



DCB Bank Q1 FY18 Results Conference Call

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Moderator: Good day, ladies and gentlemen and welcome to the Q1 FY18 Earnings Conference Call of DCB Bank Limited. Joining us on the call today are Mr. Murali M. Natrajan – MD & 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 this conference, you may signal the 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. Good afternoon, thanks for joining the call. In the first few minutes, I will just give some highlights and then we will open it up for questions. I have here Bharat Sampat, Sridhar Seshadri, who is the Chief Risk Officer, Rajesh Verma, who is the Head of Treasury & FI and Gaurav, who takes care of Investor Relationship, PR and Marketing and of course we have few others.

So, I hope all of you have seen the press release and investor presentation that was uploaded on Saturday. I want to just give a simple highlight. I would like you all to consider that the environment that we are operating at the moment is a very dynamic environment. We had demonetization in November, and then later, part of our constituents which is the commercial vehicles; they had to deal with the BS-IV changes. Then, there was this farm loan waivers, RERA has come into picture and of course the biggest change of all which is the GST, lot of our customers are kind of dealing with the situation in terms of how they are going to cope with the administrative issues of GST.

While all these changes are good for the long run, but near term there is some level of pain here and there. In the last 2 months or so, I have gone to couple of states and face-to-face met with almost 500-600 customers from various kind of business like doctors, some onion traders, some motor parts dealers, some confectioners and so on. And I did not find any major issues in terms of business model or so, but definitely all of them were anxious about how they are going to cope with the new GST and how it is going to impact business, but I did not feel that many of them are very happy because GST was lower for their business. So in this environment is where we are functioning RERA is another good thing that has come up. We have about

3%-4% of our portfolio there in Construction Finance, it is very good for the customers and the builders, some of the builders are already very advanced in their way of doing business, so RERA really does not impact them, whereas others have to adjust their process. So all this is what is happening in the environment.

If I look at our performance, we are very close to completing our branch expansion plan that we announced in October 2015. We are now at 290. The way it looks is that we should hopefully finish it by end of September, maybe it is spillover for a month or so. We have taken stock of this situation and we are reasonably certain that we should be able to complete it definitely by the end of the calendar year. 310 branches that would be what would be our target.

If I look at our underlying performance, this quarter we had benefit of treasury gains of 21 crores which we have highlighted in our press release. Similar number last year was 10 crore. Supposing you back off those two numbers from the respective financials, we see that the income growth has been 31%. Someone seems to have reported saying that all our Profit is because of increase in Non-Interest Income. Our Interest Income has gone up by 30 odd percent and loan book also has grown at 22%, plus our NIMs have been pretty stable. We have as usual provided a higher amount in our provisions. If you compare our provisions with respect to last quarter, it was 34 crores; this quarter it is about 36 crores. On an underlying basis, Profit Before Tax has grown by 29% and Profit After Tax has grown by 29%. Cost Income Ratio after adding all the branches, last year same time we had 205 branches and now we have 290. After having added all the branches, we are at 63.7 last year and 61.3 this year, so slight amount of improvement in Cost Income Ratio as well.

So one other good thing that happened was the Businessworld gave us the Best Bank Award in the small bank category. What I mean by small bank is that they divide the banks from a Balance Sheet point of view into large, medium and small and in the small bank category, we got the Best Bank Award. We also declared our results very early as we normally do, so our annual report did not carry any details on divergence, but later on we have put out a note in the stock exchange that our divergence is zero with respect to March 2016.

So those are the highlights, I am open for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nagraj Chandrashekhar from Laburnum Capital. Please go ahead.

Nagraj Chandrashekhar: Just wanted to ask as you are nearing the end of your branch expansion program and in a lot of geographies, are you facing any challenges that other SME focus lenders have seen when they try to branch out to different geographies compared to where they are originally strong at, some other large say for South based SME lenders that have also faced and are facing this, are there any challenges that you are facing as such?

Murali M. Natrajan: So what would be our example of a challenge that you would like to hear about?

Nagraj Chandrashekhar: As your core lending processes sort of property backed loans, not having a deep history of being in that locations disadvantage for you?

Murali M. Natrajan: So probably this deep history always will help, I am sure, but the way we do business is we have a concept called "all products all branches." So which means that when we open a branch, we are not looking at Mortgage or Loan Against Property as the only product. In some branches, we are not able to do that product at all because there is no opportunity around that business. So when we open a branch, minimally each branch has to deal with Current Account, Savings Account, Term Deposit, Gold Loan and we will add at least one product, sometimes the product can be Commercial Vehicle Loan, sometimes the product could be SME focused, and sometimes the product could be Mortgage. So, we hire people from the local area. Our team has expertise across regions. In the last 5 years, we have developed expertise across regions. I was in Tamil Nadu, Tamil Nadu you would say is a strong area for some of the South Indian banks, but in Salem, we are doing very well. In Erode, we have a great start. We went to Namakkal, Namakkal branch is already off to a very good start. So, there is a huge amount of expertise that we have developed at the central level as well as the regional level. So, I do not see market knowledge as a problem. We actually first do a recce, get the market knowledge before we decide whether we want to do a business or a product in a particular location and there are cases where when we went with a particular assumption, it did not work out, so we kind of remodeled that branch to do something else. So it has happened. So it is not that every area has come out perfect for us all the time. So that is how it is. And we are very confident, it does not matter to us where we operate where

we want to open a branch. We can now, we are confident of opening a branch anywhere. So long as we think, there is a potential, we can open a branch and garner resources to deliver on that branch profitability.

