



DCB Bank Limited Q3 FY '20 Earnings Conference Call
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MANAGEMENT: MR. MURALI M. NATRAJAN - MD AND CEO,
DCB BANK LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to the DCB Bank Limited Q3 FY '20 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan - MD and CEO, DCB Bank Limited; and Mr. Bharat Sampat - CFO, DCB Bank Limited.

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

Murali M. Natrajan: Thank you. Thank you everyone for logging in. I know it's a Saturday, it's late evening, but thank you for your patience. We thought it best to have the call today. The Board meeting got over and then we just prepared for this call. So I hope everyone has got the Press Release and the Investor Presentation, which was uploaded well on time. So I hope you had a chance to go through it. So we are ready for handling the questions.

Moderator: So shall we open up for Q&A?

Murali M. Natrajan: Absolutely.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kunal Sharma from Perfect Research. Please go ahead.

Kunal Sharma: I have a couple of questions, listing them together. In our SME segment, how do we manage competition from bigger banks? Next, are bigger banks, due to lower cost of funds and better brand name and recall, better placed to make a market share even in SME segment? And the last one, are we doing anything to develop stickiness like HDFC Bank which cross-sells mutual funds and demat accounts etc. to keep the customer locked in? Thank you.

Murali M. Natrajan: We have been in this Retail and SME business for last 11 years. And I would like to believe that we are pretty good at it. Second point I would like to tell you is that we were the first bank, at least as far as I know, who said they are going to be fully focused on Retail and SME 11 years ago, and I see a lot of the people who now are copying saying that we are a Retail bank and we are an SME bank, and so on. So we have excellent capabilities in our sales, product, credit, collections. And when a customer gets into trouble to help them nurture back, in case the customer's account is still doing okay, to nurture back them to health. So we compete with almost everyone. Of course, cost of fund is an advantage for HDFC Bank, and they are a very big competition. But the ticket sizes that we deal with, we are pretty good at it. And in the current circumstances, the risk appetite we choose as to what is the market doing because, as you know, after the demonetization and GST was introduced, there has been some impact on this segment. And given the current economic activity, we had to be very careful as to where we want to do our business, what ticket size we need to do and so on. Regarding cross-sell of mutual fund and other products to customers, including, if I can tell you, cash management services and so on, there is a separate team called the portfolio management team which is within the SME segment, which continuously engages with the customer to improve the cross-sell to this segment. And the other point I would like to tell you is that most of the time, when we lose a customer to another bank, it is not because of our service or brand or anything there that which you try to talk about. It is usually because they want more money at a lower price where, depending upon our risk appetite, we let it go.

Moderator: Thank you. The next question is from the line of Saikiran from Haitong Securities. Please go ahead.

Saikiran Pulavarthi: Sir, just quickly on the corporate slippages. I think you mentioned explicitly on the presentation that there is a 41 crores kind of a slippage. Would you like to explain what has gone wrong or what is the probable recovery which can happen?

Murali M. Natrajan: So even last month, or even this month, if I am not mistaken, customer has paid some money in that account, okay? And customer is engaging with us on a very regular basis. The customer is in packaging industry. And his main customer has walked out because of some issues. What the customer is explaining is some political issue. I don't know exactly, but the fact is that he has lost one of the main business. So his business has gone down to just doing job work which is not keeping his factory engaged all the days. Second point is that his receivables are stuck with that customer. And the customer is trying very hard to find new customers who can absorb the capacity and produce. So for that, he needs more money. We are not willing to give him more money. We want him to bring more money on their own to do the working capital requirement at least for the start before we give more money. So this whole thing is happening. We have exclusive charge on plant, machinery and building, which is valued quite well. I don't think there is any risk. It will take a little while. Maybe it will take 2 quarters, maybe it will take 6 quarters, but we are pretty confident of recovering. This is not some infrastructure loan or any such problem. And as such, even though we have a small book, I always mention to you guys that 2, 3 accounts always show some stress. And despite our best efforts, sometimes it just slips into NPA.

Saikiran Pulavarthi: Got it, sir. And another question on the Commercial Vehicle side, you had mentioned last quarter also there was certain stress and I think this quarter numbers also reflected that. What I can just say that are we near the peak? Or what are you seeing on the ground?

