DCB Bank Limited Q2 FY20 Earnings Conference Call

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MANAGEMENT:	**MR. MURALI M. NATRAJAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, DCB BANK LIMITED** **MR. BHARAT SAMPAT – CHIEF FINANCIAL OFFICER, DCB BANK LIMITED**

Moderator: Ladies and gentlemen, good day. And welcome to the DCB Bank Limited Q2 FY20 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – MD and CEO of DCB Bank Limited, and Mr. Bharat Sampat – CFO of DCB Bank Limited.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal for 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 the Mr. Murali M. Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Thank you. Good evening, everyone. I am here in the boardroom of DCB bank with my team. Thank you for waiting for this call. I know it is late evening Saturday, but I appreciate your patience. I hope all of you had a chance to review the two pager press release investor presentation. We are ready with questions, so kindly let us know your questions.

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

Kunal Sharma: Good evening, sir. How do we plan to improve the CASA ratio? And what steps are we taking to improve the Fees income, any targets?

Murali M. Natrajan: Okay. Thank you for that question. So, I think I did say this in the previous call, but let me repeat. Our focus is on retail deposits. If you see our top 20 depositors are now below 10%, it is at 8 point something. And we have been consistently bringing this down. And we are looking at small ticket retail deposits to try and bring it down to the kind of levels that are done by Federal Bank or City Union Bank who seem to be having a much better deposit profile than us, this is our ambition. So, in the process, what we are doing is we are focusing on retail term deposit, the scorecards of the branches are aligned towards retail term deposit. What we are noticing is that by acquiring retail deposit, a part of it is getting converted to savings account or current account, depending upon the customer profile. So, I expect this trend to continue for another two to three quarters, and then move to adjusting the scorecard back again in favor of CASA. But that will depend on how we perform. Our long-term intention is that at least in 1 to 1.5 years or so, try to bring the top 20 depositors at 5% or below, that would permanently kind of strengthen the bank's deposit profile. So, that is how our thinking is and that is how we are executing our plans currently.

Regarding fee income, I think the underlying fee income is improved by about 10% to 12%. And as we are acquiring customers, I think we are expecting the next few quarters to be better than what it is. I think I have explained before that currently we are at about 85 or 90 basis point, we are trying to take it up to 110, 115 basis points to average assets as fee. So, that is how we are working towards it.

Kunal Sharma: So, one more question, can you please share your vision on how we will move to higher ROE in the future?

Murali M. Natrajan: So, higher ROE, I have said this before also, we are aiming for somewhere around 370, 375 basis points cost of fund, we are currently at 367. The cost of fund got impacted by a few basis points, three or four basis points by higher slippage. And also because when you don't meet your complete agri target, you have to subscribe to RIDF bonds that come at a very low rate. So, that also kind of affected them by 2 or 3 basis points. The third point is, I mentioned in the previous calls, that the current deposit profile is such that we actually were expecting that maybe the cost of fund will actually go up in this particular quarter, but we have been able to manage the cost of fund at the same level as the previous quarter. So, we expect the cost of funds to improve. Overall, we are aiming for 370, 375 basis points of NIM, which we are confident that we will be able to achieve. Second point is, on fee I already mentioned that from a current level of 85 we want to go to 110, 115 basis points. The cost to average assets I think this quarter is about 2.5. In about two years' time I expect this to come down to 2.25%, 2.2% like that. We have consistently had cost of credit at about 50 basis points, which includes standard asset provision, floating provision, special provision, all the provisions are included in that. So, that is how it adds up to a decent ROA of about I think 1.2. And hopefully we cross 15%. 15.5% ROE, with new tax rates it becomes slightly better of course.

Kunal Sharma: Sir, regarding customer stickiness, we would want to know that like, will the customer switch if he gets a lower interest rate or are we able to get his stickiness?

Murali M. Natrajan: On what?

Kunal Sharma: So, like on a deposit side and also on the loan side.

Murali M. Natrajan: On large ticket CASA, there is hardly any stickiness on customer, because they chase rate. So, we never had. Our CASA rate below Rs. 1 crores is now 3.5%, and not 4% but 3.5%. And above Rs. 1 crores we are at 6%. So, we don't concentrate too much on that because it doesn't give you stable funds, there is hardly any stickiness, and sometimes it is institutional deposits which keep chasing rate. So, we don't think that's a good strategy, so we don't pursue it too much. On retail term deposit, we are offering different rates, at the peak rate we are at 8%, we expect that rate to come down to maybe 25 basis point or 50 basis points down in the next one to two months. But there are still good rates for customers to put money in the long-term, which is two to three years kind of deposits. Regarding loans, in the entire market customers who are approached by other financiers or banks, and if they are having a higher rate than what is being promised, there is always pressure for switching. Like for example, we get customers from HFCs, NBFCs, or other banks; similarly, some of our customers also move to other banks. Not in all cases, but there is a consistent steady this thing that happens every month. So, yes, that is how it is. It's not that they move immediately for 25 basis points, but if the interest rate offer is really low then obviously they move.

