DCB BANK

DCB Bank Limited Q2 FY21 Earnings Conference Call

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MANAGEMENT: MR. MURALI M. NATRAJAN -- MANAGING DIRECTOR & CEO, DCB BANK LIMITED.
MR. BHARAT SAMPAT – CFO, DCB BANK LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q2 FY21 Earnings Conference Call. Joining us on the call today are Mr. Murali Natrajan – MD and CEO and Mr. Bharat Sampat – CFO, DCB Bank Limited.

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

I now hand the conference over Mr. Murali Natrajan – MD and CEO. Thank you and over to you, sir.

Murali M. Natrajan: Thank you. Good evening. I know it's a bit late. Today is Saturday, we had finished our work some time ago, but I guess there are lots of results going on today so you were all in another call. So we'll try to make it as crisp as possible in the next, say 45 minutes to an hour or so. I'm here with my management team, including Bharat Sampat, Bharat can you make the disclaimer first, before we start.

Bharat Sampat: What I would like to place on record is that, some of the statements we make today may be forward looking statements. These statements would be based on information currently available to us. There are risks and uncertainties which could cause actual outcomes to differ materially from these forward-looking statements. We assume no responsibility to update these statements as circumstances change.

Murali M. Natrajan: Okay, thank you. So, this is the first quarter after the moratorium got over. Of course, we still had to deal with the situation with the honorable Supreme Court order, which we had to deal with. A lot of the people thought that we are all entering an unchartered territory in September, and what would it be and so on.

Internally, we were very confident that things would improve that is because we have been in constant touch with customers throughout the moratorium. Plus, if you recall, we also did a survey of quite a lot of customers and put it out in the stock exchange. So we were quite up to date on the pulse of what was happening with the bulk of our customers. I would say that even whatever was said in the survey, we were able to do far better than that.

As you can see, I hope you've received the press release, which is pretty detailed and also the Investor Presentation. So if you see on Page #7 on the moratorium, first point I would like to make is, the moratorium deferment extended on the 1,908 Crores, as on February 29th. We were down to 356 Crores and then actually, when I look at the number on October 26th, it's more like 313 Crores. When I compare our numbers with some of the other results that I have come through, we believe that we have done a remarkably good job in terms of improving the collections on these numbers.

If you look at the collection efficiency, against home loans have already crossed 90. And I believe in the next three to four months, it should move up further. What we are noticing in business loans is, as businesses are coming back to some level of activity and so on, customers are starting to respond. Once the Supreme Court issue also gets resolved, I guess the response would be even better that is our sense.

In CV loans again we have seen that customers are responding well as the transport thing is picking up, all these numbers that you see of collection efficiency has very little, probably next to nothing in terms of ECLGS. We have an approval of about 2,000 Crores sanction, of ECLGS approximately 38,000 odd customers so far, we have disbursed only 300 Crores. So the entire helpline of ECLGS for the customer is available and we want to use it prudently based on some of the risk profiling and so on, so that the customer gets maximum benefit out of this thing.

Again, when we look at customers who have paid at least one installment, if you recall my previous press release, these numbers were in the 20s and 30s. Now, things are moving towards a single-digit number this includes restructured and delinquent account, which means we have been able to kind of move the dial on customer collections very well. And, as I mentioned before we don't have any external collection agencies, all collection is done by in-house collector, we have about 680 odd people. We only use some external lawyer, and sometimes repossession agency for picking up the truck. Even in MFI loans did you see 93% of our customer at least paid one installment. Again, we have not done any top up, we believe that some level of top up or help would have to be extended to some customers in the coming quarter but as of now we have not done.

Business volume are picking up, our disbursals are definitely picking up. If you see what disbursals we have done this quarter versus what we have done again this does not include much of ECLGS at all, these are all pure business that we are talking about. What are the big change that is happening is on Gold Loans, we shifted the focus of the branches to predominantly gold loans somewhere in May or April end, it is starting to show us result we are able to disburse anywhere from 180 to 200 Crores of Gold Loan per month. I believe it is sustainable. But we have to see for another three to six months before it is fully ingrained in the branch scorecard and performance. The unfortunate thing about gold is that since it's an OD product, if you disburse 100, usually you will end up growing only about 40 or 50. So, but again customers keep coming back and taking the same.

Margins have bounced back a bit. I had explained last time in the margin that we are keeping excess liquidity. There were some challenges in terms of some restructure that we had to do on MSME plus some loan cancellations that happened all that. Fortunately, we didn't have any of those things and you also can see our cost of funds and cost of deposit steadily coming down.

We are doing extremely well on top 20 depositors. I am confident that over the next year and a half or two, our number should be one of the best in the industry in terms of say about 5% or so. Right now, it is at 7.89%. Consistently it has come down. We are repaying bulk loans and replacing with granular retail deposit which has grown by 33%. So while overall deposits haven't grown we don't need it because if our loan book growth is at the moment moderate, we don't need to unnecessarily have excess liquidity which anyway we have. And our LCR has been every day well above 100%.

So those are some of the comments that I wanted to make. I'm happy to take questions.

Moderator: Should we now start the Q&A session?

Murali M. Natrajan: Please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Karma Kunal from Perfect Research. Please go ahead.

Karma Kunal: So, I have a few questions, I'm listing down together. Sir in the case of Sambandh Finserv our exposure is 6.82 Crore as per Brickwork's Rating Reports. Was this part of corporate loan book and also we have never been a fan of microfinance business. So can you please shed some light on it. The second recently RBI has imposed 22 Lakhs fine on DCB Bank due to violating the marketing norm relating to NSEL. So, could you please throw some light on it and lastly in the terms of cost saving, can you please share some any color on any permanent saving in the light of COVID and any thoughts on cost to income ratio going forward?