Nagraj Chandrashekhar: Thank you and one more question. It might be a little counterintuitive, but I see that your yields are repricing in line with, you have been able to maintain your spreads as such. Just wanted to ask as your deposit repricing sort of declines come off, are you seeing sort of pressure on yields in certain legacy segments? Just wanted to get a sense of where and if you are seeing pressure on yields at all.

Murali M. Natrajan: What would be a legacy segment?

Nagraj Chandrashekhar: Your Corporate book or your SME book, just general sense of pressure on yields?

Murali M. Natrajan: Though, as it stands today, the credit growth in the environment is not very strong, of course there are new banks and existing banks. So, there is a huge competition. So, we constantly look at our risk appetite and take decisions on whether we want to participate in that opportunity or not and not just because competition is doing something or not doing something,. We have to evaluate our own risk appetite. So the yields are coming off and if you look at our NIM for the quarter one, it is 4.23%, about maybe 8-10 basis points would be because of the capital that we raised in April. So in effect I am seeing actually NIM starting to decline and we always maintain that our business model internally when we present to the Board, it is always at 370-375 basis points and we are confident that even at that NIM level, we would have a decent business growth.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: I had three questions. Firstly on this quarter, we saw very strong performance on the fee income side. Just if you could give some more color what led to this momentum given that the base quarter itself saw a strong performance and if it is sustainable. Thanks.

Murali M. Natrajan: So, we hope every effort that we are making is sustainable. I have been telling you that we are working on Trade Finance, Insurance and Investment Services. We had some challenges in the previous quarters on ATM fees,

some of it has come back as ATMs are becoming more operational; then you look at Insurance and Investment Services. Again, we had a pretty decent quarter. So I would say that all the efforts that we are making on a granular basis is slowly yielding results for us and I hope that we will be able to sustain it. We have been targeting somewhere between 14%-16% growth on fee income, internally of course we are trying to do much better than that and we are trying to do granular repeatable fee income as opposed to any one-off income. We do not have any bulky income except what we have declared as treasury gains, we do not have any bulky income in the Other Fee Income.

Dhaval Gada: Also do we book PSLC income as Other Income or it is part of the core Fee Income?

Murali M. Natrajan: So if this continues for 2-3 years, I would say that it should become a core fee income. At the moment, we do not book it in core Fee Income. This year also, we are working on making some gains on PSLC sales. What I have to say, is it is always back-ended. Even if I sell in first quarter, you will not see the income of that in first quarter because we recognize it in the calendar (financial) year which is last year also. If you see fourth quarter, you would have found some amount of money they are coming from PSLC.

Dhaval Gada: Got it. Second question was sir on the branch expansion. We started a journey in October 2015 and the first set of branches are now through 18 to 20 months kind of period. Just wanted to sort of get your perspective on based on our initial assessment on those branches, how has the trend been and what are the positives and what are the negatives and if you could highlight is the 18-22 months guidance sort of preponed because of demonetization, the momentum that we have seen on CASA etc.?

Murali M. Natrajan: No, some branches gained on CASA because of demonetization and then there had been a period when lot of those money also flowed away from the branches. During that demonetization, we were not able to grow assets for almost 15 days. So, I have mentioned in my previous calls that we have been at least we have lost about 3 months in demonetization time from the plan that we have put up. So the way I see it is that lots of branches, almost 80%-90% of the branches all are tracking to the 18-22 months, some are running away and demanding more people and more space, becoming a some kind of a headache for us because we are always constantly having to balance between whether we open new branches or should we give more people to those existing branches. So, we are balancing that. Some branches have not

done well partly because we did not get the team right. Our experience finally is that, we crystallize to one simple thing is that, irrespective of location, location we can go wrong a little bit here there, but if you get a good team right at the beginning of the branch opening, then the chances are that 18-22 months is very much possible. Sometimes we made a mistake that the team has not been good, so we have had to kind of redo it. So we lost about 3-4 months in the whole process, sometimes even 6 months in the process. So, we are catching up on those branches. But overall, I do not think we have been off from that estimate.

Dhaval Gada: And just lastly sir, so we saw very good treasury gain this quarter. I was just wondering if we thought about creating any additional routine provision given that coverage ratio is...