Kunal Sharma: And sir, last question is regarding the duration of the interbank deposits we have in our profile right now.

Murali M. Natrajan: Usually is long-term, they are all from cooperative banks, mostly from cooperative banks. Cooperative banks have very low avenue for loans, usually cooperative banks are running at 40%, 50% CD ratio. And much of those deposits are non-callable deposits. And of course, you can see that it is steadily coming down. If you look at our growth on retail term deposit is 29% this year-on-year we have done, and interbank deposits have come down. Even then they are pretty sticky deposits. What is happening now is that when we tell the customer that we can't take the deposit because we have enough for retail deposits, we are coming under some pressure from them saying that look, we already have assigned a limit for you, why don't you take the deposit. So, definitely its sticky deposit, those interbank deposits.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: I had two questions on the NBFC side and gems and jewelry side. We had decent fund exposure. NBFC was, I think, Rs. 1,820 crores as per last quarter. Any challenges we are seeing in that portfolio? And gems and jewelry, although a small base, has seen good traction, I think at Rs. 350-odd crores. Any stress in any of these are we seeing or...?

Murali M. Natrajan: In NBFCs, I am not aware of any stress in our portfolio. And I don't know of any account that has become NPA in NBFC this quarter. For that matter, I don't think we had any corporate loan NPA this quarter.

Prakash Kapadia: That's good to know.

Murali M. Natrajan: Yes, but corporate loans are such that, for example, times are such that all of a sudden something goes wrong and many banks get affected. So, we consider ourselves fortunate when we are not part of some of those mishaps. So, having said that, our stress seems to be, at the moment, largely coming from CV portfolio. I don't know what other banks are reporting that you may be aware, you can check that also. But CV, what is happening is that much of our NPAs are due to customers unable to pay full installment, and we are allowing them to pay part installment and continue. And it becomes NPA, we make the provision, but rather than take the truck, if we can avoid, we don't want to take the truck because then the payment will stop altogether and we may have to take a loss because of the sale of the asset, especially if it is less than 12 months or less than 18 months kind of portfolio. So, other than that portfolios, I am pretty confident of our book.

Prakash Kapadia: Nothing on the gems and jewelry?

Murali M. Natrajan: No, nothing that I know of.

Prakash Kapadia: And you mentioned about the CV part. Now that piece has been growing at a very decent pace and it's become almost 15%, the other segment where CV is the biggest contributor to that growth. So, even now if I see that book, that has grown around 20%. So, is it all gold loan growth which we are seeing in that part of the industry?

Murali M. Natrajan: Commercial vehicle is contributing 7% of our book. And the month-on-month growth is far lower this year than it was last year. So, when you are comparing two periods, obviously, it is looking higher. The new vehicle, commercial vehicle has shown much more stress than the used vehicle for us. And at least, because we don't finance fleet and all too much, we only finance small borrowers who are two trucks, three trucks, four trucks like that. So, there is some amount of stress that we can see. What is very heartening, at least from our point of view, and I did compare it with other banks, but you guys have a better comparison, is that when you look at our NPA slippage and then compare it with our recoveries and upgrades with current quarter as well as trailing quarters, we seem to be doing a pretty decent job in terms of the recoveries. So, I have also put that comment in our page #13 of our investor presentation.

Prakash Kapadia: And agri continues to do well, so...

Murali M. Natrajan: As of now, agri is okay. Some slippage we had in the first quarter, part of it we have been able to recover as well.

Prakash Kapadia: And what will make us more positive, in the press release also you mentioned about the economic activities facing a challenge, and we are being always granular in our approach. So, what will change this? And what is our outlook on near-term growth? What will make us more positive?

Murali M. Natrajan: What makes you think that I am negative? I have not said that I am negative.

Prakash Kapadia: Obviously, you are not negative. It's a...

Murali M. Natrajan: If you are not negative, then obviously, I am positive. So, rather than playing with words, all I am trying to say is, nothing will change our approach on wanting to do granular book, nothing. We will be granular. We will continue to be very, very measured in our corporate loan and big ticket book. Just because the environment is posing some challenges doesn't mean that we are going to change our strategy and say let's not do granular or anything like that. Yes, I think in the next two quarters or so, we do think that things will start improving. We are hearing some good news, some positivity that is coming in the market. So, yes, hopefully, things will start moving up.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Sir, first of all, I wanted to understand the granularity of our book. So, if you can give us some sense of what percentage of our loans would be say less than Rs. 25 lakhs? What would be between Rs. 25 lakhs and Rs. 50 lakhs, and then between Rs. 50 lakhs and Rs. 1 crore?