Murali M. Natrajan: We just had a discussion. One of our directors is also a director in an NBFC, which has a very large exposure to CV. And we kind of took his guidance on how we are seeing and all. It appears that the industry is going through a lot of stress, even some of the large NBFCs who may be having an exposure going through stress. So I am not sure we are at the peak or something. But we have started taking action on it almost 12 months ago in terms of cutting out segments, reducing exposure and so on. And we also have put in more efforts on recovery, recovery is slightly more difficult than mortgage because we are dealing with not so

easy assets. We want the customer to be in business. The director was telling me that the company also has a number of cases where customer is just coming in, giving the truck and saying that he doesn't want to deal with it because he doesn't want to incur parking charges, he doesn't want to do anything. So I think you may have this information from others in the industry as well and my Chairman is in Tata Motor Finance, if I'm not mistaken. So he also had some similar views. So I'm not sure we are at the peak or anything. But given our portfolio is only about 1,600 crores and, steadily, we are reducing the exposure to the troubling segment, I do expect this to be a declining problem to us as we move along. I mean how fast, I don't know, but yes, it is how it is.

Saikiran Pulavarthi: Got it, sir. And finally, on the growth side, I do understand that the overall systems created credit growth has been pretty weak and so are banks as well.

Murali M. Natrajan: Yes. What I want to tell you on growth is, Sai, you have to look at it from the point of view of: a) we don't do credit cards; b) we don't do PL; c) we don't do BIL; d), we don't do auto loans; e) we don't do 2-wheelers, okay? We have chosen reasons for, supposing you want to get into any of these business, there is a cost, gestation period, time, etc. If the same effort is directed to the business that we are already good at, we feel that, what is the additional value we can create, ROE we can create. So that is the way we have taken the call. So the industry growth has all this already in it. That's what you should understand. Like 2-wheeler work, I mean whether it is 2% or 10%, it is there in that industry growth, that number that you guys see, right? Now we are pretty confident. I mean if you look at our headcount, our headcount has moved up by about 100-odd this quarter. We are at about 6,500. We are saying that, look, now that we are focusing less on CV, let us direct some resources to mortgage and SME segment, where we can put more effort. So I think that by second quarter of next year, I do think that because of the distribution effort and the stuff that we are doing, we should see pickup in the growth faster than what we are doing now, hoping that the economy doesn't trouble us too much from wherever we are at the moment. I'm just giving you this thing. The second thing I've seen is that

when I look at our Basel details that has been published, I think home loan is at about 15%, if I'm not mistaken. That accounts to almost 40% of our mortgages. So we are finding a lot of opportunities in home loans for the SME segment where it is good ROE, less risk weight. So we are trying to direct resources there as well to achieve our growth. So I'm confident that in about 2 quarters from now, we should see far more improvement.

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

Prakash Kapadia: A couple of questions. The last point, which you were just mentioning about SME and mortgages being the focus area, so are we currently enabled at all our 334 branches as on date for these products or no?

Murali M. Natrajan: We don't need to be enabled in all 334 branches. There is about 20%, 25% of rural areas where we can enable but the opportunity versus cost may be an issue because you want to create credit infrastructure and sales infrastructure and so on and so forth. Majority of our branches sell SME products. The way we are organized is slightly different. That is why we also see the number of people per branch, if you compare with some other banks, we probably would be at about maybe 20 or something, whereas Federal Bank, maybe I think lower or City Union Bank may be lower. The reason for that is we have a separate vertical for mortgages, separate vertical for SME. And we also have branch managers who refer cases to this vertical and who then convert this thing. So branch doesn't sell, they only refer the case. And then the final conversion is done by this separate vertical who generates their own business also through their own contacts or DSA depending upon their footprint. That is how we do the business for all 334 do deposits, of course, and most of them also do gold loans.

Prakash Kapadia: Okay. And on the agri side, we continue to do well. So what trends we are seeing? Is it food inflation? Is it a mix of our focus on Tier-3, Tier-4 and rural branches which we had earlier set up? Is that now helping or,

on the ground, we are seeing traction because of agri inflation coming in?

