. So, barring gold loans, we are more or less back to similar level as pre COVID in terms of the monthly slippages while we are continuing to do a strong performance and recoveries and upgrades. So, that is where we are. Our capital position is strong. In one year RBI has said that the bank cannot declare dividends and next year, we took a conservative approach. This year, we have declared dividends of Rs. 1 and hope that situation continues to improve for us. And we are confident that kind of activities that we have done and the kind of investment we are putting, we will continue to build from here on. So, those are some of the few thoughts that I wanted to share with you. I'm happy to take questions.

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

Darpin Shah: So, couple of questions. First is on the restructured book. A restructured book is still flat on a sequential basis. So, if you can just highlight how much proportion of the book has ended the moratorium? What kind of collection efficiencies are we seeing specifically in the restructured book?

Murali M. Natrajan: The collection efficiencies that we have presented to you in the press release includes the restructured book which is built. Customers who are in various degrees of moratorium 3 months, 6 months, 9 months, 12 months, they keep coming into the billing cycle, and we are still able to achieve pretty decent collection efficiencies including the restructured and delinquent book. The restructured book under the RBI guidelines in COVID will remain as restructured even if they are continuing to pay the restructured installments or whatever the payment plan is. They cannot be moved to a normal book. I don't think there is any provision to move that into a normal book. If once they move into some kind of delinquency or NPA, they are treated like any other NPA and take then the provisions, recoveries and so on. So, we are pretty confident about our restructured book. I don't have any concerns. We have not restructured any unsecured book. So, they come out to billing and so on, they become NPAs, that is not the case we have. We have only restructured secured kind of book which is largely mortgages and SME.

Darpin Shah: Any number in terms of billing if you can provide?

Murali M. Natrajan: We don't give details on moratorium kind of book. All I want to say is that they are in different categories of moratorium, 3, 6, 9, 12, shorter moratorium for commercial vehicles, slightly longer moratorium for home loans.

Darpin Shah: Sir, second question was in the GNPAs breakup which you provide, I see, SME GNPs are up sequentially. Any specific thing, sir, in this one.

Murali M. Natrajan: There is nothing to worry about on that. In November 12 RBI circular, they have said that in the past, customers debits and credits have to be matched at the end of the year in the balance sheet. They changed the norm on November number 12 saying that every day for the past 90 days the debits and credits have to match. So, there is a whole process of educating the customers on this new norm of Reserve Bank of India In fact, the regulation itself says, please educate the customers and we have been educating the customers that on everyday basis they have to clear up the previous 90-day debit. So, we have had some challenges on those kind of customers, but they're all in good shape, there is nothing to worry about on that.

Darpin Shah: Bharat, sir, just 2 data keeping questions for you. If you can provide the breakup of provisions and yields and cost of funds for the quarter?

Bharat Sampat: The net NPA provision is Rs. 59 crores. As in every quarter, we made Rs. 3 crore floating provision, Rs. 8 crores is standard assets provision, RBI mandated standard assets provision, and prompt restructuring provision. There is Rs. 3 crore reversals on accounts which got closed.

Darpin Shah: And yields and cost for the quarter you have provided margins but --.

Murali M. Natrajan: Do we provide those information?

Bharat Sampat: We do not. Yields on advances is given in the presentation for the quarter.

Darpin Shah: That is for the full year.

Bharat Sampat: Yield on advances for the quarter is 11%.

Darpin Shah: Sorry, sir, 11%?

Bharat Sampat: Yield on advances for the quarter is 11% and cost of funds is 6.04%.

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

Renish H. Bhuva: Sir, I've just two questions. On the CV portfolio, while our total exposure is only 4%, but when we look at the collection efficiency of 85%, we've been sticky for last 4 or 5 months. So, can you throw some light on the current status of this book?