Murali M. Natrajan: We don't declare those numbers, but approximately, our estimate is 80% of our book is below Rs. 3 crores. And with respect to some banks where some data was available, nobody even comes close to that level of granularity.

Anand Bhavnani: Okay. But sir just trying to understand your thought process, what disadvantage we would have if you were to disclose this data?

Murali M. Natrajan: I mean, we disclose enough data for you guys to have an understanding of our bank.

Anand Bhavnani: Yes, I just want to understand the disadvantage.

Murali M. Natrajan: I mean, I don't think like that. I am just telling you as to what data we think is adequate for you guys to have a decent view about our bank.

Anand Bhavnani: Sure. Sir, moving on to next question, given this tax rate advantage that we would have, would it be fair to assume that it could delay the need for us to raise fresh capital, given also that our growth currently is relatively lesser than what we expected. So, approximately, what would be the ballpark new time line for capital raise?

Murali M. Natrajan: This tax change was a very big positive that happened this quarter. And you can't imagine how delighted I am with this tax rate, I can't stop being happy about it. So, this is really nice to have, especially in circumstances that is faced by the country, so it's really good. So, we are very appreciative of this change. Having said that, we have not yet done our revised estimate, we haven't had a chance to do the estimate. But I can't deny that there will be some positive impact on this, on capital accretion. And therefore, this may end up in us revisiting our time lines on capital. But at the moment, I am not able to comment on it. When we are ready to do that, we will certainly do so.

Anand Bhavnani: And sir, lastly, on slippages. So, the quantum of slippages has increased in this quarter, and you mentioned part of it is probably from the CV portfolio. What other areas are we seeing?

Murali M. Natrajan: It is uniform, it's been pretty uniform slippage. Some two or three slightly larger accounts, a bit less like Rs. 5 crores, Rs. 8 crores type of accounts have slipped, also in SME, in mortgage, yes, basically in those two accounts. Other than that, it is all very granular slippages that happened. We had slippages in SME, we had slippages in mortgages, we had slippages in CV, of course, and some in gold loan, little bit in BC portfolio. So, it's been like across. And recovery is also adding across the various portfolios. So, that is how it has been. And we did a complete analysis of our recovery slippage and all, and we tried to compare it with market and so on. What we figured out is that our recovery rates are, we mentioned 60%, 65% on trailing two quarters, and at least 70% on the trailing four quarters. So, which means that it takes time to build the pipeline of the recovery phase. In mortgages, SME and all, we have the underlying property. While we don't sell the property in all cases, the customer invariably keeps coming up for settlement. If we like the settlement, we do it; if we don't like the settlement, we wait for him to do it. The market is very tough, it takes time. There are many customers who are able to pay only half the installment and they went into NPA. They have been continuously paying and they just paid half or three-fourth of the installment and they became NPA. So, I am very confident that our dedicated collection team, which is about 600-odd people, who are continuously working on improving this thing. So, we will keep getting upgrades and recoveries. It's not like corporate loan, once you go you don't know when the NCLT process, when this inter-creditor agreement, when all that will come and when recovery will come. It's not like corporate, this is a more continuous stream of recoveries and upgrades.

Anand Bhavnani: Sir, in terms of our NPAs and the cycle as a whole for our book, where are we? Are we closer to peak or the peak NPA is yet to happen? How do you see the cycle, and any comments on that? Or what's the outlook from here on?

Murali M. Natrajan: We will see one or two quarters more. As I said, the market continues to be challenging. And it's a lot of hard work out there to keep getting recoveries and upgrades. But the good news is that we are succeeding. I mean, this quarter, we have had a recovery of almost Rs. 80 crores. And if I am not mistaken, I think fourth quarter last year, we had Rs. 100 crores kind of recovery, right? So, yes. So, let's see how it goes in the next two, three quarters, but the market is challenging.

Anand Bhavnani: Sure. And sir, we had certain high cost funds because of which, I think, currently, we are still not seeing benefit. So, by when can we see this cost of fund moderating for us going forward?

Murali M. Natrajan: I think I mentioned it in the last call also. I think towards the end or middle of next quarter and fourth quarter some benefits are likely to come. And next year, some more benefits are likely to come in the refinance. The fresh refinance that we are getting are coming at a much better rate than what it was two years ago.

Anand Bhavnani: Sure. And sir, one last data point, what percentage of our deposits would be currently from cooperative banks?