Murali M. Natrajan: I think agri has got number of products, from small SME loans to KCC loans, to tractors, to BC loans. So it's got a number of products. And what I also want to tell you is that when you look at the growth of 14% without Corporate, we have exited the entire section of Commodity Funding. If I'm not mistaken, at least a year, 2 years ago, it used to be almost 3%-4% of our book. Because of the 2 frauds. 1 fraud that we had, I think, in Kadi and the kind of issues that we are facing in terms of the operational risk, we exited that business and we've gone and nearly reduced it to zero. So it's just a matter of branches becoming productive. I don't see any food inflation or something helping us. And that's just a matter of the branches all coming to some level of maturity and the efforts. There's a separate section we have, right, AIB, which has got about 800,000 people. So fortunately, we have been able to manage all these challenges like loan waiver and things like that. I mean when loan waiver and all is announced, it's a very difficult period for all banks because you face a lot of challenges from customers who are ill informed about what the loan waiver and all is. And to still manage the quality of the portfolio, it takes a humongous effort and time that consumes. Imagine, you only got x number of branches, imagine branches who have got like 1,000, 2,000 branches and, to a level, you can imagine what kind of challenges they may be facing on this.

Prakash Kapadia: Yes. And lastly, on the broking company side, have you fully provided what's the status of our exposure?

Murali M. Natrajan: We first of all, had only about 30 crores.

Prakash Kapadia: Yes. That was a small one, yes.

Murali M. Natrajan: Yes. And I think one of the, what's it called? The bank guarantee got sorted out by itself so that became half of it. And on that, we had already some half cash margin, so it got sorted out.

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

Darpin Shah: Our agri portfolio has grown much better and stress levels are well within manageable levels. Competitors had been mentioning about pain in the agri portfolio. If you can throw light, how are you able to manage it?

Murali M. Natrajan: So our exposure to agri portfolio has got tractors, has got BC, has got loans to microfinance institutions, has got loans to KCC, has got a small amount of mortgage and SME loans to the rural areas. And what else do we have? Yes. Those are the kind of products that we have. Each of them are contributing. It's a very diverse portfolio. It is not loaded towards any one portfolio. And what I would like to say is that wherever we are seeing challenges, for example, about 3 years ago, we faced a lot of challenge in tractors in Gujarat, okay? On a timely basis, we reduced our focus in Gujarat and started focusing in other parts of Maharashtra and Haryana and some places like that where we face less challenges. For example, there are states where we don't do tractor business, like I don't think Punjab we do a tractor business. Second thing is the CV portfolio, there is pretty good control because it seems to me that the ticket size is small, and most of it is self-sourced, plus it is to customers who already have some relationship with us. So therefore, that hasn't given us any trouble. So I would say that it has been a one-off cautious approach and tried to exit out of a troubled situation. Despite that, we faced a problem on Kadi fraud, which I think hit us by about 13 crores or something, some 3, 4 quarters ago, I don't know, last year, somewhere around that. Yes, it happened. So we also became part of that mess in that. So other than that, at the moment, we don't see any trouble in AIB portfolio.

Darpin Shah: And just a followup. In the Corporate, you have always been stating that 2, 3 accounts are in pain. So one of them was this which slipped in the quarter? Or how is it?

Murali M. Natrajan: This slipped in the quarter.

Darpin Shah: No. So out of the 2-3, one has gone. So is there any further addition?

Murali M. Natrajan: No. The account that slipped in Quarter 4 of last year, we recovered it fully in this quarter. So, I remember saying that we should be able to recover it in 4 quarters. We have been able to recover it in I think 3 quarters. This was done through NCLT. We were very confident the way our relationship with the promoter and the way we were managing this thing, we were quite confident. And we've got 6.8 or 7 crores of recovery, which is baked in into this recovery number. So that account is fully sorted. So it takes time for corporate accounts. There are other 2 accounts, 3 accounts which keep troubles. See, how many of us would have thought that. We are a very episodic country. I mean I wish I could have one crystal ball and say boss everything is clear; nothing is going to happen. We are episodic country. All of a sudden, a company like Karvy gives you trouble and there are also banks they got a lot of money, unfortunately, lent to them. I know this company since 1990, when I was working in Citibank, right? Then you have another episode that happens, which is the Cafe Coffee Day. It is very hard to predict when a company gets into trouble. This company, which has gone into NPA, we know this company for 9 years, right? They are a very robust business. Every 2 months, they used to be troubling us to say, please reduce my interest rate, please reduce my interest rate, please reduce my interest rate because its cash flows were very good, everything was going on fine. Most suddenly, there is some political development. It loses the hold on its customers and then starts to struggle to find other customers, its cash flow suffered. And then we are where we are on this particular account. So at any point in time, there are 2, 3 accounts. Fortunately, our exposures on accounts are in the range of 20 - 40 crores. And we work very hard to make sure these accounts are in control. But unfortunately, things happen, I mean I wish it doesn't, but it happens in our country.