Murali M. Natrajan: We are only originating Rs. 20 crore, Rs. 25 crore of new loans in commercial vehicle. So, therefore, in some ways, it's a declining portfolio. In a declining portfolio, the good portfolio pays the bad portfolio stays. Despite that our collection efficiency is coming at about 85%. Second point that I would like to tell you is that more or less the slippages versus recovery is matching on a month on month basis in commercial vehicles and what we believe is that as we see the portfolio, we do the reviews of collections and all, we do see that we should continue to do better in recoveries and upgrade although there may be some slippages. The 85% collection ratio is clearly on account of some one-off because of the declining type of portfolio.

Renish H. Bhuva: And sir, second question is on the disbursement number which we provided in the press release. So, I think under co-lending, we have disbursed close to 20 billion odd, so incremental growth in Q4 may be largely driven by the co-lending. So, if you can throw some light?

Murali M. Natrajan: Not necessarily. The co-lending part is largely, gold loans. So, gold loans, as you know, has a very high repayment rate, right? Our growth is showing up pretty well because if you look at our mortgage numbers, it is now almost Rs. 1,000 crore we are showing and we are likely to do far better in the coming months if everything goes well, right? We also are likely to do well in AIB products, which is KCC, tractors and all because we've built some capacities. Of course, as you know, quarter 1 is always kind of not so great quarter for most banks because of April, because of holidays and so on. But the way we are building capacities, we are pretty confident that we are putting it in a good trajectory.

Renish H. Bhuva: I wanted to get a sense that since it's a bit chunky nature, if we didn't get this kind of business under co-lending in Q1, then there'll be a risk on the growth. So, I just wanted to get a sense on that.

Murali M. Natrajan: Co-lending is only one part of our strategy. It is not our base strategy. I don't believe that any one particular co-lending entity will contribute more than 5% of our entire portfolio, right. And co-lending we are doing essentially at the moment in only gold loans, and gold loan itself has certain seasonality and certain characteristics which is not uniformly higher loan disbursal like that, it keeps happening in gold loans, right? You may have observed that in the gold loan companies itself. So, therefore co-lending is only one part of it we have now the co-lending and TReDS are two important products that we have added in our suite of products like this. Mortgage will continue to our mainstay and we expect mortgage currently which is almost at 48% including AIB could well go beyond 52%, 54% by end of the year that is the way we are thinking about it.

Participant: And sir just the last question from my side a bit on the strategy side so we have now close this year on a 1% ROA what could be the journey from this year ROA over next two to three years?

Murali M. Natrajan: So, the way we are seeing I can only talk about how we are seeing it. We are making investment and we will make investments and the investment will be in branches which we have already said 25 to 35 number of branches and we will continue to have because we are doing granular portfolio we will continue to add front line staff, which is sales, credit underwriting, operations those kind of people will be continuing to add in our book which always have some near-term impact on cost to income ratio, cost to average assets and so on. So, we expect and in Quarter 1 given the interest rate movement we may not have many opportunities in terms of treasury gains and all this year. I do not believe any bank would have that kind of opportunities. So, I believe that we are on a path where we should be back to 50, 55 basis points on cost of credit because we are seeing pretty decent performance in our recoveries and upgrades and the slippages on the main portfolio which are essentially SME, mortgages and CV are pretty consistently kind of coming down. So, we have reasonable level of confidence in that. As far as NIMs are concerned we are confident that we will operate in the 3.65 to 3.70 odd kind of range. If we do a better job on recoveries and upgrades we may see some uptake in NIMs, but I do not want to keep betting on that is one of the reason why you see a NIM to be pretty strong this quarter, but when we are recovering because you are having a separate loan book when we do recoveries we are able to get the past dues in terms of interest as well which helps our past in terms of the interest income and NIM. So, my viewpoint is that in three to four quarters our intention would be to consistently deliver 1% ROA and at least between 12% to 14% ROE that is our intention as we see the whole thing playing out.

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

Mahesh MB: It is a similar question that we have been asking over last few quarters if you could kind of give us perspective of how are you seeing the customer segments in terms of the recoveries that we are seeing in the business and also if you could kind of give us that going into FY23 you think that the cash flows have kind of fully normalized for the borrower segment that we are working in?

