DCB BANK

"DCB Bank Limited Q2 FY'18 Earnings Conference Call"

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MANAGEMENT: MR. MURALI M. NATRAJAN – MD & CEO, DCB BANK
MR. BHARAT SAMPAT – CFO, DCB BANK

Moderator Ladies and gentlemen, good day and welcome to the DCB Bank Limited Q2 FY'18 Earnings Conference Call. Joining us in the call today are Mr. Murali Natrajan – M.D. and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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 Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Good evening. Thank you very much for joining in this call. I hope all of you have received the Investor Presentation and Press Release. So I will just take a few minutes to give some highlights and then we can open up for questions. So the first point that I would like to mention is that the expansion program that we announced in October 2015 which created a lot of excitement in that particular month, I am very happy to say that on October 11, 2017 we have rolled out 150 branches, now we are at 310 branches. So that particular initiative is complete. So going forward, what we expect is that at least for the next two years we most likely open about 10-12 branches a year and focus our energies on the branches that we have opened, how do we make that breakeven faster…most of the branches are doing well and of course the newer branches we still have work to do. So that is first point.

Second point is that we continue to be fully focused on SME segment. We try and restrict our exposure per customer to Rs. 3 crores and below. So we find that our average ticket size is more like Rs. 40 lakh, Rs. 50 lakh type of thing. I must say that to some extent the demonetization and GST have caused some level of disruption and challenge to the market and of course in the builder segment, we also have the RERA impact. Over and above that there have been some cases of flood and some cases of farm loan waiver challenges. So all that has been dealt with. We continue to remain focused in a diversified portfolio. So in this particular quarter we had decent performance in Mortgage, Commercial Vehicles, Agri & Inclusive Banking and we also had some uptick in our Corporate Banking which we are going to restrict it below 20%, primarily because we have got a lot of good customers in the AA, A segment and I think that is also because some of the public sector banks are not in a position to kind of be very aggressive with their lending. So we are getting some opportunities there as well.

So overall the Quarter has been quite good. The other point that I would like to make is that if we compare our Balance Sheet, some key items to September 2014, you look at CASA, you look at Deposit, you look at Loan, and number of branches, all have doubled in three years time. Our outlook is that try and double the Balance Sheet in 3 to 3.5 years give or take some three months. That is the kind of overall approach that we have had and we hope that we can continue to achieve that.

So those are my opening words. We are open for "Questions."

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We take the first question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Sir, wanted to know about like a lot of competition is seen in the Mortgage segment in terms of new entrants. So how are we trying to deal with them?

Murali M. Natrajan: There is a fair amount of competition… at least in the last three years the competition has intensified from HFCs, from NBFCs, and even public sector banks many of them since they are not able to do a large ticket loans, they are also concentrating on either Loan Against Property or Home Loans. So we have a very strong distribution and our pricing is pretty decent, you can look at our MCLR, I think our pricing is very competitive. What happens typically is that a customer usually gets approached by at least two or three financing entities and the choice is made by that customer in terms of whosoever is able to give him services faster or he is able to understand his needs better. So if we have 100 loans sourced, 20, 30 of them we will reject, another 10 or 12 they will get dropped out automatically because customer has either chosen not to take it from us or he has not found our terms desirable. So it is a continuous process, there is process efficiency to be improved, there is pricing to be looked at, there is the kind of documentation and how to reduce the pain of the whole process. So it is a fight on all fronts. The good news is we concentrate on small tickets. So there the competition is somewhat less, I would not say large, the big ticket the competition is a lot more. I see a lot more drop out of loans even after approval in big tickets, supposing it is a Rs. 1 crore and above, the chances of customer taking the sanction and still not taking the loan is quite high. You should ask how the competition is also dealing with DCB Bank… that is also one important question.

Anuj Gupta: I just wanted a brief like the AIB segment and the strategies in the AIB and the Corporate Banking segment… what would be the differentiating factor for this…?