Murali M. Natrajan: That is allowed. You cannot make provisions based on how well you do on a particular quarter. I do not think our Audit Committee will accept it neither the auditors will accept. We have an agreed basis on which we are creating floating provisions quarter-on-quarter irrespective of how the underlying performance is. So currently we are holding 44 crores of floating provision which we have never dipped into so far and every quarter, we add to that provision on a particular, Bharat can comment correctly.

Bharat Sampat: It is based on a proportion of our Standard Assets.

Murali M. Natrajan: That is right. So that is getting added on its own. So, any other additional provision that we make has to be a specific provision, it cannot be a floating provision. So, we do not do floating provision based on the performance.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Firstly, how much of the OPEX growth is because of the new branches, broadly speaking you have been growing only in the 25% ballpark for the last many quarters in terms of OPEX growth. How much of it is because of the new branch?

Murali M. Natrajan: Quarter one, part of the OPEX growth would have been because we have to effect the annual salary increase right and as the volumes grow, we have to add people in collections, we have to add a little bit of people in processes, branch operations and technology and so on. So those are all business as

usual. So those projections are shared with the board and we are not disclosing those projections in the public domain. What we have seen so far is 60-65 lakh is the cost of branch, running cost that is including salary, including rentals, electricity, technology, everything. So more or less that is how we have been tracking it. Wherever we find that it is going off track, for example if some branch is exceeding their cost, we have a mechanism to track in and go back and say what is happening. Even if they miss out on their electricity cost, we will be able to track it and tell them, so that is how it is. So it is all branch cost and the business as usual cost that is what is there in the Opex.

Roshan Chutkey: No, but I wanted to understand how is it that you have been so successful in containing the Opex growth in this ballpark range when you are opening so many new branches. Is there any..?

Murali M. Natrajan: So you add, you can do the math yourself. If you add 100 branches, Bharat is showing by the sweat of the brow which is also true. I wish there was a better way to do this thing rather than just sweating, so I think if you look at it last year we had 144 crores, this year we have 183 crores as Opex, so that is about 40 crore difference and we have added about 100 branches right and average if you take about 50-60 branches, you should be able to come to that number, I do not think that is very difficult.

Roshan Chutkey: Sure sir. And one interesting thing I noted is that CV book growth has been pretty strong this quarter at 52% year-on-year and the CV business is growing through a lean patch. Any particular reason for this?

Murali M. Natrajan: Small base. We are doing only what some maybe 40-50 crore of loan growth, loan origination every month and there is enough opportunity for us to do. Yes, in April and May, there were lot of challenges on this BS-IV and so on, And we do again small-ticket lending in that segment. So the increase is primarily due to the capacity that we have increased sales capacity and processing capacity that we have increased in CV that is what is contributing to the sales.

Roshan Chutkey: Sure. And what is the ARC sale in this quarter, which segments are contributing to the ARC sale?

Murali M. Natrajan: There is no significant ARC sale. There is one account that we sold for about 2 crores or something, Bharat can comment on that.

- Bharat Sampat:** We sold one account for 2 crores, it is given in the investor presentation. So that got sold for 50-50 structure, we wanted to try out the 50-50 structure how it works for the transaction.
- Roshan Chutkey:** Maybe we can take it offline. And just a couple of questions more. Your loan growth is similar to your interest income growth. How are you able to maintain yields amidst your broad based decline in yields?
- Murali M. Natrajan:** You know, I did answer this question. Yields are coming off in line with the Cost of Funds. First of all, you should understand this MCLR rate is such that if you have benefit on cost of funds, it has to be passed on to the customers, that is the way it is.
- Roshan Chutkey:** I am talking of interest income growth, not the NII growth, interest income growth. Loan growth is about 22%, interest income growth is about 20% if I am not wrong, broadly the same that means you are able to maintain the yields.
- Murali M. Natrajan:** That is true because you see the product mix has always remained like this. Supposing I skew it all the way to say Corporate loans which are at much lower yields, then you will find that our yields will come off, but I do see that the pressure on customer yields have increased so much in the last month or so. I do expect that yields will actually soften even more in the coming two quarters.
- Roshan Chutkey:** Sure. And just one last data point question. Does your Tier II include general provisions on standard assets because there is a comment in Basel III disclosure that it does or is it an erroneous comment?
- Murali M. Natrajan:** So Bharat on the Tier II does it include the standard asset provision or?
- Bharat Sampat:** Yes.
- Roshan Chutkey:** It do not show it as other liabilities, okay, sure.
- Moderator:** Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Just on the net interest margin question, as you mentioned that there was an one-off of capital raised benefit of 8 to 9 bps, but just on the cost part, cost of deposits, do you expect it to trend down as your CASA sort of increase or is

the major benefit already behind us. Just some sense on that. And the second question is on the asset quality.