Murali M. Natrajan: I will ask my colleague Praveen, of course we do a lots of hands on reviews on collections, but having said that Praveen I mean how the cash flows what is the kind of Praveen Kutty will help us.

Praveen Kutty: So, what you are seeing right now is that the bounces are slightly elevated as compared to the pre pandemic level however we clearly seeing the repayment to be at the pre pandemic level. So, across the self-employed segment new vintage, pre pandemic books, period in between you are seeing that the cash flow has come back to what was the normal before COVID hits us specifically in the secured products that we deal with and we mostly deal with secured products. So, whether it is LAP, home loan and the CV that we currently do you are finding it is coming back to normal equally importantly when the disbursals that we did if you were to see the texture of the cash flow which we have for fresh underwriting we are saying that the kind of segment that we addressed it is pretty much the way it was pre-pandemic.

Murali M. Natrajan: Praveen comment also on the demand that is coming in SME like enhancement kind of thing?

Praveen Kutty: You probably know this anyways, but if you see the trades in a credit bureau is at never before high, approval rates are not back to pre-pandemic levels across multiple products, but there is increase demand happening on whether you take mortgage or you take practically every product you find that the inquiries have significantly short up approval ranges are kind of still lagging behind and that seems to be a continuing theme as we go along.

Murali M. Natrajan: And Ajit can comment on TReDS I mean what kind of demand are you seeing and TReDS Ajit is our Treasury and FI Heads who tackles the bids and TReDS.

Ajit Kumar Singh: So, one way recovery like indicative of recoveries is the business that we get kind of bills that get discounted on the TReDS and that figure has been figuring during the last financial year like when you make your best effort you can discount a bill of 3 or 4 crores in a day. Now with best efforts now it comes to 6 or 7 crores. So, this goes to show that they are having increasing sales and volume is increasing. So, this is one of the surrogate indicator of recovery that is happening there.

Mahesh MB: Just kind of wrapping up this question if we look at the fact that almost all the business seems to be kind of giving you fairly comfortable sales, do you think with the acceleration of the loan book during the course of this year would be little bit back ended or you think that you are ready to kind of push the paddle and get into a full gear beginning next quarter as well.

Murali M. Natrajan: See as far as sales people are concerned everyone has put foot to the floor like they press the accelerator to the floor without of course compromising on operational risk and credit parameters and so on. I have never seen in banking first quarter to be great although we always try to define I mean I do not understand why April cannot be like March I have never understood in all these years but having said that we have at the moment no hesitation I do not believe that credit is concerned with any acceleration of loan book. Of course, we are not changing any parameters, we are not changing any credit policies other than we have to be usually keep tweaking based on our own analytics and so on. So, we have no hesitation in just keep moving forward at the moment.

Moderator: Thank you. The next question is from the line of Uttam Purohit from Perfect Research. Please go ahead.

Uttam Purohit: I have just a couple of questions since we are on track in terms of ROA, cost to income ratio at improving trends, can you throw some light on the long-term target to achieve less in our next three to four years?

Murali M. Natrajan: Fourth quarter kindly take a look at our results for the last 13 years at least last 10 years if you like fourth quarter has always been very strong for us as compared to the first quarter. There are couple of reasons for that. One is in first quarter we normally end up giving salary increase and all which starts to impact as an first quarter itself however the balance sheet growth is not there to support that sudden cost increase that is the first quarter. At times we get benefit of treasury gains in the first quarter which helps us to kind of offset this increase in cost in the first quarter. Fourth quarter is always very good because you have the full balance sheet and also some of the income comes back ended especially in the PSLC which is the priority sector lending kind of income. So, I would like to believe that the kind of trajectory that we are setting in maybe three to four quarters consistently we should be on a track to deliver over 100 basis point on ROA and in the range of 13% to 14% on ROE maybe there will be some up gradation here and there in one of the quarters depending upon some items other than that I think on a trend basis that is what we are likely to see if we continue to stay momentum what we are building.

Uttam Purohit: And we have grown our advances by 13% YoY now could you help us understand is it safe to assume similar growth going forward and going forward is it led by branch expansion or digital push?