Murali M. Natrajan: AIB is a completely different from Corporate Banking. AIB we have put together several products, Tractors fall into AIB, Warehouse Construction falls into AIB, KCC is a product that falls into AIB, Farm Loans fall into AIB, some small ticket Mortgage Loans fall into AIB, some small ticket Commercial Vehicle Loans which is given in the Rural segment falls in AIB, Gold Loan is there in AIB and we also have some Commodity Funding which could be little large tickets and also we have loans to MFI segment plus some loans through BC. So all these put together is what we do. It is usually in tier-3 to tier-6 kind of locations. So it is a very granular portfolio except for loans to MFI segment that is the MFI entities and some Warehouse or Commodity Funding, rest are all very small ticket loans. Corporate Banking's average ticket size will be about Rs. 20, 25 crores kind of loans. Every year we have been able to add about 20-30 new customers in Corporate Banking. We are finding some more success last three, four months and the reason that I stated in my opening remarks. That largely is either multi-banking or consortium lending. In some cases if we do some LRD or something which is like just maybe outside consortium kind of bankers.

Anuj Gupta: Again, the differentiating in particular segment like Corporate Banking would be the same as earlier answer?

Murali M. Natrajan: In AIB and all, while there is competition, as long as you go and serve the customers, for example, if you are present in the tractor dealer and you are able to service the dealer properly, you get customers. The better the distribution in the efficiency, you can get loan because there is a lot of loan demand. anyway for a small balance sheet for us we can generate reasonable amount of loan demand. In Corporate Banking, like I said, I think the opportunities are coming because it seems to be that PSU banks are a bit slow at the moment. So we are able to find opportunities working with some other banks as well.

Anuj Gupta: I just went through the 'Investor Presentation' and saw your strategy. I just wanted to know the strategy for the start-up that you are going to invest in for the disruptive technology?

Murali M. Natrajan: We have at least one dozen companies with whom we are working. In fact, on the Sunday we were all working full day because we called some really "New Age Technology People" to come and present as to what exactly is happening in the market. There was a very interesting speaker on bitcoin who kind of completely messed up with our brains with all his ideas. But the fact is that we have about one dozen financial technology companies, to give you an example, there is a product called "Niyo" that we work on. We do not invest in any of the start-ups, it is just marketing partnerships that we have. We have not made any investment as yet. So in "Niyo" what happens is that, although we are a SME bank, but this one is a salary product. If a customer needs a salary proposition whereby some of the income tax related benefits are not given by the company, we can actually help the HR to efficiently deliver those benefits and optimize their salaries through this card-cum-ewallet type of applications that we have developed through one start-up in Bangalore. It is in pilot stage still but we have almost about 10,000 cards issued on that product. So like this there are many entities with whom we are working.

Moderator: Thank you. The next question is from the line of Gitanshu Buch from Jupiter Trading Advisors. Please go ahead.

Gitanshu Buch: I have two or three quick questions; first is in the context of your general Q&A from October 2015. You had laid out certain metrics for ROA, ROE and Cost Income ratio. Slide #4 of the current quarter's presentation has the same metric that I am looking at and I am wondering if the last three columns are a good thing or a bad thing, in that you had marked for example ROA to be expected in a range of 50-60 basis points and you are in the 90s…

Murali M. Natrajan: So the General Q&A was for 150 branches in 12 months, later on October 30th or something we gave three points which is we have given one data point that 55% is the Cost-Income ratio that we are targeting as exit quarter for March 2019 and 14% as the ROA that we are targeting for exit quarter for March 2019. So the general Q&A was first released based on the 150 branches in 12 months and later we changed it from 150 branches in 12 months to 24 months and then we gave guidance by the end of the month or so, I think that is what we did.

Deepanshu Buch: That is fine. I am only trying to arrive at whether these ROAs are trough or do we expect these to worsen?

Murali M. Natrajan: To my mind, it should not worsen because the number of branches that we were supposed to put we have already completed; however, the branches that we have put recently, the entire year cost would not have come but I do expect that the previous old branches should compensate for the divot in cost by the new branches. So we do not expect this to worsen. Even if it does worsen, it should not worsen dramatically according to me.

Gitanshu Buch: It is quite creditable that even the two big events were not anticipated back in 2015 and these metrics have survived those two. So congratulations to that.

Murali M. Natrajan: Actually, one of the points that lot of times people were upset at that point in time, but we were trying to explain when we were at 160 branches, our run rate of new branches was 20 to 25 per year and we were trying to kind of jump it to 150 branches in first one year and then two years. Last 12 months, we have added 82 branches and at that time at that time our experience of branches was limited. Now, we have a much better idea of, if our Cost-to-Income ratio was 50%, I would not stop the branch expansion pain, I would still continue with at least 30-40 branches, but we want to consolidate and make sure that we come back to better metrics than 61%. So, now we have lot more experience I would say.