Murali M. Natrajan: Most of the interbank would be from cooperative banks. Much of it would be non-callable.

Anand Bhavnani: So, that interbank is broadly how much?

Murali M. Natrajan: It is there. I think it's about 12%. Just say Bharat, how much is that?

Bharat Sampat: It is there in the investor presentation.

Murali M. Natrajan: It is there in the investor presentation, one of the pages.

Anand Bhavnani: Sure. I will look at it.

Murali M. Natrajan: Yes, thanks. And it is coming down, that deposit.

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

Darpin Shah: Sir, this quarter also our tax rate is almost 35%, so if you can explain why so?

Murali M. Natrajan: So, I mean, I am handing over to Bharat on tax. He is very eager to talk about it. Yes, Bharat.

Bharat Sampat: Darpin, the earlier tax rate of 30% with cesses and surcharges amounted to 34.94%, and the revised tax rate at 22% with surcharges and cesses amounts to 25.17%. There are some permanent differences. For example, CSR spends are not allowed to be tax deductible. So, 25.17% goes up a little. So, for us, underlying tax rate, effective tax rate, is roughly in the range of 25.75% to 26%. However, the DTA, which we have there in the opening balance, had to be reversed out. And some small expenses, which are disallowable, that amounted to Rs. 25 crores, the reversals. So, net-net, for the current quarter, the tax rate optically is 35.6%. From next quarter onwards, we should see more between 25.75% to 26%.

Darpin Shah: Okay. The next question is on our external benchmark rates, do you see any impact on margins?

Murali M. Natrajan: The general consensus in the industry is that there will be impact on margin. Now, unlike MCLR or base rate, there was something which we knew about our own cost and how it will react and so on, so it was far easier to see what kind of impact can be on margin. But in EBLR, we are actually looking at how exactly we are going to figure out what impact could it be on margin. But having said that, it will be on new loans and the pricing of the new loans. Yes, there will be some shift from existing book to EBLR possible, but it will be steady flow into that. And what we did was, I mean, I am not offering this as saying that there is going to be no impact, but what we did was our analytics team looked at G-Sec rate, repo rate, 5 year G-Sec, 10 year G-Sec, overnight, blah, blah, everything and looking at what kind of benchmark we should use, what would be the impact, made some assumptions on interest rate and repricing and so on. We found that across long period actually, whatever you use, the difference is only like whether you use MCLR or use the difference is only about 5 or 7 basis points. But there are periods when the repo rate does not move, and those periods, in the bank assumption, there will be impact on NIM because the repo rate has not moved in sync with what is happening in the market. I am not saying it always was not moving like that, but at least history shows like that. So, this is all some analysis we have done. So, it's very hard for me to currently say what exactly will happen. But fortunately, it is only on new books, so we will have time to react.

Darpin Shah: Okay, sir. And the last question, well, you highlighted somewhat on asset quality, if you can throw some more light, where do you see?

Murali M. Natrajan: I think CV will see similar levels of slippages for at least maybe one or two more quarters. Other than CV, rest of the portfolio and all seem to be in similar kind of stability, the recovery momentum, the slippages. I mean, we go through the loans from a portfolio point of view as well as like line-by-line we seem to be all right. On corporate portfolio or any large ticket portfolio, which is only a small part of it, very hard to comment on. Of course, at any point in time, there are some two, three loans, which are facing some stress. So, very hard to comment if any quarter something will slip. So, that I am keeping out of the discussion. Rest of it, I think, should be similar or better trend is what I think.

Darpin Shah: We didn't use any restructuring within this quarter where you had an option...

Murali M. Natrajan: Restructure, I don't know what, it's only Rs. 40 crores, right?

Bharat Sampat: Yes. We had a couple of small accounts which we restructured under that MSME circular. Our overall restructured standard book is Rs. 40 crores.

Darpin Shah: One last thing, you mentioned two, three accounts, well, you've been mentioning this for a while, if you can specify the quantum as well?

Murali M. Natrajan: These are all corporate accounts. So, it will be like they are maybe Rs. 20 crores, Rs. 30 crores type of accounts, right? But this is not the same account that is there in every quarter. That also let me tell you. So, some of them gets resolved and moves on, and some remain as a threat for many quarters and still quite all right.

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

Renish Bhua: Yes. Sir, number one is on the growth side. So, of course, you know, so there is no fresh credit demand which is there in the market, but just wanted to understand from the DPD point of view. So, for us, is the rejection ratio head inch above lot because of we might have tightened some of the credit criteria or if it's the volume which is being slowed down.