Murali M. Natrajan: It is a very big question we have been investing in frontline people sales people, operation people, credit people. So, we are building capacity. Our intention is to double the balance sheet in between three to four years' time which means that we are trying to put the bank on a 20% growth rate trajectory that is what our intention is without any hope we don't get into any disruptions of any kind other than that it looks like the kind of capacity that we are building now should help us to achieve those kind of growth levels. It will be a mix of digital branch expansion, frontline expansion and so on. So, I cannot put a finger on exactly what will contribute to what.

Moderator: Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.

Amit Mehendale: Sir if we look at last several quarters where our understanding is that not only this quarter, but even COVID was handled very well by the bank and like you said in the beginning that team has always been confident about the secured book and balance played out and probably this quarter is just a reflection of all the hard work that has been done in past quarters, my question is although the operating performance has been good, market do not seem to be as infused on the valuation side, so what would be management understanding of this situation in general that is one and secondly did you think is it partly due to slightly slower growth in the loan book in past several years?

Murali M. Natrajan: Neither me nor management I believe understands the dynamics of how market thinks about stocks and understands these things. What we can comment is on our strategy and our performance and our opportunity. So, friend I am not able to answer that question.

Moderator: Thank you. The next question is from the line of Yatin Kumar from Alpha Capital. Please go ahead.

Yatin Kumar: So, I wanted to inquire about the capital raising plan so we have interest capital adequacy right now, so how urgent do we need that capital is it just an enabling resolution?

Bharat Sampat: It is an enabling resolution if you see last few years AGM notices we have been taking it every year because QIP resolutions taken are valid for one year and if in the event opportunistically we want to raise capital then we shorten the time to complete the transactions.

Bharat Sampat: If you see for last few years our risk weighted assets increase in lower proportion as compared to the advances which go up because a lot of our assets being secured come in at a lower risk weighted assets. So, capital utilization efficiency is very good and that we have targeted for last four, five years. For example, gold loans which do come in at 0% risk, home loans come in 35%, regulatory retail comes in at 75%. So, all these helps us in and we are not large in corporate and also not large in off balance sheet transactions. So, these help us to grow but at the same time not consume capital very fast.

Murali M. Natrajan: So, therefore given the current capital adequacy that we are in we are confident that if we maintain a growth trajectory much of the profit accrual will help us to achieve the growth. However, we do, we will look at raising capital, maybe three, four quarters down the line.

Yatin Kumar: Sir my next question would be given rates are going up in the system. So, how do we think on the NIMs going forward?

Murali M. Natrajan: We believe our business model operate on a NIM range of about 365 to 375 basis point; we want to reset steady state. This quarter has been very good primarily because we have done a decent job on recoveries and upgrades which also helped us in recovering some of the interest that we had to forego in the past and also we are doing a decent job in terms of that CASA growth, which is also helping us slowly, bring down cost of funds as well. So, we believe that much of our portfolio is re-priceable barring say, maybe gold loans and commercial vehicle, tractor, most of our portfolios are either linked to EBLR to MCLR, depending upon when they have been originated. So, there will always be impact of raising interest rates, but we believe that we have gone through those kinds of cycles in the past, so our NIM should be in that range.

Yatin Kumar: Sure, sir and any credit cost guidance for the coming year.

Murali M. Natrajan: We cannot give you a credit cost guidance for a particular year, but what we believe is that in a steady state basis, hopefully in about two to four quarters, we will be on a 50-55 basis cost to average asset, which is what has been our performance for many-many quarters prior to COVID and at the moment, our PCR is at 68% and if you back off, the gold loan NPA it is actually at 72%.

Yatin Kumar: So, that kind of PCR we would like to maintain going forward and we want to increase it

Murali M. Natrajan: We do not have any guidance on what kind of PCR we want. All we know is given our loss given default experience we believe that we are in very good position in terms of NPA coverage.

Moderator: The next question is from the line of Krishnan ASV from HDFC Securities, please go ahead.