Gitanshu Buch: Also, half your network is now more than 2 years old, so that should start contributing to productivity?

Murali M. Natrajan: Yes, it should and that is our daily, if we ever lose sleep on anything, there are only 2 items that I do sleep on, one is Cost-to-Income ratio and I am making sure that there are no NPA blowouts.

Gitanshu Buch: Next question is to do with the distribution channel. Is the branch involved on exploring network like Vakrangee?

Murali M. Natrajan: No, it is all full branches these are except in some rural areas like very small unbanked areas where it may just be a deposit kind of and even there we have done some loans like Gold Loans, we are doing anywhere. So, I do not think that is how it is. Most of our branches will have at least 6 to 7 people, sometimes even 10 people you know.

Gitanshu Buch: So, you do not see any value proposition from a distribution channel like Vakrangee?

Murali M. Natrajan: I think what happens is especially in smaller location semi urban and rural, our experience has been that customer is expecting everything provided to him by the branch. The relationship was he needs a Gold Loan and we can sell him insurance, then he needs some CASA, then there may be some DBT that is the benefit transfer program. So it is better to have all, otherwise it is an infrastructure wastage.

Gitanshu Buch: Thank you. Next question is our tractors and CVs expected to be a larger proportion of the loan book?

Murali M. Natrajan: Commercial Vehicles?

Gitanshu Buch: Tractors and CVs, yes.

Murali M. Natrajan: So Commercial Vehicle, we actually exited. When I joined the Bank, we actually exited the Commercial Vehicle in 2009 that is because at that time the book was not doing well and the Board felt that this is not a good thing to do, but later we went back to the Board and convinced them that we should be in Commercial Vehicle. Now it is almost three years plus we have been in commercial vehicle. We have built up decent capacity more than 80% of that book is priority sector lending. We tried and not to do any big-ticket loans in that which is called strategic customers. We tried and restricted to small customer like 4, 3, 5, 10 that type of trucks and I expect this to be at least 5% of our book even in the future.

Gitanshu Buch: One question, do the corporate actions at IIB, IndusInd Bank affect us in anyway?

Murali M. Natrajan: Which corporate action?

Bharat Sampat: IndusInd merger.

Murali M. Natrajan: No, it does not affect us, but over the last 4 days, nonstop, lots of well-wishers have called me and saying as to why we are not following that strategy. So, they are trying to put a lot of pressure saying that even our Bank should be buying some microfinance institution. We have no such idea at the moment, but I do not think it affects us.

Moderator: Thank you. We take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: With respect to the mortgage loans, just wanted to understand the slowdown that we are seeing in this quarter, is it more due to circumstantial issues or is there some strategy change that we are looking at?

Murali M. Natrajan: So first of all, we have also redefined some of our credit parameters that we did actually almost 4 months ago. So we have seen the impact of that because we redefined our risk parameters based on our experience. Secondly, there is so much competition that our closure that is people who are attacking our portfolio and taking everywhere loan has gone up at least by about 10%-15%. Third is that our ticket sizes have come down. So what happens is even though we measure our sales force both on ticket size and the absolute amount that they do. So somebody does an absolute amount, but does not get the number of files, then they do not earn the incentives which means we are actually trying to force the granular portfolio. So what I would like to say is as our distribution has increased, the number of files have increased, but the ticket size has actually come down. So those are the factors that have contributed. We are not unhappy about it, we still would be 40%-42% of our book in Mortgages. No point in growing aggressively without taking your eye of the quality. We do see some kind of aggression by HFC and some other entities, I may not agree with it, but it seems to work for them, so fine for them.

Rohan Mandora: Sir, on the average ticket size, what would be the percentage reduction that we would have seen in last 12 months?

Murali M. Natrajan: From the time I have been on these calls, I used to say Rs. 50-60 lakhs, then I used to say Rs. 40-50 lakhs and all. Now I would say almost it is like 30-35 lakhs is our average ticket size.

Rohan Mandora: And sir like with respect to the recoveries and upgrades that we have seen during the quarter, could you give some color with respect to how much would it be from the retail, mortgage and SME?