Murali M. Natrajan: Our endeavor would be to go on reducing cost of funds in whichever way we can. Say some refinance, find out segments like in term deposit, find out segments where we can get deposit of 5-10 basis points here and there. So all that effort will continue, that is our job. So we will continue to try and do that. But I am talking about on yield on advances. Yield on advances is under lot of pressure. Corporate loans is like you cannot even imagine the kind of pressure, of course we are fortunately only about 15%-17% on that. There is humongous pressure on Mortgage and Loan Against Property. There is a lot of pressure on SME because suddenly all banks want to be in Retail, SME. So there is huge amount of pressure. Fortunately because of the way we have organized our portfolio management team, we are able to, by reducing the rate, at least able to retain the customer, otherwise we can even lose the customer because of the kind of pressure that is coming on yields. So any comment that I can give on NIMs, it may change tomorrow because the NIMs are under lot of pressure.

Ashish Sharma: What I was trying to figure out was whether cost of deposit can sort of provide that buffer in terms of yields will continue to remain under pressure. This 6.60% for Q1 of FY18, do you think this is not normalized given that there was a capital raised benefit. So I am trying to find out is there any more headroom to improve this and what could that headroom be?

Murali M. Natrajan: That may be possible, but I will say this, rather than talk separately on yield and cost of funds, I would say that our endeavor would be to try and retain NIM at 370-375 basis points. If we do better than that, obviously that means we have done a better job on product mix and managing the cost.

Ashish Sharma: Sure sir. Sir the second question on the asset quality. If you see specific segments, Mortgages have seen a sharp increase in gross NPAs, just anything to read on that?

Murali M. Natrajan: No, I already told you in the opening remarks that we are operating in a very dynamic environment right now. So, we have RERA and we have Construction Finance about 3% or 4% of the book. Customers are adjusting to that. Then, we have farm loan waiver. So, we are having about 4%-5% of our loan book in MFI lending. So there are some challenges we are managing on that. Some of the rural gold loans challenges we are managing

on that. There is a huge amount of competition in LAP, so again we have to make sure that how do we define our risk appetite and kind of play in that so that we do not kind of have a major issue on portfolio quality in the coming quarters. Then you have GST, there has been quite a lot of disruption in movement of goods and all, in the long term all for the good, but in the near term people are trying to kind of adjust to the process. Then of course demonetization, we still have some of the business that has slowed down during demonetization, still grappling with it. Some of these customers have said even in the past if they cannot pay one installment and they become two installments due, they struggled to pay two installments, they continue to keep on paying only one installment and remain delinquent. So I would say that it is fairly challenging environment and we are on top of the situation. Mortgages are contributing almost about 35% of the total NPA whereas in a book, I think it is about 40 odd percent of our book. So that is the way we are at the moment and we are continuing to make strong efforts in collection and risk management.

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

Gitanshu Buch: Thank you for the phenomenal transparency you give on all your calls, this is my first question to you on a conference call, so I am going to ask few, beg your indulgence. Speaking of that Mortgage contribution picking up from the last questioner, you are right in that it is about 35% of the book and the lending contribution is about 43%-44%. Should that proportion to Gross NPAs be expected at going forward or would you expect that to be dynamic?

Murali M. Natrajan: We had a very good fourth (second) quarter if you see both in terms of upgrades and collections that is both upgrades and recovery. That was followed by not a very good quarter at all because of demonetization where we did say that we had not just in Mortgages, all products put together we have taken INR 33 crores NPA because of not taking shelter behind the dispensation that was given. So, I think it may differ from quarter-to-quarter. I would not want to draw any trend line on this. What happens is that in collections, you are confident that some 3 or 4 accounts will upgrade, they have made the promises and there is some activity in terms of either sale of property or somebody taking over the property or some other remedial measures are being taken. If it gets delayed by even week or 10 days, the account either remains in NPA or slips into NPA. So I would not want to draw

any trend. I am just saying that it is still in the same proportion. But the market challenges remain and I have always been saying that with Loan Against Property the way competition is, it is a pretty challenging situation.

Gitanshu Buch: So that raises a couple of questions about vintage of those Mortgages that go into these NPA categories, so for example in 2012, 2013, 2014, the proportion of Mortgages going into NPAs was 6%, 12%, 19%. Now it is closer to 45%-46% for the last couple of years. Is this a fall in lending standards? It cannot all be attributed to just event started in November 2016?

Murali M. Natrajan: That is one-off the event. So even if I am very careful in lending to a particular customer if another entity goes and gives them supposing a business installment loan which is unsecured or offers them a personal loan which is unsecured, then the customer gets a stretch because he has borrowed more. So it may have nothing to do with our underwriting standard at the time when we booked them in 2012 or 2013. The general market practice that you see is if the customer shows good track record, then there is a top up of an unsecured loan being given to the customer. So the portfolio quality operates in an environment how all the players operate, I am sure you appreciate that. Some of the lending that we have done in 2010 or 2011 which may have been perfect for many years may actually come under pressure because of any such borrowing that the customer done. Other thing I want to tell you is that SMEs generally have some challenges if there is an upheaval and other things like GST. They all are a small company and they may become delinquent or NPA for various reasons. For example some child has gone to study abroad, he diverted the money from his business to fund that child or he bought some real estate or there is some dispute between brothers, there could be N number of reasons. Now such reasons become easier to resolve in a benign environment, but becomes more difficult to resolve in an environment where the business momentum is not strong. That is the way I see these delinquencies.