Krishnan ASV: So, my question has to do with just, competitive, I mean positioning of the DCB over the past couple of years and maybe that could hold an answer for what gives investors a little more comfort, just on how DCB can stay relevant from a three to five-year perspective, you're making a lot of investments. But are you seeing evidence that a lot of that 20% growth that you are aspiring to is with existing customers rather than having to run on the treadmill to keep acquiring new customers? The reason I am asking that is you do a lot of work with your clients; you do a lot of secured lending you kind of cultivate that credit culture and then somebody is able to pull it away. Is that a risk you see for most midsize banks, including yourself.

Murali M. Natrajan: If that is a risk that kind of risk exists for a lot of NBFCs and they may think that we are eating their lunch after they cultivate the credits, that is the way the ecosystem works, if you want to call it like that. We have a very clear idea of what we want to target and we have not strayed away from that at all. Our ticket value is 30-40 lakhs. We do see competition. We see competition of NBFC, we see competition of small finance bank. At times we do see competition of either public sector or HDFC, ICICI and all but given that the size of this segment, the SME self-employed segment itself is large and we have decent products, we have decent experience, we have continuing to improve our sales trend. We are pretty confident that we will remain relevant and it is very difficult to answer these questions because they are the same question in 2009. How are we relevant. We are now standing at 45,000 crore balance sheet at the time our balance sheet was 5000 maybe this question will be asked when we have a 90,000 few years down the line. We still end up the same way.

Moderator: The next question is from the line of Rajeev Arora from Sterling Capital. Please go ahead.

Rajeev Arora: I just want to understand this segmental revenue. In the Corporate and Wholesale Banking, these are some Rs. 29 crores odd loss is there. So, have we made some extra provisions there? Why is that item coming?

Murali M. Natrajan: I am grateful that you look at the segmental thing. I do not look at it at all. Okay, I just follow whatever RBI says in terms of how to classify all that and I present it. Okay, so I really cannot answer that question of yours. You can ask me any other question, which is related to the press release and investor presentation.

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

Jai Mundhra: Sir. I wanted to understand A if you can share the loan book breakup by benchmark, how much is fixed, how much is floating and how much is the EBLR link?

Murali M. Natrajan: We do not present the detail. I am really sorry about that. We have given you a pie chart on the various products. So, you can safely assume that mortgages are either linked to EBLR or MCLR some part of the mortgage book could be fixed for maybe let's say a six month or one year because you've just acquired and then later on, they will move to EBLR. As far as SME, MSME is concerned they are linked to EBLR. Kisan Credit Card is linked to EBLR, tractor CV and all will be fixed rate. So, am I right Purohit so, fixed rate and MFI definitely is a BC portfolios anyway a fixed rate. So, that is how it is, you can make your estimate on that basis.

Jai Mundhra: Right. Okay and sir secondly, we have seen a 50%, q–o-q and even similar y-o-y growth in disbursement, but if I look at the fee, y-o-y it is declined the core fee, and q–o-q is only up nearly 5%.

Murali M. Natrajan: Year on year fee comparison may not be correct, because in the first quarter, in the last year, we had a lot of treasury gains because the interest rate was moving in the right direction for us. So, in this year, the onetime treasury gains are much less than what we had last year and probably next in the coming year may not have anything it also if you back it off for three income including this quarter is showing a very healthy trend for us.

Jai Mundhra: So, I was looking at the Commission, Exchange and Brokerage so we can leave the treasury and maybe exchange transaction. So, even the core CEB is down y-o-y and is only 5% q–o-q. Just wanted to check the disbursement that we

Murali M. Natrajan: But you have to remember that this year first four months, there have been no disbursement at all. Right? We did not have any disbursement in the first four months. I know there's very limited disbursements we had. So, to that extent, the disbursement number also we can only compare quarter on quarter of last year, this year, last year, fourth quarter till about 25 or 27 of March, we were still active before which the second wave started impacting us and not all fee is linked to disbursal. What I want to say is we have to look at the core fee trajectory and we are pretty confident that it is mirroring the underlying business performance and the customer acquisition.