Murali M. Natrajan: The log-ins, say for example, if I look at mortgage, both the home loans and LAP, one clear part that we are noticing, and you may see it in our Basel disclosure as well, that the quantum of percentage of home loan is definitely going up. We do home loans to the small self-employed as well as unorganized salaried segment. When I say unorganized, maybe he is working in some small private limited company or partnership that kind of stuff, okay? So, that part is going up. So, the log-ins are quite okay, but approval rates are not as good as what we used to see last year same time. And it could be, I have to analyze it further to see whether it is a sourcing problem or it is a market problem. Sales would like to always present it as market problem, but I will get into it more to see whether it is actually that. But prima facie, it looks like slightly lower approval rate than what we would like to see.

In SME, I don't see that kind of good quality. When I talk about SME, we're talking about working capital. We don't see that kind of good quality files. I mean, there, the rejection rates are clearly slightly higher than what it was. On Commercial Vehicle, we ourselves have moved a lot away from new and focused more on used because our used experience is far better than new. So, those are smaller ticket sizes. And even if I do the same number of loans, the loans are less. I mean, in essence, the quantum is less. Other than that, rest of the book and all is very similar.

In our current balance sheet, ADCB is not included. ADCB is coming in this quarter because the actual transaction happened only first week of October. So, none of this balance sheet has ADCB deposits or loans. I think, ultimately, that deposit would be in the range of anywhere between Rs. 700 crores, Rs. 800 crores, and loans would be roughly about Rs. 300 crores to Rs. 400 crores, which would be largely corporate and AIB. Yes, when I say AIB, it means there are 1 or 2 MFI customers who have been given loans for them for priority sector, so which will just move to our AIB loan.

Renish Bhua: Right, sir. I mean, so what sort of internal targets we have in our mind in terms of full year growth?

Murali M. Natrajan: We don't give full year guidance.

Renish Bhua: I mean, trend-wise let's say Q2 exit growth is around 13%. So, trend-wise, it should move upward or do you see flat kind of...

Murali M. Natrajan: Intention is to move it upward without corporate loans. So, you may always look at it with corporate, I look at it without corporate. I have already declared that as far as corporate loan is concerned, we try to give it short-term loans. Much of that gets repaid within the quarter. Some of it flows over to the next quarter. I don't see corporate increasing by more than 10%, 12%. But intention is to move up the growth rate by readjusting some of our sales team, which is all happening as we speak. I mean, to change sales team focus on one to the other takes at least three to six months. It's not easy to do that because of skill level, target market, credit process, file process. There are so many things to be put in place.

Renish Bhua: Got it. Sir, second question is on the CV portfolio. So, again, so this book, we have been highlighting that it's pretty much a granular book and most of the CV financing is towards the PSL compliance, so just wanted to understand it, what went wrong in terms of the asset quality where gross NPA ratio is now almost same. Is actually doubled in last one year. Yes, so is this some sort of, let's say, credit underwriting went wrong in some geography or the overall slowdown is impacting this portfolio much more than the internal assessment?

Murali M. Natrajan: We did a huge amount of analysis on it. If at all we have gone wrong, part of South, our portfolio is slightly worse than what the market data indicates. So, to that extent, we can say that we could have done a much better underwriting. Rest of the country is almost similar to the market trends. And we are impacted by the general level of activity that is happening. If you can just indulge me, I will tell you something that happened last two, three weeks ago. I have the habit of walking to Siddhivinayak from my home in Parel on Monday, just like that. I have been sort of walking around. In the back, I used to walk around. So, there was one truck driver who was standing opposite Century Bhavan in Worli looking lost. And he stopped me and said that can you tell me where this address is. So, I immediately put it on Google and found out that the address was just 200 meters from where we were standing, so I was explaining to him. And then I asked him as to how is business, and he was wondering why is this guy randomly asking me about business. He said, "What do you mean?" I said, "How is the load? How is business? Is it your truck? He said, "Yes, it is my truck. I do loads." And I asked him how the load is? He said, "These days I get about one or two loads a week as compared to two or three loads that I used to do daily." Now I am not saying use that as an example to extrapolate the entire industry or something, but it was a completely random check and the truck was in good condition. It was not some battered truck or something. And he told me that it was his own truck, okay? So, I do think that there is some challenge there in the industry. But what is good about it is that even in the past, recovery starts to come as customers are to get back into business. And even now our recoveries are quite okay. I won't say its easy, but it is quite okay in CV.

Renish Bhua: So, just a follow-up or let's say more of a clarification. So, you did highlight that our slippage for next two quarters is more likely to remain at current level. So, we are factoring all the portfolio, I mean, CV ex-corporate when we say this, right, sir?

Murali M. Natrajan: I never factor corporate on this because it is more like an event, okay. So, because we can only statically look at slippages through our portfolio MIS. So, trend seems to indicate that we should be at similar level or better.