Darpin Shah: And just these 2, 3 accounts which you mentioned, are they regular or are they under say SMA-1 or SMA-2 for us?

Murali M. Natrajan: Could be also SMA-1. I mean we don't disclose that, this thing. Sometimes it moves from SMA-2 to regular and then back to SMA-2. The SMA-1, SMA-2 is a very dynamic number, by the way. So yes, could be. And I have been disclosing that you can go back to my transcripts. Every quarter, I have said that we always deal with them 2, 3 accounts.

Darpin Shah: Yes. That's the case, yes.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Sir, the margin number this quarter has improved despite a slightly higher slippages. So are we starting to see an improvement to the margin given that our...

Murali M. Natrajan: Don't draw a graph line based on 1 point. Yes, I mean, we are managing the cost of fund, we are managing the mix of product, a lot of work happens. All of a sudden, supposing there is a demand from government on some RIDF, this thing which are priced at 3%, 4%. Suddenly, I had to explain why my NIM fell by 2 basis points, 3 basis points. So generally, we are trying to target at 3.7 to 3.75. We are there, okay? So yes, we should be all right, I think.

Sri Karthik: And sir, broadly on our fee income, that seems to have actually stagnated for a few quarters now. Is that a reflection of our advances growth or aren't we seeing any improved traction on some of our other initiatives?

Murali M. Natrajan: What it is that was static?

Sri Karthik: The fees, core fees.

Murali M. Natrajan: No. We have the details of fee income in different this thing. I think the processing fee income is starting to pick up. We are hopeful that it should do better. ATM fees have started to pick up a little bit better. Trade finance, unfortunately, will become static again because we have

had to take some hard calls on our exposure to various brokers because all of a sudden, you realize that there is a completely new type of risk that has developed in the market, which you may not have paid attention to. I mean who would have thought that, that kind of this call can happen in the market because your shares that you are holding also is not something that belongs to the company. So we have had to kind of go back on that. We are doing quite well on insurance and investment services, I can see, step-by-step, pick up on that. So I'm pretty confident on fee income. We may not be able to perform like at 25% growth on fee and things like that. But we are confident, 12% to 14% growth that we have been targeting should be possible.

Sri Karthik: Have we used any floating provisions during the quarter, sir?

Murali M. Natrajan: We have never in our entire history used floating provisions.

Sri Karthik: The slippage during the quarter is sort of an episode where you could actually have used...

Murali M. Natrajan: We made additional floating provision in this quarter. That floating provision is a management policy that just we keep building, we had 93 crores of floating provisions. So this quarter, I think it increased by 3 crores.

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

Rakesh Kumar: Cost of term deposit. So it would like what is the reason that like out of the total interest-bearing liabilities, which would be close to around 80% of our total liabilities. In a falling interest rate scenario, like why it is rising? It has fallen this quarter, but why it is rising so far? That is the question number one. Second question is that looking at the face value of the Security Receipts and the fall in provision coverage from March '19, which was 79% to 72%. How we should look at these 2 things together, face value of SR and PCR?

Murali M. Natrajan: Our security receipts have fallen from 70 crores in March 2017 to 34 crores in September 2019. Can you tell me how many banks are realizing their security receipts? That is because the security receipts are also a reflection of a granular mortgage SME type of portfolios that have been given to Arcil. So we don't even spend money in providing additional this thing because usually what you call as the valuation that is provided by Arcil all the time holds up. So we don't need to make additional provision on these SRs. That is point number one. Point number two, once in a while, we think that if we are able to sell part of our portfolio to Arcil, then it creates some collection capacity for our own team. I mean an example that Bharat gives is, for example, there is a city where we have only, let's say, 1 or 2 NPAs. In order for us to spend a lot of effort in trying to recover the NPA, if you look at Arcil, they already have an infrastructure there. It is better from a cost and effort point of view for us to give it to Arcil. This quarter, we were able to dispose of about 64 crores of principal outstanding for which we got a value of 38, right? And what we got from them is higher than our net NPA, which means our provision coverage was very strong on that particular thing. Of course, we can't recognize that as a profit because of the new RBI guidelines. In the older system, it would have got recognized as profits, okay, because that much of provision was not required. So we are very adequately provided in the bottom. 40% of our book is mortgages. Where you always have a challenge on provision coverage is when you have corporate loans, okay, where you have these working capital type of the thing. There, it becomes a lot more difficult to and plus you have to deal with many other banks to recover your outstanding. In individual loans like mortgages and SME, the recovery, the thing is quite good. Now let's go to recovery percentage. We have shown 81 crores of recoveries. Back out the 38 crores of Arcil, right? Then also, you'll see what is the recovery and upgrades versus fresh slippage. You will find that we are consistently being able to deliver 50% to 60% recoveries rate. So I wouldn't be too worried about our provision coverage, given that we do secured lending.