Jai Mundhra: And just a general thought on we are clearly in the rising rate environment and do you see a change in the behavior of your underlying customer in rising rates, particularly with terms of balance transfer, is it beneficial or is it just that you have to work more harder to for the customer retention?

Murali M. Natrajan: See we have managers business in the last several years in rising rate, normal rate, declining rate kind of situation and in every situation there are some challenges come. Sometimes in a declining interest rate also you have challenges where, customer wants to quickly do a transfer but in increasing interest rate situation you also get some benefit because Term Deposit guys want to do a break of his term deposit and go to a higher rate where you get some benefit of the breakage. So, all these factors are there, very difficult to kind of separate each of these factors. We have an anti-attrition team, which looks at the portfolio if a customer wants to exit we have intervention strategies by which we are able to retain a lot of the customers.

Jai Mundhra: And the last question is on this gold loans that we acquire through co-lending, I mean, who is the predominant co-lending partner and what kind of a OPEX or risk sharing arrangement is there if you can maybe broadly discuss maybe who is the predominant partner, is it digital only partner or what kind of OPEX or risk sharing is there.

Murali M. Natrajan: In co-lending there cannot be risk sharing? That is RBI rule, if you take 80% of it the loss also you have to take 80%. There is no FLDG concept of in co-lending right. So, we have gone with gold loan business, where we have very reputed partners and the OPEX is very-very limited, because we are operating with about a team of four or five people and it is purely digital. When I say digital means the entire loan comes to our book in a digital fashion. However, we have number of checks and balances, which are done by us physically to ensure that the agreed process controls everything is followed by our one. That's the way we are running this model.

Jai Mundhra: And would Rubik be a significant partner here or this is?

Murali M. Natrajan: No, we do not want to comment on any particular partner at all.

Moderator: The next question is from the line of Sunil Jain from Nirmal Bang Securities Private Limited please go ahead.

Sunil Jain : My question relates to you got a slippage of 378 crore and you said that apart from gold loan the slippage are now at pre-COVID level whereas, the gross NPA of gold loans are moreover similar quarter on quarter. So, is that like a lot of loan got slip in during the quarter and quarter recovered also.

Murali M. Natrajan: See in gold loan we offer over draft facility, which is a very unique product, which means the customer has to continuously keep servicing the interest right. What happens is these are all small customers we are talking about average ticket price of what Rs. 2 lakh and all, these guys usually come to us from a NBFC background where they may not have been in the habit of paying their interest on a monthly basis. So, there is a huge amount of education and SMS and messages and you know all that kind of thing we are going to do because for this flexible facility of the overdraft, they also have to bring the discipline of paying it on a timely basis. So, that whole process is continuing we hardly ever had any losses in our gold loan. Gold loans you make a loss in gold loan only if you have made a mess of the valuation or you have accepted some spurious metal. Other than that we hardly ever face any challenge on NPA so some amount gets recovered, upgraded and then something else goes into the NPA just keeps happening on a regular basis.

Sunil Jain: Okay, and so this co-lending is included in gold loan or where it is included in gold loan or where it is included?

Murali M. Natrajan: I do not know where it is included, but we have not seen any dramatic problem with our co-lending NPAs.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Sir I have one quick question just want to check firstly is it possible for bank in India to do buybacks and with or without the permission of RBI or it is not really possible at all?

Murali M. Natrajan: What is buybacks?

Atul Mehra: Basically, buying back your own stock from the market?

Murali M. Natrajan: I have no idea about all this frankly you are asking the wrong person, ask about my bank and the performance I am happy to answer.

Atul Mehra: So, basically, it was in the connection that because we are trading at significant discount on the book, is it more in terms of efficient from a shareholder perspective to buy our own stock because it is getting on the substantial discount so it was in conjunction with that sir?

Murali M. Natrajan: If you believe of any stock if you believe there is value you should just buy it that is all I can say. I cannot talk about my stock or any stock for that matter.

Atul Mehra: No what I mean is can the company buyback its own share?

Murali M. Natrajan: I have no idea.