Murali M. Natrajan: It is all retail, mortgage, SME only because in corporate NPA, whatever the NPA is, it is not more than 3-4 accounts.

Rohan Mandora: Primarily, it is from the mortgages or?

Murali M. Natrajan: Mortgages, Gold Loans, Agri Loans, SME Loans. Our NPA is also a mixture like this and our recovery is also a mixture like that. Our NPA is about Rs. 77 crores (of fresh slippages during the quarter) and I suspect that it is almost 120 or 130 loans that would add up to Rs. 77 crores.

Rohan Mandora: And sir the tax rate during the quarter was 37.5%, so…

Murali M. Natrajan: What is 37.5%?

Rohan Mandora: Tax rate?

Murali M. Natrajan: Tax rate, Bharat Sampat will explain the tax rate.

Bharat Sampat: During the quarter, we have had some old tax cases get resolved. So as mentioned in investor presentation, you are seeing in interest line there is an income on account of tax refund of Rs.7 crores. Corresponding to that, there has been approximately 35% of that would flow into my tax line and there is also some adjustments in the assessed income which resulted in us recognizing Rs. 2 crores more as expense. But what I would like to say is when we started this journey in DCB, our contingent liability on account of tax cases was more than Rs. 100 crores. It is now down to Rs. 19 crores. So we have been able to resolve quite a few number of cases over the last 3-4 years.

Murali M. Natrajan: I think 2-3 years ago first quarter we even got some Rs. 30 odd crores of interest income on tax refunds alone and much of that helped us to invest in branches as well.

Rohan Mandora: And sir lastly like we have mentioned in the earlier comments that in the Corporate Banking, we are lending to some AA as well A rated customers. Just wanted to get what is the average incremental yield that we are opting to these customers?

Murali M. Natrajan: Yield is quite bad. It will be anywhere between 8.5 to 9.5 something like that. These days, customers are super kings. So yield is a big challenge. The reason why we have been able to maintain our NIMs is because our cost of fund has been coming down and we have got some borrowings. When I say borrowing means like refinance it has come under much better rate. So those are the reasons. You can see our chart on yield and cost of funds. Both are coming down in the same pattern.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, my first question pertains to your basically whatever guidance we have given that by FY19 we are looking at ROE of 14% and Cost-to-Income of 55%, right?

Murali M. Natrajan: Exit quarter.

Deepak Poddar: So that maybe translates to about 1%-1.1% of ROA as per my calculation. Also, do we have any kind of vision for us that we would want to strive or achieve 1.5%-2% kind of ROA over next 3 to 5 years?

Murali M. Natrajan: All our visions, we are unable to share with you, right. At the point where we are able to share with you further vision, we definitely will do so. At the moment, the focus is how do we get to that 55% and 1% and 14% by exit quarter of this, it is not only 18 months to go, in fact not even 18 months, 15 days short of 18 months to go. So that is our concentration right now. Of course in the background, we are working on many stuffs which hopefully will also give us something, but right now that is the concentration. When we are ready to give you the guidance, we definitely will do so.

Deepak Poddar: Understood, sure, I appreciate that, no problem. My second question pertains to your growth. Basically now that your new branches are 2 years into the operation, some of the branches and some of the newer branches. So as they mature, the kind of the growth outlook you are giving in terms of 20%, does that take into account the incremental business from these branches or the business from these branches can push the growth further higher from currently 20%-21% we are currently at?

Murali M. Natrajan: We want to keep average growth between 22%-25%. Now, it does not work exactly quarter-to-quarter in a straight-line matter and for example, after demonetization, we pulled back from BCs, we reduced our lending to MFI entities. So we do not have the breakup of that book in the investor column, but that book has actually declined and that was a decent book we used to have and the yield also used to be quite decent at about 11%-11.5% like that. But we said that it is looking very risky that if you lend to these entities, fortunately some of them became banks and as a bank, they will not be able to default, but you can see some of the entities how much loss they have had in the MFI segment. There are tractors for example. In certain districts of tractors while the going was really good, all of sudden we find the delinquencies picking up because of whatever stress that they were going through, then I cannot keep pushing tractors there. I do kind of roll down. So that is why we are comfortable 20%-22%-25%. However, if the opportunity arrives to step up the growth, we definitely won't stop it. In this environment, I can tell you that I really worry about portfolio quality. We had a recent presentation from TransUnion CIBIL. They shared with us all the market delinquency data and so on. The kind of breakneck speed at which retail like supposing you talk about mobile phone financing, durable financing. Even a Rs. 1,000 item getting finance in EMI, they actually flag some alarm bells to us in terms of what is happening. So we have to be careful at least that is what we think.