Gitanshu Buch: Thank you. Couple of unrelated questions. In the deposit mix, the rate of growth in CASA has shot up probably because of demonetization. Do you expect the rate of growth in Retail Deposits to pick up at some point in the next 12 months or so?

Murali M. Natrajan: We are a Retail Deposit focused bank. We try to keep our wholesale deposit at about 20 odd percent that has been the stated strategy. You can see that in page 9 of our investor presentation right. We also try to make sure that the

Deposit that we get is as granular as possible so that we believe that those will give us a long-term benefit in terms of stability as well as some cross-sell opportunity. Having said this, the score card of the branches, of course it will differ between new branches, existing branches, stable branches and so on and so forth. The score cards are always geared towards them delivering on Current Account, Savings Account. We see Tier III as a very big opportunity. We are still working on how to benefit from that, hopefully in the next week or so we will be able to come up with something for the customer. We see Savings Account has a big opportunity because given all the focus of government on digitization and all, more and more people are quite happy to open bank account and transact. So, we are quite happy growing our CASA at about 20%-22%, but some benefit we have got on demonetization kind of event.

- Gitanshu Buch:** Two more questions and then I am done. One is technical, the Held To Maturity assets are down and it looks from the Balance Sheet that approximately the same amount went into Advances. Is that what we should expect going forward in terms of proportions of Investments versus Advances?
- Murali M. Natrajan:** No, that will depend on quarter-to-quarter depending upon the opportunities in the market.
- Bharat Sampat:** RBI has reduced SLR ratio
- Murali M. Natrajan:** Will automatically come down because I think now the SLR is at 20%, last year probably it was at 22% if I am not mistaken, around 21.5%. So those are the kind of changes that are happening on the Balance Sheet. I have not even looked at the data that you have mentioned.
- Gitanshu Buch:** Okay, it is there in your presentation. Final question has to do with branches, the North East, the States East of Bangladesh, the maps have been consistently quiet. Is that deliberate credit quality...
- Murali M. Natrajan:** We are unlikely to open any branches in Kashmir and North East. There are enough and more opportunities in the rest of the geography that we are operating. Our core geographies continue to be Punjab, Haryana, Madhya Pradesh, Orissa, Parts of Maharashtra, Delhi, Andhra, Telangana, recently Gujarat also. Of course, recently we are finding a lot of confidence in opening more branches in Tamil Nadu and fighting the existing big banks out there.

So I made a special trip to Tamil Nadu, spent about 4-5 days there, I am very confident that we will be equally successful in Tamil Nadu as well.

Gitanshu Buch: Setting aside geographies, looking at the distribution as you classified between metro, urban and the categories below that, before the October 2015 plan was announced, the branch mix was actually, the category of metro used to be around the same as it is today, but since then the category of urban which is the next category down has gained the most as a proportion of the total. Is that deliberate or just natural revenues?

Murali M. Natrajan: Everything that we do is deliberate. Nothing happens by accident in our Bank. Everything is deliberate. We sit down, we deliberate on all these items where to open branches. Of course we have to make sure that. We follow the RBI principles on 25% unbanked and within that, we also looked at now the new branch banking rules that have been announced where certain areas even if it is urban, it classifies as unbanked because of certain reasons that the Reserve Bank has said, you can go through that circular. We constantly look at this opportunity across. So 25% of our branches have to be in unbanked new branches.

Gitanshu Buch: So for internal management purpose you are. Setting aside the RBI requirements, would you consider the digital domain to be its own branch? In that does it act as an effective catchment area for you?

Murali M. Natrajan: I have formed a view that digital is neither an option not a complete alternative. So you cannot just say I do not want to be digital because there is no option, you have to be digital because customers demand in the modern era to be dealt with in a particular way. We do a lot of things. For example,, we have an Iris Samsung tab - about 200 or 250 of them across our branches -where all you have to do is just look into the tab and we will pull out your Aadhaar details and complete your KYC in about 4 or 5 seconds. We are now actually tracking at the central level and you will be surprised that a lot of customers think that there is some black magic or something. So again customer acceptance has to be there. So we do that. Similarly when you talk about alternatives, sitting here, I do not think I can do business in Namakkal or in Malerkotla in Punjab. I do not think so. We have to be present, so some level of physical presence has to be there and that is how we came up with this (+300) branches. Once we have these branches, I am confident that we will have a meaningful presence and then we will deliberate on how we should kind of grow over the next 2 years. Currently, our thinking is that we

should put only 10-15 branches for the next 2 years or so and then take a call again and say whether what it is and of course those things will depend upon our Cost-to-Income ratio, business performance, ROA/ROE all those things would come into picture in our discussions now.