Rakesh Kumar: And secondly, on this cost of fund and deposit rising...

Murali M. Natrajan: On the cost of deposit, we have taken a call that in 2 years' time, we want to be one of the best in the industry in terms of top 20 depositors. You can't reduce top 20 depositors without reducing top 100 depositors. So what is not published is the top 100 depositors, which is also coming down very steadily. In fact, I would say, if you look at it, some 2 years ago, we were 18%. Currently, we are at about 8-point-some percent, right? So therefore, what we are doing is we are focusing on retail deposits. You can't get retail deposits unless and until you have a pricing advantage of at least 25, 40 basis points, which is what we have done. Now if you compare us with the HDFC, we may be 100 basis points out. But if you compare us with an IndusInd or an RBL or who are very active or even IDFC and all, who are actively in the market, some peak rates are here and there, we probably have 25 basis points here or there. That is all the difference would be. So cost of funds will start coming down in due course. But our first target is to achieve our best-in-class top 20 depositors. We are not very far from that. We think it will take another 2 years. The best-in-class, at least from annual report, we can see is, for example, HDFC Bank is below 5%. ICICI bank is below 5%. Federal Bank is below 5%. That is a very strong deposit franchise. We are adding retail, retail deposits. And for that, you'll need to have some pricing advantage for the sales people to get moving.

Rakesh Kumar: Okay. Just one question, if I could ask. Just looking at the non-SLR portfolio, it has kind of growing at a very high pace. So we had around 1,300 crores, March '19. Then it came to 1,800 crores. Now it is 2,000 crores. So what is the characteristics of...

Murali M. Natrajan: PTC boss. So you have mismatch of like we are taking 2-year deposits. It takes time. There are gaps that get created between deployment and loan growth okay? So you have a lot of PTC opportunity in the market. When we see PTC yield better than G-sec and then these are all rated pools. Of course, there are risks associated with that. But so far, touchwood we have done quite well. So those are PTCs. We have a separate team which just keeps working on PTCs, and many of them are short-term of PTCs, like maybe a 6-month, a year, like that.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equity. Please go ahead.

Dipan Mehta: Yes, sir. Just another clarification that you did mention about this Corporate loan of 41 crores, which went into NPA. But then you did say that they are still making payments to you every month. So is it that because there are short things that is what they need to be classified as NPA?

Murali M. Natrajan: He is not paying on time. And he is not paying enough.

Dipan Mehta: And would it be fair to assume that the increased provisioning for this quarter would be on account of this particular loan? I mean...

Murali M. Natrajan: This is a major contributor for this provisioning.

Dipan Mehta: My next question is, earlier in the call, you said that there is a whole sort of segments which you're not present in and it kind of explains why your growth has been slower than some of the Tier-1 banks and maybe some of the peer group. But in terms of a long-term strategy, do you think that you need to be offering more products going forward because everybody is getting into everybody's stuff? And when you talk to other banks, they want to get into the businesses that you are in. So at some point of time, you will need to look at those businesses like credit card or personal loans or 2-wheeler loans or wherever you're not present in.

Murali M. Natrajan: So personal loan and credit card, we have a plan. Personal loan, we do a little bit. We have a very small team, but we have a plan. And hopefully, we activate the plan. The other thing we don't want to end up doing is, understanding whatever is happening in the economy, entering these supposedly risky products at the wrong time. So that's another hesitation which is there in our mind. But yes, we have some plans on entering credit card and personal loan in due course which we will definitely inform you whenever that happens, there's work going on. But I'm not very confident on telling you exactly whether it's going to happen in first quarter, second quarter and all. Credit card, I have a lot of knowledge of credit card. I did a lot of years in credit cards. It goes

through a cycle. You have to have a strong balance sheet to be able to absorb those hits. I can tell you that if credit card receivables grow very fast, loan losses also comes, before it all washes off and then becomes okay. So unless you have a very strong balance sheet, it's not a very good idea to venture into it. And we are good at mortgages and SME, we are confident of continuing to grow that book.

Dipan Mehta: The second question is regarding any kind of guidance you can give in terms of network expansion because I believe no branches were added in this last quarter?