Murali M. Natrajan: Okay, so I'll go in the reverse direction for you. We don't talk about Cost Income ratio we only talk about cost to average asset. Our cost to average assets have been coming down steadily over year-on-year quarter-on-quarter. We believe that in a matter of about one and half to two years we should be probably best in class for a pure retail SME kind of book we are targeting at about 220 to 215 basis points kind of cost. In COVID related some are volume related benefit we have got in the first quarter and partly also in the second quarter. If you look at our headcount, we have been able to reduce our headcount from 6,800 to 6,100 odd, through various activities including some of the headcount, which got released because of 106 projects that we put on digital agenda. We believe that the headcount will start moving up now because we are adding people to mortgages and a couple of other businesses. So you go back to something like 6,400 odd that's our expectation by March, we believe that training, which we used to do physically have completely moved to digital, it's a big cost for a 6,800 kind of team. So, that's a permanent thing. There are electronic interventions we have introduced in monitoring branches as opposed to having physical security guards, I believe that is a permanent cost saved, there are digital checking that we have done for new loans, where it is removing people intervention or some physical touch with customers those I believe, are going to be permanent cost. So there's a long list of items that we are working on each of them adding meaningfully to the cost reduction. So, we are confident our cost should go down to 220 to 215 basis point on a permanent basis over a period of time, that's what it is on costs.

Regarding the 22 Lakhs penalty that has been put, I am unable to give any more comment than what has been put out in the stock exchange on January 2019. Please go to the Stock Exchange, we have given our views on the matter when this matter came up. The clarification that is there in the January 2019 Stock Exchange declaration, still absolutely valid. So, there is nothing further to add in that matter. On Sambandh, Sambandh is a MFI company which we have been dealing with for many years. We believe preliminary report suggests that there is some orchestrated fraud by the management team. We have a net exposure about maybe 6 Crores or so after confirming some term deposit and other lien that we have. So, we have already provided 2 Crores in this quarter and it is part of AIB, like I said we have to do MFI lending and all in order to meet our agri loan target. So, some of these issues are not avoidable and this is the first kind of fraud the whole industry has faced in MFI segment and I am in touch with regulators also and trying to figure out as to how we should be as an entire entity, as banking industry. What kind of controls we can put additional so that such things don't happen in the future.

Moderator: Thank you. We have next question from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Sir firstly last quarter we had sort of quantified our non EMI portfolio at 26.5% so any color on that as to how is that portfolio trending in terms of?

Murali M. Natrajan: What is non-EMI?

Gaurav Jani: Non-EMI is portfolio that was a 26.5% right, so how is that trending as of now, any number for payout as to?

Murali M. Natrajan: No, can you explain what is non-EMI portfolio, I am not clear what you are saying?

Gaurav Jani: Portfolio that has not paid a single EMI sir.

Murali M. Natrajan: How is that non-EMI portfolio?

Gaurav Jani: Sorry, my mistake what I meant was the person who has not paid a single EMI.

Murali M. Natrajan: So, you are talking about moratorium which we defined because the market was confusing all of you guys. So we defined it as to what moratorium we are actually looking at which is what I said is 26%, which is not even a single *(instalment paid)*. Now you can see that it anyways has come down to a single digit number, the bulk of the portfolio is Business Loans, Home Loans and Commercial Vehicle, SME and how many see it is at 96% so it will be below 10%. So, I would imagine since the moratorium is not there, moratorium is over I believe it should be about maybe 3% to 5%.

Gaurav Jani: Okay, sure this is helpful sir and any color on what could be the probable restructuring / resolution under the new scheme?

Murali M. Natrajan: Yes, we have given that information also under the Category-18 moratorium, at the moment based on whatever analytics we have done, whatever collection feedback we have done, whatever survey we have done, whatever portfolio analysis we have done, which we have been doing for the past thing, we believe the number would be somewhere between 3% to 5%. That is both together that is, we have Business Loans, and we have Personal Loan, when I say personal loans mean like a home loan, that would be considered as personal loans. When we put together we believe somewhere it will be a 3% to 5%, why we can't give you a concrete number is, because a lot of work is still going on. Customers are saying that they don't want restructure, they will be quite happy with this ECLGS and they can fix the business they don't want any moratorium or reduction in. So each customer is dealing with separate separately, but we'll have to kind of structure it meaningfully in the next month or so and administer it. So that is why it will be around that range. And we don't have a big Corporate Loan portfolio. Even in corporate loans. We don't have any say in any of the restructure that is why I can't tell you anything because if another large bank does a restructure and therefore we are partnered with ICA. That information is still not available to us. But looking at our portfolio, it doesn't seem like any challenge there.

Gaurav Jani: Sir last question, I would like to divide into two parts. One is in terms of growth probably we were a bit weaker on growth this time also, obviously no one is focusing on growth at this juncture. But when do you think can we push the pedal out there. Secondly, qualitatively if you could comment on the LAP portfolio and what's the cash flow situation of customers, that will be very helpful.