Renish Bhua: Right, sir. So, basically, 1.6 billion is what you expect, around that number, I am not asking for any specific number.

Murali M. Natrajan: Yes. I mean, I am not being very specific about the number, but...

Renish Bhua: Trend-wise, we should be around that number, ex corporate?

Murali M. Natrajan: Yes.

Moderator: Thank you. The next question is from the line of Meghna Hariramani from Pi Square Investments. Please go ahead.

Meghna Hariramani: My question was more on the economic outlook, which to the earlier participant you just briefed out in a very modest way. But just, I mean, from your point of view on the deposit and the advances growth side, how do you see that picking up in the next two quarters? Because for this quarter, it's been pretty low at 12%. That's one. And secondly, on the NPA, do we see that inching upwards or we see that normalizing by the end of FY20?

Murali M. Natrajan: So, we don't give year target. So, we only give three year, four year target. So, we are pursuing doubling the growth. Obviously, the last two quarters have been not so easy from that point of view given the current level of economic activity in which we are operating. That is our sense. We don't do personal loans and also some of the banks are growing personal loans quite well, which is their strategy. Coming to deposit growth, I am very delighted with our deposit growth. It has grown by 20%-odd year-on-year. We have consciously reduced our interbank deposit and grown customer deposits, granular customer deposits. If you look at our term deposit growth, it is 29%. I think that's a pretty solid growth. And I expect strong growth in corporate and reducing our interbank deposits and top 20 depositors consistently over quarter-on-quarter, okay?

Regarding loan book, without considering corporate, we are about 16% or 17%. Usually, the third and fourth quarter are usually better. But again, we have to see how the situation pans out and we are quite positive about how things are moving, and let's see how it goes. So, that's where we are. We are operating in a competitive environment. We are operating in a difficult environment. We have to be very careful. Just because we want to grow the book, we don't want to get into another mess or something. So, that's not the way we want to grow our book.

On NPAs, I have already mentioned to the previous thing, we have some particular challenge in commercial vehicle, but that's only about 7% of our book. We are quite happy with the way our recoveries and upgrades are coming up quarter-on-quarter. We are hoping that, that trend will continue.

Bharat Sampat: And in terms of translating into the provision numbers, total provisions for the current quarter Rs. 43 crores, break up as NPA provision Rs. 35 crores, standard and floating provision Rs. 7 crores and Rs. 1 crore is towards investments, which is more or less same as which was there for the previous quarter.

Murali M. Natrajan: Pretty similar to previous quarter.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Capital. Please go ahead.

Dixit Doshi: Yes, most of the questions are answered. Just couple of questions. One on the branch expansion. So, you did mention last year that we will still continue to do 10 to 12 branches. But in the first half, we did only one new branch. So, are we going to do 10, 12 branches or due to the slowdown in the economy, we may not do that much branch expansion?

Murali M. Natrajan: So, this year what we did was we did a deep dive on what all have gone right and what all have not gone well for us in our branch expansion. Then instead of jumping and say, "Okay, we are going to do these branches, so many branches, et cetera. Of course, we want to do about 15, 20 branches." We took our time to figure out what was working and how do we give ourselves the best chance to do the branches so that it breaks even within 24 months kind of time frame, okay? So, as we speak, a lot of locations have been identified and the HR is working on the hiring process. The administrative team is working on putting the infrastructure in place. So, I do believe that in the next two quarters, we should be adding about 15-odd branches.

Dixit Doshi: Okay. And secondly, on the operating expenses front, so last year, we did see that typically in the Q1, the operating expenses goes up because of wage revisions and all, increments and all. But otherwise, the rest of the three quarters remain more or less stable. This year, we have seen even increase in Q2 as well. So, is there anything one-off or that kind of...

Murali M. Natrajan: What increase you have seen in Q2?

Dixit Doshi: Sir, usually operating expenses. So, typically last year we have seen that Q1, it goes up because of the increments and all, and then it...

Murali M. Natrajan: Operating expenses didn't go up. Staff expenses goes up in Q1. And staff expenses would remain pretty much stable except for the new headcount that we had. Every year we plan to add about 400 to 450 headcounts for the new branches as well as for the various volume increases.

Bharat Sampat: Just to put a number to it, first quarter total expense, OpEx was Rs. 225 crores. And current quarter is Rs. 230 crores. So, there's not much of increase. I don't know what increase you are referring to.

Dixit Doshi: Okay. And just last one question for you. You always speak that we are focusing on a growth, but even though there are lot of problems into the competitors, still we remain cautious about our loan selection. Still looking at the current scenario where most of the NBFCs are struggling and even some of the private sector banks, large private sector banks are not getting the funds and all. So, do you see that, that can actually push up the growth rate for banks like us who have a very small base and also had expanded lot of branches in the last couple of years?