Deepak Poddar: Absolutely, I completely agree that portfolio quality should be up there basically.

Murali M. Natrajan: See, India has opportunity, that is what I definitely think. Now if we double the book in 3 years without blowing up anything and let us say we double the book within 4 years again without blowing anything, I do not see anything wrong with that approach.

Deepak Poddar: Absolutely, I completely agree sir.

Moderator: Thank you. The next question is from the line of Bobby Jayram from Falcon Investments. Please go ahead.

Bobby Jayram: After the twin blows of GST and demonetization, how has the effect been on SME and there are two theories floating around – One is that they would just be unviable and simply die off. The other is that they don't want to be formal economy. Which one are you seeing is playing out?

Murali M. Natrajan: Some would die off and a lot would make the transition to the way of how GST will operate. I tell you why. In the last 2 months, we have conducted 400 face-to-face sessions meeting 14,000 customers/prospects across our footprint where we get a chartered accountant or some tax expert, some local government people etc. and openly talk about GST. They ask questions, we answer. We have a product, this product is called GST package. What happens in this GST package is you open a current account with our Bank, you get a software free or at a very nominal charge for accounting, filing, reconciliation and so on. There is huge interest and almost a compulsive approach by all these SMEs that they should be in GST. Even a small guy less than 20 lakhs wants to be in GST because he does not want to miss out the opportunity, be with some big guys who want the GST and the input tax credit. So I think about 6-9 months when all the dust settles down, I am saying this because I really believe it is going to happen this way, it is going to settle down and is going to be pretty good. However, guys who are unwilling to change, who want to continue to do some cash. For example, some SMEs ask us I will be selling product A, can your software switch that and make it product B for billing. They want features like that. Obviously, they still have not learnt that all that is not going to be possible or maybe it will be possible in some other software, not in our software. So I personally believe that SMEs will come through this. They do not have too much compulsion to appear in CNBC or ET NOW every quarter and report the results. So if they are suffering one or two quarters, it is okay they will bounce back, but those who are purely cash and who do not have good business models, I think they may not survive in this GST thing. And last point which I wanted to say is that if GST data that gets captured, it will definitely make our lending much easier because currently we go through VAT receipts and we do a lot of manual process. Here, we believe that the GST data is available online or in some electronic form it is far easier for us to lend to the customer.

Bobby Jayram: Right sir. You believe the net effect will be a positive?

Murali M. Natrajan: I am a very big fan of SMEs. After having met 14,000 customers and got feedback, I do not believe that SMEs are going to be disappeared. Yes, they are under stress. There is no doubt about it. A lot of them are under stress. There are delays in payment. To give you an example, one customer that I know he said that he did not get payment from a listed company and we did not believe him. So we got our officer to go to the company and asked did you not pay the bill. They said yes because they are still figuring out the GST, what are the mechanics. So they did not pay him for 45 days. So he was right. So that is what there was a delay in terms of payment and extension of working capital. So there is stress.

Moderator: Thank you. We will move onto the next question that is from the line of Megha Hariramani from Pi Square Management. Please go ahead.

Megha Hariramani: My question is on the NIMs. So what percent of NIM do we see going forward? Right now it is about 4.23, it is one of the best in last couple of years. So this entire FY18, will we see the similar number or do we have some pressure on NIM expectance?

Murali M. Natrajan: So every time I make a prediction in terms of NIM coming down, it seems to be moving up and makes the whole conversation very difficult. In fact my team tells me that we do not think you should talk about NIM at all because you do not seem to get it right. But there are two pressures that are building in NIM. One is I worry as to what will be the new MCLR formula that RBI is going to come up with, okay. When the last MCLR formula came, we were very apprehensive and it took all of us time, but as soon as we are now settle down the formula, the formula is likely to change, it seems like. So I do not know where it is all going to end up. So I am not sure about that. Second is if anytime I see pressure on pricing, it is just across the board, there is pressure on pricing except let us say some rural branches or some small locations and all where the number of options of financing for the customer is say somewhat less. Metros, semi-urban areas, the pressure is huge. So what we do is we actually are very happy when we see better NIM. But when we do our model, we just say let us assume 370 to 375 basis points and build the business case. I do not want the NIM to fall, but I think it is going to definitely reduce even moving forward.