Murali M. Natrajan: So, last portfolio I have told you that customers who have not even paid a single installment is at 7.4% as on October 30, 2020. This number was something like 29 when we last had the call with you guys, maybe in the last quarter. So, this number is coming down steadily what is very, very clear based on our survey as well as our customer interaction is, a lot of customers have started their businesses things are moving on, but they are trying to balance their cash flows and major amount of customers have got approval for ECLGS. So, if they need any working capital, we can help them. We have 38,000 customers across our bank about 2,000 Crore worth of sanction out of which only 300 Crores have been disbursed, we are going to disburse the net balance 15 - 1,700 Crores in this quarter that is a plan to do so. So, I would say that the portfolio is behaving far better than what one may have thought in March of 2020. And regarding the growth pressing the pedal, we are fully pressing the pedal on gold loan. We used to disburse 30 Crore per month or so, last year, this year we are already at about 180 - 200 Crore per month that is pressing the pedal. On mortgages and home loans we had to kind of relook at that credit structure because we didn't want to go head long once again without knowing what is happening there. So, all that is done and the team has started about 150 - 160 Crore of disbursal per month which used to be about 275 - 280. We think that by March, April or so, we are going to add more people as well there, by March, April or so we should be back to those kind of levels and mortgages including LAP.

Moderator: Thank you. We have our next question from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: My two questions are there, first sir in last quarter you had mentioned that the bank is planning for an internal analysis based on the credit policy, the different parameters which are going on, on a pilot stages . Can you highlight a bit in detail where you had alluded different parameters are to be considered which can help for a more alignment of better credit growth?

Murali M. Natrajan: No, see whatever credit policy we had, we were doing quite okay on that pre COVID and we didn't have any major issues on our portfolio. Our NPAs have been pretty much in control, recoveries have been very strong. So we never had touchwood any blow up in this thing, any challenge we have it has been more towards the market kind of challenges on commercial vehicle, which even the market had faced, we had faced probably face a little more. That is how it is, as far as the credit policy is concerned. See, the first thing is if you have to look at six months bank statement as an example to see whether customer is good enough to be given a loan, we don't have six month of performance post COVID for many customer, you can't lend based on just two months data, which is just say for example, July, August or something it doesn't work that way, it'll be more like a leap of faith, which is not a right thing to do in our view. So we have tweaked some of the credit score, internal credit score, we have tweaked some of the CIBIL that is basically the bureau score, we have said that some other program that you need to do in the past, we will wait for at least December or January till we build up enough data around it before we go back to those programs. Some other programs, which used to be of micro LAP concerns, we don't see any issues because those are all based on actual assessment of the customer on the ground. So we don't see any much change in that, so we are able to configure those programs. Unfortunately, the approval rates are still not picking up because maybe there are customers who want to have a loan, but we are not in a position to approve those loans. So approval rates are I would say slightly lower than what it was in the pre COVID. But from February, March or so I believe that we will have enough track record and data to go back to how we used to do the business pre COVID.

Rahul Maheshwary: Just in case, can you mention the approval rate range?

Murali M. Natrajan: Those are not the items that we, does other banks are giving you the data?

Rahul Maheshwary: No, sir.

Murali M. Natrajan: I can't give the data. You guys ask for too much data we can't give you that.

Rahul Maheshwary: Okay sir. Second question sir, few years back you had concentrated on Odisha as a state and you became within the top five bankers over there and that strategy very well went for you. So which are other geographical areas moving apart this six months because we are in pandemic but going forward what are the initiatives on the geographic level where you are going and similarly, prototyping what you have done in Odisha state sir?

Murali M. Natrajan: So, I don't think we are going to open any new state we are quite happy with Odisha, Madhya Pradesh, Punjab for deposits and loan against property and home loans, Andhra, Telangana, Tamil Nadu is doing very well for us on mortgages and loan even today, gold loan is quite good in Tamil Nadu. Across India we are doing quite well on gold loans, barring maybe three, four branches which are laggards otherwise, things are moving quite well. On fee income, across the board we are doing well. We are doing quite well on tractors in of the states which are showing signs like again Odisha, Maharashtra they are doing quite well, even parts of Madhya Pradesh, we are doing quite well on that. So, it depends on product-by-product on this, on MFI loans, we try to be very careful in terms of not concentrating too much on any geography because if for any political reason any geography get hit then you will get mauled by that delinquencies. So we are trying to be very careful about that. Other than that, there is no change in how we were doing business pre COVID.

Rahul Maheshwary: And just to continue so the branch guidance leaving apart this FY21, the next year also the next year also it remains within 15 to 20 branches which you would continue to open?

Murali M. Natrajan: Yes. We have already identified enough number of branches for us to execute, we got a little stuck because there are no architect or carpenters or civil work people available only now people are available. So the work has restarted, even during the time we were able to manage some other branches. So this quarter we opened four branches and combined one branch in Punjab because we felt that combining that would be a better idea rather than have two separate branches there. And we are confident that we should be able to do about 15 to 17 branches, maybe top 20 branches every year.

Moderator: Thank you sir. We have next question from the line of Sagar Shah from SK Analytics. Please go ahead.

Sagar Shah: So, I had a question on the liabilities front actually, especially on our deposit side, as you have mentioned in your press release, actually all most of our CDs are almost nil actually, as compared to Y-o-Y. So, and but I can see on the CASA front, it has been a de-growth of 5% actually. So, just wanted to.

Murali M. Natrajan: Year-on-year is quite okay, but maybe flat year-on-year.

Sagar Shah: Yes, maybe it is 5%.