Murali M. Natrajan: This quarter we will add at least 14 to 15 branches. It's all in line. We got very busy with making sure that we do a very good job on all the 2,000-odd customers we took over from ADCB. As we speak, the portfolio is intact. There were doubts raised by a few people whether customers from ADCB will want the bank with the DCB and all these things. I am happy to report at the moment, things are pretty much in control. We have met a lot of customers, both in India and Dubai. As of now, they seem to be happy with us because we are giving them more services than what was being done. Imagine 2 branches, we've got about maybe 14 or 15 people and a retail deposit portfolio of 800 crores. Now even if I have put 15 branches, assuming I do 50 crores per year, it has gone to 750 crores plus some cost and all. So I don't think it's a bad job. I mean on the contrary, I think, it's a pretty decent acquisition. We also got some 300 crores of decent loans, Corporate loans, although we didn't want the Corporate loans, but it came as a package. So we took that. So I think we will grow 15 to 20 branches every year. And this quarter, we should see at least 15 branches coming up.

Moderator: Thank you. The next question is from the line of Sagar Shah from Alphaline. Please go ahead.

Sagar Shah: Yes, my first question is regarding to our CV portfolio, actually, which we have seen major actually additions to gross NPA in this quarter? So basically, I wanted to know, actually, in which region have these NPAs

come up. And actually, basically, what is the ticket size we are operating in that segment?

Murali M. Natrajan: Ticket size is small ticket size, all would be in the 10 lakh, 20 lakh. There may be 30 lakh depending on. We have done mostly FTU, FTB kind of segments, right? We don't have any strategic portfolio. Whatever we had, we had exited it some months ago. So it is just that I think the economic activity is not offering enough loans to customers, and they are unable to service their installment. And I don't know what information you are getting from other financiers, whether NBFC or banks. But we don't have any frauds or some systemic issue or something there. It seems to us it's low economic activity that is impacting this portfolio. And it is spread. I mean like we can say, oh, Meerut is slightly higher, but Meerut is also a bigger portfolio. So we can say that, but it doesn't offer us any meaningful thing and as and when you see any pockets of problem showing in our analytics, we are quickly addressing that so that at least more portfolio doesn't build from those locations.

Sagar Shah: Can we see further recoveries from that segment going ahead, actually, in the fourth quarter and the year going ahead? At least, recoveries or upgrades from that segment because of...

Murali M. Natrajan: Recovery and upgrades are happening. I would like to see much better recovery and upgrades happening. We keep reviewing that to see what is going on and so on. If the truck is repossessed, then how does the customer repay you? There is no option, right? I mean, what does he do? He makes a living with the truck. It's taken away, what does so sometimes customers do drop the truck and go. Then you suffer a 30% or more loss because of the valuation of that truck. And then you also need somebody else to buy a truck, that can only happen when they see a demand for business. So it's just kind of a difficult cycle, actually. I mean at least that is what I see. So we hope to improve the recoveries, but yes, I mean, it's a tough thing.

Sagar Shah: And then another big segment, actually, we have seen significant additions of gross NPAs, SME plus the MSME segment, actually. Nearly 50% increase as compared to Y-o-Y. So basically, can you throw some light like what actually happened then?

Murali M. Natrajan: Slowdown, business slowdown and then I think we had 1 or 2 accounts which may have been more than 5 crores kind of account. Other than that, I don't see any portfolio level issues. Of course, I can tell you that like one collection officer told me that in the self-employed segment, some of the customers who pay, let's say, Rs. 30,000 installments are paying that Rs. 30,000 installment in a month in 4 installment. He said instead of going once to collect the installment, sometimes we go 3 or 4 times to collect the same Rs. 30,000 in bits and pieces. So challenging, but portfolio-wise, I think, we are okay. And recovery and upgrades are also happening quite well in that segment.

Sagar Shah: Is it a secured portfolio?

Murali M. Natrajan: This has got backed by both home and commercial mortgages. It's not unsecured. It is secured. We don't do except for BC loans and some loans in Corporate, because of the nature of the business, we don't do unsecured business.

Sagar Shah: And my second question was regarding to our Other Income side, actually. Our other income has been relatively flat actually as compared to a year ago. And actually, it has increased as compared to the quarter ago. So basically, I think we're going to end this year on this almost the same other income without any growth. So basically, are we looking to because all banks actually basically are gearing up in this Other Income part and therefore selling third-party products, mutual funds, insurance products. So basically, why are we really left behind in this?