Gitanshu Buch: Thank you and the final question. You are still holding to your average ticket size of 50 lakhs and the maximum of 3 crores or?

Murali M. Natrajan: Except for Corporates, yes. So very few loans we do above 3 crores on a monthly basis other than Corporate. I would say that I do not have any firm data here with me right now, but I think almost 70% of our loan book would be 3 crore or below.

Moderator: Thank you. The next question is from the line of Raj Sanghvi from Zerodha Securities. Please go ahead.

Raj Sanghvi: Sir, I have a question what is the amount in value sense of the net NPA, increased amount in this quarter in the value sense?

Murali M. Natrajan: It is about Rs. 149 crore.

Raj Sanghvi: Rs. 149 crores?

Murali M. Natrajan: Yes.

Raj Sanghvi: From last quarter to this quarter it is around Rs. 149 crores?

Murali M. Natrajan: Yes.

Raj Sanghvi: And like you have provided around Rs. 35 crores as provisions?

Murali M. Natrajan: The provisions are based on minimally of course, what is prescribed by the Reserve Bank of India. The provisions also include standard asset provision, floating asset provision which is part of the entire Rs. 36 crore provision. If you see our last quarter provision, we have made about Rs. 34 crores or something like that, this quarter we have made about Rs. 36 crore.

Raj Sanghvi: And this Rs. 149 crores it is from the Corporate side or is it from the Retail side?

Murali M. Natrajan: This quarter it is all Retail, SME, MFI, AIB all that put together.

- Raj Sanghvi:** Any like particular segment which has been more stressed?
- Murali M. Natrajan:** We do not have any except for Wholesale and Retail Trade, we do not have any concentration on any of the other segments. I mean there is no segment related NPA that we see in this particular quarter.
- Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** I would like to get some color on the geographical side of the slippages during recording mortgages and agri business?
- Murali M. Natrajan:** Across India.
- Rohan Mandora:** Okay. So, Agri business would include MFI slippages other than that and we have booked farm loan waiver in that sir?
- Murali M. Natrajan:** So, if I am not mistaken, we do business across almost 99 or 100 locations of Mortgages and the top 20 locations to 25 locations will be contributing almost 85% of that. So, I would think that it is similar in that proportion only. The question that you had on what farm?
- Rohan Mandora:** On sir, the agri business, what was the impact of farm loan waiver in that?
- Murali M. Natrajan:** No, I do not know exactly farm loan waiver what is the impact. But I can tell you that farm loan waiver definitely has impacted the speed of collection especially in BC, MFI business and to some extent even in gold loans and so on. So, I would say that what we can see here from the presentation is we have had about Rs. 1500 crore slippage in AIB, I would say almost 80% of that would be related to MFI and farm loan only.
- Rohan Mandora:** And sir, like if you look at the SME/MSME piece there has not been much of slippage, whereas in the mortgage piece there has been a good amount of slippage. So, wanted to understand like what led to this kind of difference because mostly the profile would be very similar is what I believe.
- Murali M. Natrajan:** So, we have had of course, similar profile but like I mentioned that SME Loans are given for like mostly CC/OD type of loans are given in this segment and whereas in Mortgage it is installment loan. There are many things that we have observed. What we have observed for the last few months is that wherever customer has taken any unsecured business

installment loan of a huge amount which he is not able to service then even the good behavior in Mortgage kind of starts to slip. Okay, for example customer is paying well for 24 months; some other financier thinks that it is a good idea based on the track record to give a business installment loan. Customer behaves well, continues to behave well for a while but then he finds out that he is unable to service the installment then he starts to slip. So, I would say the segment is similar but the way the behavior is slightly different. For example, in SME/MSME they will have the entire account with us in terms of the Current Account, so we can see their business. Here we cannot see the business of these customers because they their installment loans. So, here we have to rely a lot on the collection feedback that we have on how the business is going. So, that is a big difference in the two businesses.

Rohan Mandora: So, that means that for the Mortgage loans we may not be having the Current Account of these customers with us?

Murali M. Natrajan: About more than 70% - 80% the customer does not switch their Current Account with us. But the loan is disbursed to his current account. When we disburse the loan, we always disburse it to their current account.

Rohan Mandora: Okay. And sir, was there any PSLC (Priority Sector Lending Certificates) sales during the quarter?

Murali M. Natrajan: Whatever we have done, you will see the impact of it in the coming quarters. Those transactions are continuing to be done by both AIB team and Treasury. We do not disclose that number in public domain at the moment. But whatever sales we do you will definitely see the income of it in the coming quarters.

Rohan Mandora: And sir, any surplus, what is the surplus SLR that we are carrying on our books?

Murali M. Natrajan: Yes, about 2% is there.