Murali M. Natrajan: Yes, 5% and we lost some deposits during that March time probably there were some deposit like maybe a large ticket deposit being paid from 6% or so, we kind of lost that. Some of them we know why we lost because they were using that for the, these agencies were using it for the pandemic. So, it was quite natural that we lost, I want to tell you that we are concentrating on retail term deposit. I'm not, for a bank we have, come to the conclusion, get the retail term deposits on a granular basis. CASA will come as we get the customers, going out and getting these CASA if you get 100 accounts 30 - 40 account becomes inactive and another 20 accounts come and dump cash because they are very cash heavy kind of customers despite all the digital intervention and so on. So we feel that from a cost perspective or overall cost perspective while CASA you pay only say 4% or whatever, but the total cost doesn't make that much sense. Whereas in term deposit it's completely digital customers are serviced digitally with our phone banking sometimes to support them and those customers who open CA or SA after having got the term deposit are behaving with us much better from a cost perspective. So that's our plan, our CASA ratio is unlikely to go beyond 20%, 22% and we are fine with that, that is our model.

Sagar Shah: So, but at least in the coming the second half of the year and even in next year if we plan to increase 15 to 20 branches. So, can we expect at least a decent growth in the branches?

Murali M. Natrajan: Our new branches are told to get retail term deposit, gold, mortgage loan, fee income, these are what they are told to do. CASA they are not told to do, this has changed already about 1 - 1.5 years ago that is why you find that our retail deposit have been increasing, plus our top 20 deposits has come down to 7.89% if you had to grow 4 – 5,000 Crore every year it is not possible to grow CASA at that level for a bank of our size, we would rather grow our CASA on existing customers which is giving us a much better overall cost.

Sagar Shah: But on the overall deposits can we expect growth going ahead deposit front?

Murali M. Natrajan: Our loan growth should start to pick up in my view by January because we would also we have to disburse these ECLGS plus our mortgage is picking up and our KCC, tractors are picking up so, that by January or so we should start the uptake and next year we are getting a decent growth.

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

Darpin Shah: Sir, can you just mention the overall collection efficiency in the book for the month of September?

Murali M. Natrajan: Overall collection efficiency means Darpin?

Darpin Shah: Combined so, on the entire book include corporate, gold loans, agri, everything.

Murali M. Natrajan: No, gold loan, agri, corporate loans what else do we have, KCC, we don't have a problem, gold loan and all collection has not been a problem because they just have to serve with interest which is pretty small like in a Rs. 2 Lakh loan if you have to service a small interest it's not much right and their customer even if he gets delayed by two months he can come and he pays off two months or three months altogether. And so we really don't worry about the collections on that, although collection team does that. I only reported this because these are the major product which determine the bulk of our loans, corporate loan we have had, touchwood, no problems at all in moratorium and collections and all we have not had any challenges at all in that, and it's a small portfolio of over 3,000 odd Crores. BC loans are also doing quite well. Okay, which is there if we start giving some top up here and there to support some of the struggling customers and this should happen. In

BC loan it is very clear, unless you start giving new disbursals there is a limit to that which you can collect your money, because that's how the product works in the market. But here we are very strict and say that show me that you pay first and then we will start disbursing that is how you see these numbers. So, rest of the business has been touchwood in pretty decent shape, I only represent for you guys, the main product so that you get a feel of what's happening.

Darpin Shah: Correct. And sir one last thing, it's mentioned in our press release that restructuring will be anywhere between 3 to 5%, this will be over and above already 1.9% respective this year?

Murali M. Natrajan: See that restructure happened pre COVID, most of it has happened pre COVID. So this 3% to 5% we are estimating, see, I'll tell you how we have estimated, we have taken the collection feedback on all the accounts which are paying part or not paid, etc. Number one, I'll give you an example, we even from the boardroom here, we got into the call with collection officer right on the field, picked up some sample accounts. So one customer, for example have not paid and we said how he did not paid because, and most of these customers who had not paid were bucket zero in February 29 in the sense that they were not delinquent. I hope you understand that these are not delinquent customers. So when we asked as to why did he not pay, he said no he doesn't want any restructuring and all. He is getting the Rs. 7 Lakh payment from government this week. And all installment including what moratorium he has taken he wants to pay and doesn't want any extension of tenor, etc., he said. So, even though the guy is not paid, we know that that customer is not requiring any restructure. Then we called another customer in Kolhapur and we figured out that that customer has got two business, one is marriage hall business, another is renting of tent and shamiana and things like that, you can understand what would have happened to his business. He is a squeaky clean, excellent customer as on February 29 and we can even see some pre-payments in that account in the sense that he have paid some of the money's in advance rather than more than the EMI, we figure out that his business is just not taken off. And he's not able to service this loan.

So we figured out that he needs about six months moratorium and about 20% reduction in his EMI for about 12 months, then he's very confident that he will be able to support he also has some land and other things, other properties which he can use to. So like this, each and every case has to be gone through there is no one size fit all approach in self-employed. However, we are trying to categorize that into different, different buckets so that it is easier to execute restructuring or whatever at the ground because I cannot educate all these young collection officer on multiple options. You can imagine it will be very difficult to execute that. So we believe we should be able to contain that between 3% to 5% and I'm not even counting what would be the impact of ECLGS, the ECLGS is used prudently by the customer. Maybe we may not have to do this much also. I don't know.

Moderator: Thank you. We have next question from the line of Renish Patel from ICICI Securities. Please go ahead.

Renish Patel: Sir just two questions. So one is the asset yields which actually end up well and has been improving this quarter also. So what explains the yield improvement in this quarter, because I see the incremented disbursement is actually, largely towards the corporate loan. So, I'm assuming there will be slightly lower?