Megha Hariramani: And on the overall asset loan mix that we have, what will drive the growth for next 2-3 years. We have a target of doubling up the book in next 3-4 years or every 3-4 years gathered.

Murali M. Natrajan: Not every 3-4 years. I am only looking at 3-4 years from now. We will come to that point when we think that we will double it again after that.

Megha Hariramani: So for this first leg…

Murali M. Natrajan: For the first 3-4 years, the mix will remain pretty much the same and it will still be small ticket, that is why there is a lot of hard work. For example, if I have to do 1 crore loan or 30 lakhs loans of 3 tickets I had to book. Whereas if it is just 1 crore, one big loan at once. So we are concentrating on small ticket. We are trying to make it more efficient, we are trying to get some front-end technology so that the processing can be improved, all that we are trying to do so. So I do not see our mix changing much at all. Maybe one quarter corporate might go to 18%-20%, maybe something, but overall this is the mix that we are looking at.

Megha Hariramani: And my last question is on the recent announcement that IndusInd Bank made that they have tied up with IGL for the card segment. Do we have any such plan of tying up with some big institution and making sure that we are the only one catering to the services?

Murali M. Natrajan: They have tied up with, what did you say?

Megha Hariramani: IGL, the gas company.

Murali M. Natrajan: So we have a lot of tie-ups. Of course, we have a tie-up with Jana, the microfinance company for issuing prepaid cards. We had 3 million cards issued in that of course. Now, we are replacing that because they themselves have become bank. So they are likely to move out of that. We have a product called Niyo which is for salary segment where we are approaching corporate which is very unique salary product where efficiently HR people can administer all the tax related benefits to the customer. So we are doing some tie-ups on that. So there is a separate department called Alliances. I cannot claim that big items like IGL but we have quite a lot of tie-ups. We work with retired navy officers on a couple of products where we are, I would not say exclusive, but majority kind of tie-ups. So those kind of work is continuing across the board.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Investments. Please go ahead.

Amit Premchandani: Sir, there was a news article today in Hindu Business line about some pending SEBI enquiry, we issued our clarification, but the clarification does not include whether you have received any notice from SEBI or not?

Murali M. Natarajan: The correspondence that happens between us and any regulator, we do not disclose it to anybody, right, so therefore we are unable to tell you exactly what it is, all we are saying in that release is that we are pretty confident about our governance standards and procedures, so that is what we have to say, and this matter relates to the same 150 branches launch. All the things that happened during the time is in public domain.

Amit Premchandani: Sir, in terms of the Promoter, there was an issue with the US regulator of a bank which was again kind of, that was the same promoters and there was a ban in US, any impact of that or any regulatory intervention because of that at your end?

Murali M. Natarajan: I want to tell you that when I was working in a foreign bank, let us say the foreign bank has some issue in some other country, let us say foreign bank has an issue in Philippines, Indian regulators will be concerned, that is the way regulator operates and it is their responsibility to make adequate enquiries to check whether something that they need to worry about with respect to the entity that is operating in India. You should expect that such kind of enquiries will be made by any regulator for a promoter who has multi-country this thing. As far as we are concerned, again we have put out a note in the press saying that it does not affect our business.

Amit Premchandani: Sir, on the slide mentioning about margins and how the yield on advances and cost of funds have moved, if you see the yields have dropped as well as cost of funds have dropped, but your margins generally have trended up largely like out of yield or investment moving up, how much of that change in yield or investment is because of market yields moving up and how much is because the PSL requirements have been met internally now and the drag on PSL is much lower, if you can just give a broadly?

Murali M. Natarajan: When we started this journey whatever our loan book was which was about Rs. 3,000 odd crores to now where we are at about Rs. 17,500 crores, but I see much every year the drag cost by those bonds in absolute term have remained in the same range give or take maybe 25 to 50 crores, so plus the yields of those. It is not possible to avoid those bonds because it is not possible to 100% meet the weaker section and direct agree kind of guidelines, so we end up actually subscribing to the bonds. Some bonds come back. We are surprised it keeps happening, so I do not know what is what in that, but all I can tell you is that there is an active management of cost of funds, that is an active management of investments, and also we have used some long-term refinance opportunities that came our way from institutions like NHB because we do products that they are willing to support.