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

- Megha Hariramani:** Sir, the 18 months to 20 months number that we mentioned in one of the previous answers that the new branch, does it take like 18 months - 20 months for us to get breakeven on every new branch that we open?
- Murali M. Natrajan:** 18 months to 22 months.
- Megha Hariramani:** Okay, so it takes 18 months to 22 months.
- Murali M. Natrajan:** I want to be very specific on this, okay. Of course, when I say 18 months to 22 months, it is breakeven, what we mean is the monthly income attributable to that branch will equal the monthly expense of that branch. So, that is breakeven. It does not mean that they have recouped the minus numbers that they would have had in the initial months of launch.
- Megha Hariramani:** Okay. So, that would take a little longer as well.
- Murali M. Natrajan:** What we have always said is anywhere between 36 months to 40 months is when we expect them to come to 50-50 Cost to Income ratio. So, to just give you a sense, we spend about average Rs. 60 odd lakhs as the cost per branch in terms of the running cost. So, when it hits the Balance Sheet whether it will be a mix of deposits, loans, term deposits, gold loan, etc., they start breaking even.
- Megha Hariramani:** And another question is on the product mix, do we expect that to remain the same or change going forward, since we have seeing pressure on some of the areas currently?
- Murali M. Natrajan:** No, we are constantly looking at opportunities but from Retail and SME point of view our product set is complete. I think, I said in the previous call or may be a call earlier that we find that many of our customers who are our Current Account, Savings Account customers are taking small Personal Loans, we are not talking about business installment loans, we are talking about Personal Loans from other banks and then because of the data analytics of the other banks we are starting to lose our relationship to that other bank. So, we started our Personal Loan business about two months - three months or four months ago. And we expect over the coming three years - four years that to be about 5% of our loan book. We are currently deliberating on product nuances to see whether there is any opportunity from GST point of view or something else. So, yes, I mean we constantly look at our portfolio. From a

loan book portfolio, I would say that even if we double our Balance Sheet the mix would remain somewhat similar.

Megha Hariramani: Okay. And my last question is on the overall growth, I mean considering all the expansion plans and the pressure from peers or demonetization or any macro event that takes place in India, what is our internal growth target for next two years? How do we see DCB going forward?

Murali M. Natrajan: October 2015, we said, we want to double our Balance Sheet in 36 months to 42 months. So, we are following that path at the moment. I am unable to give you any fresh guidance on it. Considering what kind of capacity we put, if we manage the productivity and all so well, we should be able to achieve that. The challenge we face is there is two things that we have to, what is the environment? What is the risk appetite? What is the competition and what is the kind of risk-based pricing that you are happy to provide? So, when you put all this together we have chosen that anywhere 20% to 25% growth should be all right.

Moderator: Thank you. The next question is from the line of Renish Patel from Antique Stock Broking. Please go ahead.

Renish Patel: Sir, just a small question and database question. Sir, what is the current employee base as of now?

Murali M. Natrajan: 4,000 sorry 5,200, 4,000 was last year what I am saying, sorry. It is 5,258 to be precise.

Renish Patel: Okay. And sir, what is the outstanding SR book as of now?

Murali M. Natrajan: SR book.

Bharat Sampat: It is slightly below Rs. 70 crore.

Renish Patel: Slightly below Rs. 70 crore.

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

MB Mahesh: Sir, just two - three questions. One on the asset quality front, as you speak does the early warning indicator still remains the same as what it was in the previous month or are you seeing some level of improvement on that front?

From your existing on your NPAs that you are having right now, have you seen any improvement in the early warning indicators let us say a cheque bounce rate or a 30 day DPD are you able to see some amount of pull back?

Murali M. Natrajan: Yes, some segment we saw improvement that improvement is attributable I guess to better process and better intensity in collections. In other segments, we have seen no major improvements in cheque bounce or things like that. So, on the whole, the portfolio remains pretty much the same as it was in the last quarter or so. Since we are a small Balance Sheet, two accounts also Collection is not able to close the property sale or some remedial action on time, it will show up like a sour thumb in our portfolio. Supposing our portfolio was Rs. 35,000 crore or something like that these two or three accounts that show up does not really matter. That is the way I see it.

MB Mahesh: Okay. Second, you have indicated on the same question earlier that you are seeing fair amount of business installment loans or unscheduled loans being taken. But typically, what we understand is that when a customer has asked for renew loan, the data actually hits the information bureau which in turn passes this information back to the bank or the existing lenders who have taken exposure to that specific customer.

Murali M. Natrajan: No, if you ask for that alert you will get it.

MB Mahesh: But this would be there, right?