Murali M. Natrajan: Wrong. Why you think corporate loan, corporate loan is a inter corporate loan. Corporate loan, we never give long term loan, we gave repayment also would have been that much in this thing, otherwise we could be growing our corporate loan book my friend. The disbursal has happened in agri inclusive banking which also have got gold loans, then gold loans 400 Crores odd and mortgage 271 Crore that is the bulk of the, and SME, MSME another 150 Crore. So, that is the disbursal that we have been able to do which all come at a decent yield of about 11% odd like gold loans are coming at 10.5%, 11%, mortgage, home loans comes at about 8.5% to 9% whereas LAP comes at about 10.5%, agri inclusive tractor comes at 12 - 12.5%. So, that is how we have been able to keep the yield and the recent EBLR portfolio there has been no change in EBLR so there will be no pass on to this thing. And MCLR changes whatever happened we have already passed on but one will get passed on in November first week, there is one change that will happen in November first week. So, the mix of portfolio is what is helping us to keep the yield steady.

Renish Patel: Got is sir. So, any guidance on margin sir?

Murali M. Natrajan: No. Margin guidance remains exactly the same as what we have been telling you we should be at the range of about 3.65 to 3.75 and we will of course continue to keep some excess liquidity so that may have some here and there impact, if we are able to contain the slippage, in the next four quarters, I don't see any challenge to our margin.

Renish Patel: Okay. Sir the next question is on the, credit cost number, so since our non-paying customers are already into single digit and any which ways we expect the restructuring to remain around 3% to 5%. So, sir what sort of credit cost you expect over next 3% to 4% sir or we feel like whatever the contingency buffer we had in terms of a floating provision of sub 1 billion plus 1.2 billion of the COVID related, that is enough for the future credit cost?

Murali M. Natrajan: I am unable to give you a sense of what the credit cost would be. Our Independent Directors are of the view that the management team should be conservative in making provisions. So we are going by that Independent Directors guidance also on that, not the management team wants to do anything different. But I'm just telling you that the Independent Directors are aware of what is happening in the environment, they have the responsibility towards shareholders and the regulator. So there is a guidance that has been given to us right from the beginning saying that guys, just make sure that you have more than adequate provision, continuing more than adequate provision. So, if we make a provision and if it is not use, I don't know how to calculate the exact credit cost, all I know is that we will be making adequate provisions even in the coming one or two quarters to make sure that we are, and it's actually strengthening the balance sheet, there is nothing else. And that 14.22%. Tier-I capital, we believe that we are in a touchwood strong position and we may not have to raise capital anytime soon, that is our sense that we are coming towards. And if I am growing gold loan which is at 0% risk rate and you see the risk weight performance, our risk weight is actually becoming more and more efficient. We are at some 22,000 odd risk weight, which is again and again we are looking at more and more efficiency in using this, home loan is only 35%. So, I believe that risk, the credit cost not possible to tell you right now, let there be one or two more quarters, then maybe we'll get a more sense on that.

Murali M. Natrajan: I have a question for you.

Renish Patel: Yes, sir.

Murali M. Natrajan: I hope we have convinced you that we can raise deposits, because that was one of the things that you kept saying that we don't have a deposit franchise at all, I hope we have been able to convince you that we can raise deposit and other guys are actually copying our strategy on retail term deposits and following it, so I just hope that you are aware of what we are doing.

Renish Patel: Yes, sir. I'm very much convinced now.

Moderator: Thank you, sir. We have next question from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Firstly, how should I think about the dip in core fee income, if you have any comments to answer that, it's a little higher than my expectation?

Murali M. Natrajan: Sorry, I am not clear.

Roshan Chutkey: The dip in core fee income about 25% there about year-on-year. How should I think about this, how much of it is fee income as to what is it coming from, how much of it is processing fee related, disbursement related?

Murali M. Natrajan: Every other fee like ATM fee and trade fee and third party fee starting to pick up there are only two fee that is still not at the level that we would like it to be, one is the processing fee, which is directly reflective of the volumes. We believe that as we build our volumes which we are confident that by March or April, we should be back to similar levels, barring any unforeseen interruptions and so on, we should be back on that as well. The second fee of course is that we normally make healthy PSLC fee, unfortunately that also has not been to the level that we were delivering last year. For market conditions, it's not that we don't have the portfolio, the market has been different. So we should expect all these fees to come back to some level of, back to the same level by April, March like that, that's the expectation. We can't possibly give you any sense on these trading related fee on Treasury because those are all opportunistic thing, which we can't give you any item, what we are doing is, what we are trying to do is, the model that we are trying to build and we are hoping that that would fall in place sooner than later is at about 370 odd basis point would be our NIM, about 215 to 220 basis point is our cost to average asset, about 55 odd basis points would be the steady state credit cost. Obviously, the next four quarters may be very different, we'll see. But, and then about 1% as fees to averages assets. That's the way we're trying to build a model and that is where we are working towards.

Roshan Chutkey: And what is your disbursement level this quarter?

Murali M. Natrajan: So, we have given you that data on item number 10 on advances you can have a look at it it's about 1,800 Crores, 460 on corporate which is a basically a inter, which is intra quarter kind of number which is slightly you disburse it in quarter-to-quarter and most of it gets paid off in the end of the quarter itself but these are all long term business like agri inclusive banking, gold loan, mortgage, mortgage numbers should start to look up better in my view in the coming quarters, because that's our core business and we are fully padded up to deal with that opportunity.