Murali M. Natrajan: All that is happening but not at the level at which we desired it to happen. It's a work in progress item. We have some struggle here and there. I'm not unhappy with, I'll tell you what are the lines, sometimes it gets distorted because of the one-off G-Sec income that comes. So that tries to show that it's a flattish between 2 quarters, but if you take off the

one-off items, the picture might look different is what I would like to say. But having said that, I think the speed at which we are building the Other Income in, say, mutual funds, insurance, can be much better. And that is what we are working on. It's not that we are leaving it on the table, but it can be much better. Yes, I agree. That is why we are trying to target at least a 12% to 14% growth, and it's a work in progress item. Overall, we are looking at can the 90 basis points to average assets go up to 110 basis points. So that's a work in progress.

Sagar Shah: Okay. Sir, the third question was regarding to actually, as you rightly said before that, as a small size of the bank and the credit risk regarding, going to the credit card segment, it's not prudent to go right now. But are we something like gearing up for higher home loans also the LAP side?

Murali M. Natrajan: The home loan portfolio is already gone to 15% of our total book. And now it is contributing almost 40% of our mortgages. So obviously, there is a focus on home loan, which I hope to improve further. And the additional resources are all coming in SME and mortgages. So in the next 2 to 3 quarters, as these start becoming productive, we do hope to step up the growth on that.

Sagar Shah: And also the personal loans or consumer lending?

Murali M. Natrajan: Personal loans, we have a small team and we are working with a couple of fintech companies. We have to be very careful because some of the fintech experience has not been that good. But instead of creating our own distribution, we are actually examining what you call as an alliance type of thing to scale up personal loan. And I'm confident that at least we'll see some results in the next year on that.

Sagar Shah: Sure, sir. My last question, sir, was of our total deposits, what is the share of retail term deposits plus CASA?

Murali M. Natrajan: See, on an ongoing basis, 60%-70% of our deposits or more are coming in retail deposits. If you look at the interbank deposit, Bharat, how much has it fallen by, interbank deposits, more than 20%, right? The portfolio

that we got from ADCB is almost 95% retail deposits. So the focus is purely on retail deposits and reduce the interbank deposits as much as possible. We are also getting a lot of support from NHB and SIDBI for refinance because we are doing SME type of loans. So you can see that, that is also going up quite well. See page #5, you will see page #5 of the investor presentation. NRI term deposit has gone up by 39%. Part of it is because of ADCB. And it's all retail. That is what we are focused on.

Sagar Shah: All retail. 20% growth in retail you have?

Murali M. Natrajan: Yes.

Moderator: Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Sir, I just have a follow-up question regarding the ADCB loan book. You said, I think, 300 crores is what we've got as Corporate loans from this bank.

Murali M. Natrajan: Yes.

Swechha Jain: Do you see any stress in these Corporate loans in near future?

Murali M. Natrajan: No, I don't see any stress in these loans. We wouldn't have taken it if it was a stress. But tomorrow or next month, some episode happens in India and some stress develops in any Corporate loan, your guess is as good as mine. We try to be careful, obviously. Many of the loans are short term, okay? I don't want to name it but there is a very famous international company. And based on market information, we decided not to lend, supposing that lend maybe that would have gone into stress or not gone into stress. So it's very difficult to say what is going to get into stress. But at the moment, what we acquired was a clean portfolio.

Swechha Jain: Okay. And sir, what was the number of retail deposit? I just missed that.

Murali M. Natrajan: From where?

Swechha Jain: From ADCB, sir.

Murali M. Natrajan: Must be about 2,000-plus customers.

Swechha Jain: And sir, my next question is regarding the headcount. You said we've added 100 people approximately.

Murali M. Natrajan: Yes.

Swechha Jain: So in what vertical this adjustment has happened?

Murali M. Natrajan: Mortgages, SME, retail deposits, that is where we are adding. And CV headcount we are reducing.

Swechha Jain: So CV we are reducing. Okay, sir. And sir, last question. Any guidance on loan book growth that you can give us the next 3, 4 quarters?

Murali M. Natrajan: No, we don't give yearly growth, this thing. Our aim has been to always double it in 3 to 3.5 years. But this year has been a pretty challenging year from a growth opportunity point of view, but we are rebuilding the book and we are trying to refocus on more opportunity as well as safer kind of segments. It takes a little bit of time, but we are confident that in the next 2 quarters or so, we should be able to at least improve the growth from the current level.