Bharat Sampat: For the bank capital adequacy, it will imply capital adequacy reduction and you cannot reduce capital adequacy without RBI permission. Even for Tier 2 which falls due and you are going to redeem you have to take a prior approval from Reserve Bank before you redeem and I am not talking about making a call. If you do not redeem you will end up in a default, but still, you have to take RBI approval before you redeem. So, RBI is not likely to allow buyback of shares if I understand that correctly or at least at the minimum we will have to go to them. I do not see they have a process.

Atul Mehra: Because sir globally banks are very well allowed to dividend or do buyback?

Murali M. Natrajan: Here we are subject to Reserve Bank of India.

Ajit Kumar Singh: Kind of regulatory landscape that we are in India generally banks are not known to do that to my memory time when I am working I have not seen it. So, Bharat has answered that question there is no likelihood of we are getting that.

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

Rohan Mandora: Basically, disbursement data that has been shared if we compute the repayment rates in mortgage is that comes to around 25% plus so is that number correct or is it something that we need to adjust in that?

Murali M. Natrajan: In this call we would not go into all the details. I had given you a plan saying the kind of capacity we are building. We are likely to develop a balance sheet in three to four years whether the disbursement data 25% you are getting the repayment you calculate yourself. We know that the way we are operating all our metric seems to indicate that we will in the array of products, in the mix of products we are likely to be in the trajectory of doubling our balance sheet in three to four years and we will continue to build the capacity to achieve that.

Rohan Mandora: And sir second we have added a good number of branches in Q4, but other OPEX still broadly flattish QoQ, was that part of that already build in in terms of preparation for branch expansion or how should we look at the other OPEX trajectory going ahead?

Murali M. Natrajan: I think the OPEX will increase, but what is last year we probably had a one off OPEX in the fourth quarter on buying of some Agri PSLC we were not short, but we wanted to be more than adequate on Agri PSLC so we bought that instead of that debiting expenses RBI rules as to you have to actually debit your expenses. So, one of if you remove you probably will come to a cost increase which is fully reflecting the number of branches that we have put in.

Moderator: Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.

Amit Mehendale: Sir whenever we have liquidity in future, is it try to assume that dilution will happen only when the bank trade actually is a onetime book I mean this is similar to the buyback question earlier?

Murali M. Natrajan: The way we are looking at it is that we are working this bank towards the kind of metrics like doubling the balance sheet in three to four years, 100 basis point of ROA anywhere between 13% to 14% of consistent ROE and hopefully those kind of performance starts to reflect on whatever it needs to reflect on. At the moment we are quite adequate on capital when we see that the growth trajectory and our capital planning kind of comes in a situation where we need to raise capital we will take a call at that point of time. Right now, I do not want to comment on what price you will do, what is the dilution it is very early to comment on all this because right now we do not have any plans to raise capital.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: So, I have three questions first question is last three quarters we are seeing a very healthy traction in CASA, so exactly what is happening there and how much of it is sustainable or is it driven more by a chunky current accounts?

Murali M. Natrajan: We do not have chunky current accounts neither do we have chunky savings account. We do not work on chunky accounts because that will be detrimental to our LCR. So, we are working on retail and natural person on CASA. Praveen Kutty will comment on our approach to CASA.

Praveen Kutty: Effectively our target market both on the asset side and liability side are SME customers. Mostly these are proprietary shares small type businessman who contribute to our savings accounts. We focus on individual and proprietorships primarily for our current accounts and savings accounts. There are a few entities LLPs, but they are far on few in between. We focus on very granular secular small ticket, large franchise customers to be acquired and that is the ideal way of growing our book and now that we are presence in 400-odd branches that is where the momentum is coming from. There is very limited focus actually there is no organized focus on getting current accounts of large corporate in our scheme of things. The other thing which I want to point out is that DCB Bank has been approved by Ministry of Finance and subsequently by the RBI in the agency and government banking we have been planted the approval for collection of CBDT and CBIC essentially GST and your normal income tax TDS, ECS etc for our customers and for walk in people. So, work is on the way to integrate with the CBDT and the CBIC system which will further enhance primacy of DCB Bank account over multiple accounts that we have.