Murali M. Natrajan: So, we are operating majorly on the self-employed segment. From whatever anecdotal information as well as our feedback from the front line indicates that there is fair amount of stress in this segment for various reasons, right? So, that means we have to operate a little bit cautiously. We also have to, for example, I was looking at closure of loans in mortgages. And I find that there is a slight, I won't say a lot, slight uptick in customers selling their property and closing the loan. And when I probed deeper, I find that many customers are saying their business is not viable anymore. Instead of hanging around with bank loan, just sell the property, close the loan. Now maybe it is a quarter issue, maybe it is a trend, I don't know. We have to see this before.

So, there is some amount of cautiousness in the entire environment, at least that we can see. I don't know if you are able to also see the same, but we are seeing that. That is point number one. Point number two is, we did an analysis of the CIBIL data as well as High Mark data, and it is very preliminary findings that I have. We have to go deeper into it and see. The total market actually is either flat or down in many categories, whether it's a LAP, commercial vehicle, et cetera. It's either flat or down. And it is not necessary that entire drop that has happened in HFC and NBFC has necessarily moved to private banks or public sector. So, that is what I need to investigate further as to what exactly is happening. I have been maintaining, even in the past, that just because HFC or NBFC vacated a space doesn't mean that we step into it immediately because that may not be the acceptable risk, some are risks that may not have been acceptable to us, right? Having said all this, we are adding people here and there. We are realigning our sales team. And I am positive that we could build from here. I mean, even achieving 17%, 18% in a difficult market in segment, in the SME segment is not that easy, especially when you have challenges that is going on.

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

Rohan Mandora: Sir, I wanted to understand given the current challenging macro, is there any branch level or retail employee level KRA changes that we have brought about in the current year?

Murali M. Natrajan: Most of the changes have been done in the deposit side. We have asked them to focus more on -- the scorecard has been slightly aligned to focus more on retail, retail term deposit, and from there build a CASA. At least for the next two, three quarters, we want to run with that. It is yielding very good results for us. We are able to vastly improve our deposit profile. Our intention is that in 12, 18 months, try to achieve a 5% or below kind of top 20 depositors. So, yes, scorecard is something that we change. We can't change every quarter. We keep changing it at least once in two quarters because every quarter means, it's not possible the branches will become very unproductive. On the loan side, the scorecards are fairly stable, I would say, except for some tweaks of product and credit segment, et cetera. Otherwise, it's been very stable.

Rohan Mandora: And any focus added with respect to recovery?

Murali M. Natrajan: Recovery is not at branch. We have a separate 600-member team which does recoveries. They are present in more than 250 locations. It is our own in-house staff. Yes, frontline staff are responsible for the first x number of days on the loan. And there, we do take help of the frontline staff in difficult accounts, but branches are largely focused on customer service and new business.

Rohan Mandora: Sure. And sir, given the announcements made by the government, are we seeing any improvement in the liquidity in our customer base in the SME space in say last one month or two?

Murali M. Natrajan: We have to see how this Diwali goes. We have to wait. I mean, I am sure all these things take a little bit of time. We have to wait. I mean, we are keeping our ears to the ground to figure out. I have done some unofficial research, I told my mortgage and SME team to call out number of customers and ask from them how Diwali is going. As of now, it is a mixed bag that has been reported, but it is too less a data to make any opinions, so I will wait for all the data to come.

Rohan Mandora: Sure. What is the outstanding CV portfolio for us?

Bharat Sampat: We don't disclose that number here.

Rohan Mandora: Okay. And lastly, the Abu Dhabi Bank deposits that will come on our books, what is the average maturity portfolio? Because as I understand, you admitted it's around Rs. 800 crores of outstanding and it was around Rs. 1,100-odd crores in August. So, there has been a good run down in that deposit base?

Murali M. Natrajan: No, no. Some of the deposits will be back because they are deposits that require certain more legal documentation to be completed. It's a process that is going on. Even so, two branches, Rs. 700 crores, Rs. 800 crores deposits, retail and NRI, is fantastic. There is nothing to be unhappy about that at all. Whatever be the profile, as we speak, when customers are coming up for renewal, we are seeing fair amount of renewal that is happening. And I think about 20% of that deposit is also CASA.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead. There seems to be no response from the line of Gaurav Jani. We move to the next question; the next question is from the line of Mona Khetan from Reliance Securities. Please go ahead.

Mona Khetan: Sir, my questions have been answered. Thank you.