Roshan Chutkey: And the ECLG scheme how should we think about it, the customer you are offering this constitute a large part of your book right so, this comes at around 9%, what do you expect in terms of customer behavior, what is the communication to the customer that this is available for a limited period of time, again he goes back to loan, or in terms of customer behavior already on a scheme people take as such 20% to repay their existing 20% of their loan and churning within the book has over rate. What is the behavior that you have noticed?

Murali M. Natrajan: See we are offering that barring a few customers we are offering that ECLGS at the rate which has been mandated by the government and same tenure which is one year they have to service the interest in the balance three years they have to repay the entire loan, okay. Some of the customers are mistaken that it is some kind of a grant given by the government. So there is a lot of communication that needs to be given to the customer saying that they need to actually start repaying this as well, because they should treat this as some kind of a dole or grant or something like that which we have been successfully able to do. Next point I want to tell you is that, customers also need to be educated that suppose I have given a loan against property, the property is secured against the loan. The second charge on the property is automatically for ECLGS. That's how the contract is with the customers that is how the government wants it. So customers are being educated on that as well saying, look if you don't pay that loan, then if any repossession happens, the balance money will be applied against that loan. So all these process is happening barring a handful of customers, most customers are quite responsible, we have divided the entire customer base into high risk, low risk, medium risk and all and we are using that ECLGS to make sure that it is used for picking up the business and not buying some LED television or something because he's getting some Rs. 2 lakh so we are being very careful about it that is why the disbursals are taking a little time. We are confident we will complete it by December.

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

MB Mahesh: Two questions from my side. First is on the recovery side, if you could just kind of give an indication as to how's the conditions looking on the ground with respect to the expectation of the value of assets that you can get out of these loans or you would kind of hold back and allow the customer to be there in your books as a stress loan for some time. The second one is on the kind of application that is coming up for you in terms for loans, what are they asking for, are they asking for a replacement of credit, are they asking for increase in business, how are you, what is the situation on the ground. Thanks.

Murali M. Natrajan: So, on home loans, it is very simply buying a new property very less maybe 10% to 15% arbitrage is happening between say NBFC or some high cost lending to us. So therefore, I would say that 80% odd of the customers are buying new property, at least that is what the sampling that we did told us, it may change depending upon the way sales are approaching, but at the moment, it looks like that. On business loans, we are very careful there again, customers are, actually I was pleasantly surprised by looking at some of the applications, where a new shop is being set up by a guy who already has a shop, somebody who is expanding their business and when we checked out we found that they have been holding this back for almost six, seven months, because of COVID. And then now they feel confident. So they are starting even like that applications we have seen. Some are obviously coming from a balance transfers, also coming from other things. What, I see as a phenomena is that there is multiple filters we have put, because we don't want to be in a situation it can easily happen if you don't watch out where somebody is in stress in some other financier and we end up doing a baltra of that customer. So therefore, there are multiple filters to see if there is any such a challenge. Therefore, the rejection rate is definitely 10% more than what it was, at least 10% more than what it was before in loan against property. On gold loans, it is clearly emergency kind of loans, most of it. And that is why it is very short tenure. People take it for three, four, five months, use it and then come back. That's why we have to keep disbursing more and more to make sure that the balance sheet keeps growing, as of now we don't have that problem because we are still small, you should notice that gold loan is already become about some 6% odd in our portfolio. I believe in two years, we should be at least about 10% - 11% of our portfolio if we will do the same thing, continue to do the same thing.

Regarding recoveries Mahesh, it's a very good question. If you ask me more than slippage, I am more focused on getting the momentum back on recoveries as much as not upgrade recoveries. The reason is, we used to do 60 Crore of recoveries every quarter almost average, we are at about 20 - 25 odd Crore that is because the logistics of recovery, registrar, selling of the property, this that and the other, hasn't completely fallen in place and we don't want to do any distress kind of thing because then unnecessarily we will lose value. So, we have taken a call in many instances where we will put the customer on a payment plan where for example he is an NPA and he has to pay say Rs. 50,000 per month on normal installments, we probably will settle him saying for the next 12 months show me that you can pay Rs. 30,000 it will be downgraded as NPA, but after that we'll do Rs. 30,000 or something so, that we keep him in play rather than try to take his property and all that also we are doing in many instances. But recovery is one of the more important challenges that needs to be dealt in the coming days.

MB Mahesh: And this would entail higher cost or you think your team is now sufficient for what could come in as a higher amount of focus. Is higher amount of effort which needs to be done from in the second half - are you wellstaffed on the recovery front, or you think that some amount of expenses has to go there?

Murali M. Natrajan: Six hundred and eighty odd people are there, we do capacity planning every two months or so and we decide as to where the number of people have to be added. Usually collection team increases by about 30 to 50 people every year. So that cost is already baked in the way we are doing. One of the good thing that has happened in collection is, by some digital interventions the number of field visit is reducing. So therefore when we add that into the capacity plan it seems that some more efficiency can come into our collections.

MB Mahesh: Perfect. My last one clarification, you've been able to reach out to all your customers who have missed a payment today?

Murali M. Natrajan: No, not yet. A lot of them have been. A lot of customers are reachable, yes, but not in their location that they were when the loan was given because they have gone to some village or this that the other. So some of the delinquency or lack of payment is also because of the disruption of people not being in their location that is there. Even in CV it is there.

Moderator: Thank you sir. We have next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Two questions. One is on a broader scale with this COVID do we need to have some corrections in our. What is the learning, whether the business model which we are functioning, how, whether there will be similar once say after say six month or maybe nine months when the things are normalized. So, we will be doing the business in the similar way the way we were doing or there will be some big changes in that. And second question related to ECLGS, we had sanction around 2,000 Crores, so how much of that could be to the people who had not paid even a single EMI?