Hiten Jain: The second question was so while obviously you are saying a very healthy outcome on upgrades and recoveries, but in terms of flow of slippages the gross slippages continue to stay elevated and even time comment when you said outside gold loans you are saying all the other segments returning to pre COVID levels, so even if I look at gross slippage ratio pre COVID they used to be lower than what you are reporting this quarter and last two, three quarters, so how should we understand this?

Murali M. Natrajan: I do not know how you are calculating it what is the basis of your calculation you can help me understand.

Hiten Shah: So, the gross slippage number

Murali M. Natrajan: Gross slippage for this quarter is 378 how are you calculating tell me.

Hiten Shah: So, I am just annualizing the gross slippages percentage of previous year advances

Murali M. Natrajan: 378 crores take out some 150 crores out of that for gold loans which comes and goes because it is OD product and I have told you that because these people have to fall in the habit of serving it on a regular basis it is fully secured it is a zero-capital charge product. So, even if it becomes NPA net quarter we just collect all three installment it becomes upgraded it starts operating the account. So, the balance that is left would be about let us say even if we keep it as 200 multiplied by 4 is 800, 800 divided by currently we are existing at 29,000 odd crores. So, that tells me that we are in the range of some 2.5% annualized slippage which is what it was before and that is why I made the statement that barring gold loans we are pretty much back to similar levels as pre COVID. I hope my calculation fits into you.

Hiten Shah: I understand that what is happening in gold loans why you see this kind of behavior?

Murali M. Natrajan: I explained you what is wrong with gold loan is because if you give an OD product the customer has discipline issues that Rs. 2 lakh kind of portfolio so he does not service his loans despite calling, reminding and things like that then he comes and dumps entire three, four months interest and upgrade they account will start operating it. So, if he does not do that we end up selling the gold in extreme circumstances and having the recovery which we do not want to do because we want the account, we want him to continue to operate because it is a high yielding portfolio.

Hiten Shah: And this product then did not exist earlier pre COVID?

Murali M. Natrajan: It existed earlier, but what has happened is RBI has changed the norms on November 12 previously what RBI has said before November 12 is that at the end of the year the debit and credits should match not during the year. You can read the circular on November 12. It also said please educate customers on this particular aspect. So, we are educating the customers saying that look on an everyday basis you have to keep servicing every month you have to keep servicing not just accumulate that. We have achieved a lot on that yet we have to comply with the new guidelines. So, the OD products of gold loans this problem is happening, in about three, four months then customers would be fully on board in terms of the practice of paying it on a regular basis. So, no worries on this and I do not think you should annualize the 378 because it will be coming to wrong conclusions about our portfolio.

Hiten Shah: And the last question is on your restructured book so while you said that different accounts have different moratorium, but is it fair to say that all the accounts are paying interest and moratorium is only on the principal?

Murali M. Natrajan: The moratorium means the guy will not pay if I give him a three-month moratorium we will pay nothing for three months. If I give him 6 months moratorium he will pay nothing for 6 months then at the end of the 6 months they will come to the normal billing whatever we have agreed as the normal billing after the end of 6 months they will start getting billed and the collection team will collect. In fact, we are actually collecting a lot of installments from moratorium customers also in advance and keeping it because those customers are see many customers are saying look I want to look in moratorium, but I want to pay the installment. So, we are collecting the installment and keep doing it as they come out with a moratorium we will start applying those installments.

Hiten Shah: So, what percentage of a restructured book has not paid a single EMI last quarter?

Murali M. Natrajan: I have given you all the details on in the collection efficiency this is all we can disclose my friend. We cannot disclose more than this any other banks discloses all that come to me and show me then I will try to understand whether we need to disclose that. Please refer to item number 10 on collection efficiency we have given you enough data for you to go by.

Murali M. Natrajan: If no one is in the queue then we can close this call operator. Thank you very much for your help. Thanks everyone for logging into this call. It has been pleasure talking to you look forward to talking to you next quarter.

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