Amit Premchandani: In terms of shortfall of PSL, how has it moved over the last say five years?

Murali M. Natarajan: We do not publish that number, all I can tell you is that overall PSL we have always met. I think some four years ago we were at 39.9 or something if am not mistaken, but generally we are well above 40 and we also sell PSLC certificate, last year I think we earned about…

Bharat Sampat: 1,100 crores worth of PSLC which is there in the balance sheet.

Murali M. Natarajan: It is there in the balance sheet of last year where we sold PSLC certificate and made about Rs. 15 or 16 crores last year, so total PSL, we are always ahead, but in terms of short wise it is always a problem in terms of weaker section and direct agri, where we have to go and buy at some high rate.

Amit Premchandani: Finally Sir, in the LAP side, your LAP book has relatively much lower slippage if you look at the LAP books of other NBFCs, some of them are running at 4 to 6% NPL, what exactly differentiates your LAP book from say some of the NBFCs?

Murali M. Natarajan: Who is running at 4% to 6% NPL?

Amit Premchandani: There are one or two NBFCs, I do not want to name them, but say Chola is running at significantly higher than yours?

Murali M. Natarajan: How would I answer the question, let me put it this way, I do not know exactly what are the credit policy of Chola. That is or any other NBFC, of course, I know broadly but how we deal with it, I will tell you. You have to be very careful about valuation of the property and the LTV that you assign, number one. Number two, you have to make sure that customer has adequate cash flow to support the loans not just because of his property value being better and when you are attacked by competition, you have to be willing to let go of the loan because if you want to retain, that means you have to give the customer more money. Today, he may look good, tomorrow he may not be that good, so we have tried to be disciplined. I can tell you that roughly in the last three to four, our new acquisition we must have shaved off at least 30 to 40 crores of new acquisitions, I am just giving you some estimate because we cut out certain types of policies that we saw is not anymore suitable for future based on the previous experience and the stress that we saw in those portfolios, so it is a very tough market. Any demands on loan gets fulfilled by somebody or the other, people are stressing LTV and so on, we have seen some presentation from CIBIL which tells us that there is fair amount of challenge, but having said all that we still have to be extremely vigilant. We always say that people in glass houses must never throw stones at others, so we have to keep looking at our portfolio and saying what else can we do, how can we model it better, how can we prune it etc., so that is a continuous process.

Moderator: Thank you. The next question is from the line of Aalok Shah from Centrum Broking. Please go ahead.

Aalok Shah: I had couple of questions, two data points, one, could you help me with the floating provision outstanding number?

Murali M. Natarajan: We are close to 48 crores on floating provision, but hopefully by end of the year we should be above 50 crores because we make that provision not on the basis of what is the profit for the quarter, we are just taking one number as an opening this thing and applying on the floating, so we are just disciplined way we are adding the floating provision.

Aalok Shah: Okay, because this number if I am right last quarter was close to 40 crores, so there is an increase their, that is one. Two is, anything specific to read from the movement in AIB NPAs, I mean the last quarter it was because of MFI portfolio, this quarter around is it the same thing or something else?

Murali M. Natarajan: Except when there is an unsecured part or large ticket loan, small ticket NPAs I do not, when I say I do not worry, I do not feel that month-to-month I just kind of get too excited about it because customers going to NPA, they come back and become standards by paying all the three overdue or whatever overdue that they have. I do not think we had any large ticket NPA this quarter, I do not think there is no corporate NPA in any case and even in SLV or AIB, I do not think, so it will be mix of some gold loans, some MFI, some KCC all that put together, so that is our. Just now one example, my AIB had come and told me that they just settled some three, four, 15 lakhs, 20 lakhs kind of NPAs who have come because they did some court proceedings, they came and settled that, so it will all become upgraded this quarter, so this is a continuous process that goes on in the portfolio.

Aalok Shah: Would it be safe to say that the similar should be the assumptions for the NPA that we are seeing in the CV portfolio because that number has?