Murali M. Natrajan: See the people who have not paid a single EMI, if you look at our collection efficiency, let's say way back in January, and all it is at some 98% - 97%. Correct? If you look at our delinquent portfolio for which we took the moratorium is 1,908 on February 29. So 1,909 divided by 25,000 we are just calculating these things roughly is what about 7%. So, 93% of customers, if you have to take that as the worst case, for example 93% of the customers were not delinquent on February 29. So automatically, if they are a business, they think they are eligible. The only drop off that is happening is, customers some of them are behaving well with us may have been delinquent in some other, some auto loan or something. So when you hit the Bureau, they get rejected because of these other delinquencies that they may have. So that is a drop off that is happening. So other than that, a lot of customers are eligible for this thing. And like I said, 38,000 odd customers are eligible. So we are pretty confident that will be very useful for our portfolio. And you look at it, the 1,908 number, we've reduced it to 313 Crores. Please compare with other banks and see how those numbers have improved from February to October. It's a remarkable and 313 doesn't mean they're all empty, they are going to become NPA. If a customer is in SMA-2 and continues to keep on pay, he is in SMA-2 doesn't mean that he becomes NPA. He has to pay three installments for him to become current. Sometimes customer just keeps at the same level and keep paying one or two installment and remain delinquent that happens in the self-employed.

Sunil Jain: Okay. And about the second question, about the more of a how you will be seeing any broader changes in your way of doing business?

Murali M. Natrajan: Yes. So in the month of April, I could tell any business manager, mortgage business manager, agri business manager as to what should be done. And they would accept those things without even questioning, I would say no, we are not going to do this. We are not going to do this. We should stop this, we should do like that. Everything was like that, but from the month of June, what is happening is, I'm getting a lot of pushback from my team with actual empirical evidence saying that look, we don't need to stop this, we don't need to stop this. This is looking good, we should open up this, we should. So, I don't think fundamentally any big change in the way we are going to do business say what is lacking today is I don't have enough data. If I want to give a business loan to a new customer. I need six months performance of GST or bank statement or some cash flow I need to see that, I don't have that it is very erratic at the moment. So that hampers our ability to, of course if you are going to do for a grocery store or a pharmacy that may be different but I'm just saying generally is not enough evidence is not there, which will build up by say January or February. So, I'm confident that we will do that. Second thing is, we have included a lot of digital interventions whereby some of the checks and controls are far more robust, because we don't have to do physically some of the checks so, that is improving the cost as well as our efficiency, those are all under test, hopefully, it will all fall in place by March and as far as the credit bureau cutoff is concerned, we've done some tweaking for certain segments, so that we just don't need to dabble in those segments. So, those are some of the changes we have already done, anyway credit policy is a thing that cannot be static, as we get more and more experience, we have to keep doing it and even before COVID or something we used to do this credit policy changes. So life continues like that.

Sunil Jain: Okay. So, broader business system and policies will remain more or less same and you are confident about that?

Murali M. Natrajan: Yes, and what I also think is that guys who are transforming themselves to digital, I know you must have read this 100 times better let me repeat it in this call because it is a fact, guys who are transforming themselves into digital mode, it will be, it's a permanent change that is happening in our country and that is good for us in my view.

Moderator: Thank you. We have next question from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: First on this 318 Crores number which is the overdue as of now, this is not the SMA-0 plus one plus two number for the entire bank right?

Murali M. Natrajan: It will be the delinquent portfolio. 1,908 was a delinquent portfolio. So, we have collected one, two, three whatever installments from those customers or interest that was due, etc. So, if you had to take the same snapshot now, that is 313 crore on October that is what it is.

Jay Mundra: Right. But sir, if I go by the data that you have given in the product wise then let us say 7.4% of the LAP customer 5.4% of the home loan and 10.8% of the CV if I put together even for these three buckets and divide it by your loan book then the number is closer to around 750 odd Crore?

Murali M. Natrajan: 7.4% of customer who have.

Jay Mundra: 7.4% of LAP portfolio.

Murali M. Natrajan: 7.4% of LAP portfolio, have not paid me a single installment that doesn't mean that he was delinquent on February 29, this data 1,908 is customers who are delinquent on February 29. Out of the 7.4, for all 6.8% or 6.9% may be bucket zero on February 29. So, that is not a calculation to be done at all. This is a 1,908 customers who are delinquent SMA-0, 1, 2 or bucket 1, 2 or whatever on February 29 on whom we have taken moratorium because we remember on April 27 circular RBI said, you can take moratorium on delinquent customer but you have to keep a 10% provision that is this portfolio. So, it will have a mix of everybody including gold loans could be there, some corporate could be there anybody could be there in that 1908.

Jay Mundra: And sir could you share let us say some of the banks have started sharing 30 DPD number for the entire bank. Maybe it's not an absolute but maybe pre COVID let us say because maybe the business model that we have and given the customer profile, it is not let's say comparable to other bank, the SMA-1 plus 2 but even as a relative to your bank, how would it that be?

Murali M. Natrajan: We will consider.

Jay Mundra: Sure. And the second this is sir this 3% to 5% restructuring that we are estimating. This should take care of the entire COVID stress. So apart from business as usual slippage, 3% to 5% should take care of the COVID related stress is that the way to understand or how to I understand?