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

Dixit Doshi: A couple of things. First of all, congratulations for a good recovery in mortgage and MSME and also not growing the NPAs in MSME and SME. Sir, a couple of questions. One is on the corporate loan book which we got from ADCB. What would be the average ticket size over there? Because we generally operate in a smaller ticket size loan books.

Murali M. Natrajan: See, by policy itself, their maximum ticket size was 52 crores. So this 300 must be some maybe 10 or 15 loans, I don't know.

Bharat Sampat: 8 to 10 loans.

Murali M. Natrajan: Yes, about 10 loans or 12 loans, that is all, it is handpicked loans and whatever was under stress or something, we left it with them to deal with.

Dixit Doshi: And usually, we are not much focused on a corporate loan book. So are we thinking of scaling this down going forward or we are fine with this?

Murali M. Natrajan: No. These customers are good customers. Some of them are slightly longer tenure, maybe a year or 12 months, 18 months type of loan. So we are using the entire corporate book as a liquidity opportunistic kind of portfolio. Now the way it was is that we couldn't have just gone and said give me only the deposit book. How would they have funded this corporate then? So instead, we did a cherry picking of this corporate and took the deposits. That's the way it happened. Now some of these loans may remain in our book because they seem to be very high-quality customers. And a couple of RMs also have come along with those loans.

Dixit Doshi: And on this corporate loan account, 41 crores which slipped into NPA, how much we provided for it in this quarter?

Murali M. Natrajan: Bharat will have an answer on this.

Bharat Sampat: We are 25% provided on that loan.

Murali M. Natrajan: I'll tell you how we had provided. Let me just explain the provision process that we have is that, obviously, you had to provide what is required by Reserve Bank of India, right, minimally required by IRAC norm or something, right? Over and above that, every quarter, we have a committee which sits and looks at some of the stressed loans or even NPA loans and based on the collections feedback and I'm talking only of the large ticket loans. Based on the collection feedback, we decide, determine whether we need to take more provisions or not, right? So that's how the provisions are done. That is why usually, even when we

sell like I've told you, when we sold the portfolio to Arcil, we were not short on provisions.

Dixit Doshi: And sir, last question. I think 2, 3 concall back, you mentioned that last year, we raised some funds from NHB and from SIDBI which were at a higher interest rate. And after that, the interest rates started falling. So and they will get repriced after a year. So have you started getting the benefit of those in NIM?

Murali M. Natrajan: Part of it got repriced this quarter. And because they all have different cycles. So over the next 6 months, as and when it falls, if interest rates don't go up again, it will definitely get repriced.

Moderator: The next question is from the line of Nemish Shah from Emkay Invest. Please go ahead.

Nemish Shah: Just on the fee income front, was there any PSLC income we booked this quarter?

Murali M. Natrajan: Every quarter, we have PSLC income, and the final number will be reported in the annual report. We are doing better than what we did last year as of now.

Nemish Shah: So there is growth in that?

Murali M. Natrajan: We have a bigger book, so we have a bigger opportunity on that. Again, next year, for it to repeat or do better, we are hoping that the price holds up because it's all very price-driven demand and price-driven kind of thing, this is. And we have sufficient portfolio, it's just that we have to find the right match with pricing.

Nemish Shah: And sir, what would be our average ticket size in our home loan portfolio?

Murali M. Natrajan: 30 lakhs, 25 lakhs, that type of ticket size. Rarely it crosses.

Nemish Shah: So it will be similar to the normal mortgage that we look?

Murali M. Natrajan: Of what?

Nemish Shah: It will be similar to the normal mortgage book that we look, the average ticket size?

Murali M. Natrajan: Yes. We don't do. Like, as a policy, we don't do anything above 3 crores. Very rarely we do anything above 3 crores. In metros, the ticket size could be 60 - 70 lakhs or something. In smaller locations, it could be about 15 – 20 lakhs. So depends. Therefore, our average ticket size, I don't think crosses 30 lakhs, 35 lakhs.

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

Darpin Shah: So just a data keeping question, can I get the breakup of provisions.

Murali M. Natrajan: Bharat, can you give the provision breakup?

Bharat Sampat: Yes. Credit provision is 52 crores; floating and standard asset is 6 crores; investment is 1 crore.

Murali M. Natrajan: Thanks, everyone. I'm sorry to have messed up your Saturday evening, but this is the best time we could get to have a session to answer your questions. Thanks for your patience, and look forward to speaking to you again. Bye.

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