Moderator: Thank you. We will take the next question. Next, we have Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Just on this Abu Dhabi Commercial Bank deal. On the loan side, you mentioned that somewhere around Rs. 300 crores to Rs. 400 crores will be added. But what did we see, I mean, what would be the maturity of these loans because if I remember correctly, you said these are largely wholesale loans and probably could get run down. Is that correct or these are likely to stick with the bank?

Murali M. Natrajan: So, there are various loans. There are MFI loans. There are manufacturing company loans. There are service company loans, and all different maturities are there. Some are term loans, some are working capital like that. All are in the average ticket size of some Rs. 20-odd crores because their internal limit itself was maximum Rs. 55 crores, so everything is below that type of the thing. And our team, as we speak, have met all the customers that have been mapped to us. And some of them we had a relationship earlier, so therefore, it has been pretty good. So, I do think that those customers, most of it, will be loyal and probably stick with us.

Jai Mundhra: Sure, sir. And secondly, sir, on the floating rate external benchmarking, what percentage of our loan book would be sort of linked with it? I mean, mainly on our mortgage product, how much would be fixed and how much would be floating at origination?

Murali M. Natrajan: So, like the EBLR that is coming into picture from October 1 is applicable for mortgage, SME and some of the retail loans like personal loans. We don't do much of personal loans. And for us personal loans are usually fixed rate product for three or four years, right? So, I don't see that impacting too much. Mortgage loan and SME loans, which we do, will certainly impact credit brackets. So, the new volume from this month onwards will be on that. Now that won't get impacted immediately. Later when repo rate is reduced, because we are going to link it to the repo rate, immediately, we will see a reduction in those loans, provided the customer had behaved well and he had not had any bounces and all the things because we have certain conditions, which we call as deterioration in credit quality where we don't have an obligation to pass on the reduction.

Jai Mundhra: Sure. But as of now, your mortgage as well as SME book is all floating, right? There's no fixed component which will not be affected?

Murali M. Natrajan: Base rate depending upon when it was booked.

Jai Mundhra: Sure, sir. And this is the last question sir, on your construction exposure. If you can just provide your thought process? Are you seeing any sort of worry there? Any kind of stress there? Because we seem to be having a reasonably good construction exposure.

Murali M. Natrajan: What does reasonably good mean?

Jai Mundhra: Sir, that means around some Rs. 1,700 crores, Rs. 1,800 crores exposure, sir?

Murali M. Natrajan: Those are all different construction, the construction finance that we refer to in our book, which is to builders for building homes, is about 3% to 4%, okay? The Basel III, we classified certain other loans, even some corporate loans, something is also in construction, maybe it is EPC contractor also, I don't know. Gaurav can say it. LRD is also something to that. So, I talk about construction loan. We give limits like Rs. 5 crores, Rs. 7 crores to builders who are established and who are doing a good job, who have good track record and so on. And we had one NPA in that first quarter, which I talked about. And what I hear about our current collection effort is that third or fourth quarter, some money should come back from that because the construction has restarted in that, and we can see some improvement. Like any other portfolio, there are some two, three accounts which are in stress, but we are talking about Rs. 5 crores, Rs. 7 crores that type of loan ticket. We don't have any big, big ticket construction finance.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Dhaval Gada from DSP Mutual Funds. Please go ahead.

Dhaval Gada: Just a couple of questions. First, on this NPA, on the NPA slide, there's some others, which rose last quarter. I just wanted to check what exactly is that, it's Rs. 34.8 crores. That's the first...

Murali M. Natrajan: It has gone from 31 to 34.

Dhaval Gada: Maybe, so I missed the first quarter, what was the jump there? So, I just wanted to check what was...

Murali M. Natrajan: First quarter, I think some Rs. 8 crores or Rs. 9 crores, 1 construction finance. I think explained some partnership problem or something, that is what it is.

Dhaval Gada: Understood. Okay.

Murali M. Natrajan: Rest would be all from other small loans.

Dhaval Gada: Okay. And the second question was, the vehicle finance, how much of it is portfolio buyouts that we would have done?

Murali M. Natrajan: On what?

Bharat Sampat: Commercial vehicle.

Dhaval Gada: In the commercial vehicle book.

Murali M. Natrajan: You mean the 7%?

Dhaval Gada: Yes.

Bharat Sampat: No, what is it. Yes, commercial vehicle.

Murali M. Natrajan: Very small. I don't know, it's negligible.

Dhaval Gada: Negligible. Okay. Okay, perfect.

Murali M. Natrajan: Okay. Thanks, everyone. Have a good weekend. Thank you for your patience on this call. Operator, that will be the end of the call.

Moderator: Sure. Thank you very much. On behalf of the DCB Bank Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.