Murali M. Natrajan: We went through a major lockdown and so on, okay. And things are looking pretty difficult in March, April, etc., correct. Now we have seen two months which is September, October post COVID, post-moratorium, our analytics run different models to see okay did he pay September, October, did he pay at least one installment during this time? What business was he in, what was this bureau score before, pre-COVID what was his bureau score, what was his delinquency string, there are number of variables that are going in for them, for the analytic team to give us some range on what could be the kind of customers who could be asking for restructure, or may need some restructure or doesn't. Restructure also have different colors. Some customers have written to me, I have a letter, which says please give me only three months more moratorium, my business is going to be back now strictly speaking. See this is moratorium and restructure and we have to take a provision on that but frankly, three months doesn't seem like a big restructure. But there are customers who are saying I need a 30% -

50% drop in my monthly EMI for at least 12 months, that also letter I have customers. So, I'm looking through these samples. So based on what we know, we believe this is the number. Now when we get more payment data, or if something new happens in the environment some lockdown happens or some other second wave happens I can't, don't hold me to these numbers, I'm telling you based on what we know today.

Jay Mundra: Right. So based on today, this 3% to 5% should take care of COVID related stress. Rest should be business related.

Murali M. Natrajan: I am saying that it will take care of, it seems like the restructured number, what did you take care of only time will tell.

Jay Mundra: Okay. And the last question is sir on MFI, you have not given any loan as it is written in the press release?

Murali M. Natrajan: No, I am talking about MFI BC loans, MFI company's we never gave any, they are all paying as usual this is only MFI BC individual loans, SHG, JLG that type of loans.

Jay Mundra: Right. But why would that be so. If some of the MFI that are, include MFI companys they have been giving top up loan, additional funding, sighting that that is business, this is a very usual practice for them. So just curious on that, thank you.

Murali M. Natrajan: We are just being conservative, get the team to first demonstrate that, see if I give that kind of easy options to team I'm not sure what would be the final outcome, I won't know what has happened and what has not happened. Now that you have pushed the team to the brim, now we know what the behavior is, now we can sensibly decide which customers will require support which not. So, if we are being a little bit more hard on us, that's all I can say.

Murali M. Natrajan: Last question operator.

Moderator: Thank you very much sir. We have the last question from the line of Pranab Gupta from Aditya Birla Sun Life Insurance. Please go ahead.

Pranab Gupta: Sir it's a follow up question, firstly on the CVs sir if I look at the collection efficiency numbers that you have given, they sort of look slightly lower than the data you have quoted already. And we have started seeing some stress before COVID. So, is there something which you are looking to change in the way we do this business going forward, has there been any learning that is the first question.

Murali M. Natrajan: There has been, COVID is something that who would have expected this kind of impact on the economy, on lockdown, on business and so on. I don't know, it is something that the world cannot be prepared for this kind of things, I mean, theoretically yes but practically it is not possible. Customers who have been paying, I just gave you an example in earlier in the call where a guy is running a marriage hall and shamiana hall it is absolutely squeaky clean customer. Even today, if COVID was not there, I would give him a loan without hesitation. So, I don't think if the business is running well and cash flows are good, we are back to the same levels but we had to give it some more time because we have only like three, four months of data. I personally believe that we need to see one more quarter of economic performance, cash flow, etc. Many customers have not been able to come back to the same 100% level they were pre COVID they are at about 80-90 we want to give it some time. Yes, on a cautious basis we have changed some criteria. We have tightened some CIBIL score, etc. But in any case, we were operating majority of our loans at 700+. So therefore, it's not that we were giving some low rate or low CIBIL score or anything like that. The other point I wanted to tell you is even customers who were not having a CIBIL score at all, which is called +1 or -1, those portfolio also performs extremely well. So the learning is that, you improve your process, you keep constantly changing your credit policy based on whatever experience you have. And just keep pruning the portfolio and that is what we have been doing. So, I don't think there's any special learning from COVID. Other than, you know, sometimes you have to pray hard in these kinds of circumstances.

Pranab Gupta: Sir actually my question was more specific to the CV, because we had started seeing some stress even before COVID?

Murali M. Natrajan: CV, we are going to hold our horses on CV. We want to see a much better improvement in the environment before we start booking new loans in CV. But we are continuing to give some support and top up and things like that, like a guy who has got two trucks wants to buy another truck those kind of things we are continuing to do, to retail, the customer but we will start looking at that business growth again only post January or something. See more data points before we go into that.

Pranab Gupta: Sir and my last question just on the capital side so you have been very efficient with the RWA growth and specially with more focus on gold loans in the near future. Does that push out our capital raise even further than what we might have been planning earlier?

Murali M. Natrajan: It appears to be so at the moment, it appears to be so. If you look at our yearly operating profit, we last year delivered about 750 Crore of operating profit, we have a secured loan book. So even if we had some unfortunate situation on NPAs, or so, the provisions are unlikely to overwhelm the operating profit. So our operating profit are strong enough to absorb the, so we don't have too much of unsecured loans and all that stuff. So given our strong operating profit and capital efficiency, we will look at when to raise capital. At the moment we will wait.

Bharat Sampat: Tier 1 as 30 September does not include year to date profits.

Murali M. Natrajan: Yes, thanks Bharat. The year to date profit is not included in the Tier-I of 14.22%.

Pranab Gupta: Understood sir. Thank you so much sir.

Murali M. Natrajan: Thank you. Ladies and gentlemen. We will catch up again sometime next quarter. In the meantime, if you have any questions, please feel free to write to Gaurav or Bharat and we will be more than happy to respond back to you.

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