Murali M. Natarajan: The CV portfolio we do not generally do strategic customers which is like 2 crore and 3 crore and all, but I believe that one not this month, I think previous month somewhere in the quarter I think we had one some large ticket NPA, but last I know is that since we track all large ticket NPAs, last I know is that is coming very close to resolution, so CV as long as the, the other problem with CV has been that the demand for operations have been less, so customers have placed a lot of cash challenge that does not mean that they are bad, they will come back.

Aalok Shah: Last question, I want to ask you is the Opex line item, we have seen that given the 0.5% QOQ will increase, on a YOY does not really talk about that but how do we look at these line item, because we are talking about branch efficiency in place and that productivity improving, and you talked about retaining that 60% cost-to-income ratio, so for the coming quarter at least the next two quarters, do we see some further increase in cost or cost here should kind of come down or remain flat?

Murali M. Natarajan: We do not give cost guidance and all on a quarter-to-quarter basis, but I can tell you that, we have almost put 20 odd branches in this quarter, Bharat, 290 was the number, so what happens is that most of these branches have not even finished one-month cost, so the cost will come. All I am saying is that, we work on a basis that what is the cost of the branch, is it falling in the standard cost template that they have put, is there a deviation, we will look at cost even from electricity, what is the cost average per month and what is the security guard cost, so there is a lot of focus on cost because every rupee of cost has to be made by at least Rs. 2.5 of revenue, so that is pretty difficult if we do not manage the cost, so I do not have any guidance for you on the quarter by quarter, all I am saying is that next year, the number of branches that we have planned is well about 10 to 15 odd branches. This year we probably will end in about 315 or 316 because there are some unbanked areas and whatever we have to complete all those exercise, so the new branch cost should slowdown for the next one to two years.

Aalok Shah: On the lending side, you talked about Mortgage 40% to 42%, the Corporate book has been somewhere progressing in 20%...

Murali M. Natarajan: Yes.

Aalok Shah: The rest is SME?

Murali M. Natarajan: We have SME, except for Corporate, our segment is all SME only, like when we do gold loan, it is an SME. He might have a small shop, commercial vehicle is an SME, mortgages almost 80% to 85% of the customers are all self-employed, so as a segment for the bank is SME irrespective of what product we are talking about here.

Moderator: Thank you. We will take the next question from the line of Dixit Doshi from Wildstone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, post-GST I think there will be many SMEs who were not reporting the entire turnover in the formal way and post-GST the existing SMEs you would have seen that traction in the reporting, so do you see working capital limit requirements coming at its great pace from the existing clients because of formal reporting of the turnover?

Murali M. Natarajan: 100% emphatic yes and that is one thing that we really are excited about that it will be reported, customers will need more working capital and we will also be confidently giving the working capital. We will be able to see, again it will not happen tomorrow, but I am just saying that let us say three-year view if you take, for example, we will be able to see transactions so the chance of customer fudging sales etc., I mean there is a lot of things that can fall into place because of GST, I am very excited about GST and SMEs.

Moderator: Thank you. The next question is from the line of Ritika Garg from Aequitas. Please go ahead.

Ritika Garg: Sir, I want to know now with our branch expansion being done, the cost-income ratio will start declining from next year onwards?

Murali M. Natarajan: That is the plan, so instead of telling you exactly when it will start declining, I have given you an endpoint saying that we want to exit quarter March 2019, 55% Cost-to-Income ratio.

Ritika Garg: Sir, what is the rate of growth for CASA going forward?

Murali M. Natarajan: The idea is to grow CASA such that our NIMs are maintained at about 370 to 375 basis point, the way we work is branches are given a target of CASA depending upon the branch size, branch location etc. If they do not achieve their CASA, they may not make their incentive and so on, so therefore, we are not looking at saying that okay let us some whatever CASA growth rate, we believe that we should be able to achieve 20% growth in CASA and off late because of GST, we have started refocusing more strongly on CA because that will help us to support our SME business as well, so idea is to grow CASA at least 20%.

I just want to wish everyone who is left in the call, Happy Diwali and I also want to thank all of them for their support and look forward to talking to them next quarter.

Moderator: Thank you. Ladies and Gentlemen, on behalf of DCB Bank Ltd., that concludes today's conference. Thank you for joining us and you may now disconnect your lines.