Murali M. Natrajan: I cannot tell him that you cannot take the loan now because the other bank or other financier may be deciding based on their own criteria as to what loan to give. We will get the alert, so we can do the scrub and say that whether we want to remain with the customer or let the customer repay the loan and go. And that assumes that the customer would also oblige in repaying the entire loan and go. So, all those alerts and the early warning systems are well in place in terms of finding out what is happening on the portfolio and from time to time you will keep taking decision saying that you do not want to deal with this segment or you do not want to give any more of this loan. All that is like a monthly decision that we keep taking on portfolio. See, if a customer is wanting a loan, he gets it. I mean I have a view that in India whatever loan demand comes up it gets fulfilled by some financier or the other 99% of the time. That depends on the risk appetite of the person. So, we have defined our risk appetite in a particular way; we keep tweaking and changing as we go along. The other thing, sorry. The other thing that one does not realize is

that let us say foreclosure we do of a particular property. If it was taking say six months for selling the property, after demonetization that period has got a little extended because people think there may be opportunity to cut the rate or price I think like that. Wherever you have a very strong LTV like 55% - 60% it is a far easier. Suppose in the LTV that 60% they know that it is a foreclosure property, they want to see the bank will kind of wilt under pressure by cutting the rate or something like that. So, we have our own process of making sure that we do not lose on all these sales. So, that all takes time, that is what has happened since I would say February of this year.

MB Mahesh: Sir, second part of the question when you see your employees today, do you have to actually add more people to get same level of output or do you think the productivity levels are pretty much in par with what you are?

Murali M. Natrajan: No, productivity is our day in and day out work. Even if I have 5,200 people and I think that some 10% is not productive I am just giving an example. But if I add 20 more branches in different locations I still have to add some seven - eight per branch because not all people are strictly transportable. The resources are not transportable across, right. So, there are times when we do like this, we actually cut resources of a particular unit and give resources to another unit because of the productivity or the opportunity and so on. But I do see that once we finish our expansion plan, more resources and energy will be applied to further improving the productivity of the team that is already in place.

MB Mahesh: Okay. And just last question, one is on the working capital requirement, we seem to be getting mix signals on the underlying demand. Post-demonetization there appear to be a sharp fall and then it started to increase, now we are getting signal saying that look this working capital mismatch in the business which is creating working capital demand right now. Or are you seeing genuine recovery in some of the businesses which is creating some working capital demand?

Murali M. Natrajan: I wish there was a perfect way of doing some kind of research and getting this done but I can only give you anecdotal example and it is quite possible I happen to meet these two - three people therefore, I am forming this view, may be mine is bias sample, but having made that disclosure let me explain this. We had a 300-people dinner at Taj where I met customers till 12:30 in night. One by one a lot of customers want to shake hands and meet with you

and all. Actually, two customers told me that they have to start valid bill work; everything is in invalid bill that is why they will be coming to the Bank for more enhancement that is what they said because of GST. Then another lady who is in our portfolio management, she has been working in our Bank for 20 years, so we have a sixth floor and we have ninth floor, I have a habit of going to ninth floor constantly to try and interact with people. That time I met her in the lift and she was looking very hassled. I said, what happened? She said, I have so many proposals. I said, why? She said these exact words "customer is saying by reducing raw slip work they have to work with valid bill that is why he needs enhancement." So, I personally feel that one year from now GST could actually result in more formal credit from the bank that is my current assessment, I could be wrong.

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

Kaitav Shah: Sir, just wanted to check on the trend line for SA, I mean it has done very well I think it lasted well beyond demon. So, any thoughts are the newer branches delivering or it is more maturing of the?

Murali M. Natrajan: No, newer branches are delivering but newer branches take time to build on SA and CA because to switch somebody's Current and Savings Account is not easy. So, I would say that many of our existing branches are performing well. We are coming up with, we have started with a campaign, above the line campaign our advertising campaign, I do not know if you received the clip called "issey mujhe kya milega?" ("what I will get in this?"). In Delhi, we are going to start that campaign in cinema halls on July 28th in whole of south and this is not going to come on TV commercial. So, we are making a lot of effort. So, I hope those efforts give us benefit. There is a huge amount of focus on this. I do not want to draw a straight line or a trend line based on one or two quarters performance.

Kaitav Shah: Okay. So, directionally speaking, you think there is a lot more we can do in terms of CA and SA both?

Murali M. Natrajan: I mean you look at our CASA, all I am trying to say is that look into our CASA I think CASA is about Rs. 5,000 crore, right?

Kaitav Shah: That is right.

- Murali M. Natrajan:** Let me just see once again Rs. 5,000 crore, look at what is in 2012. Bharat, just tell me what is the number on 2012? 2012, what is the number? I think in five year we could have...
- Kaitav Shah:** Rs. 2,000 crore.
- Bharat Sampat:** March 2015 it was Rs. 2,800 crore
- Murali M. Natrajan:** So, March 2015, total CASA is 2,800 crore. So, there is a lot of effort going on in CASA, our Bank the employees in the frontline most of them depending upon which branch they are, they will not be able to escape the CASA target. So, there is a focus on CASA to help improve the cost of funds.
- Kaitav Shah:** Okay. And is it becoming easier right now or.
- Murali M. Natrajan:** Nothing is easier in banking boss, I do not know why you guys even think that something is easier in banking. Nothing is easier. It is a 24/7 job and I do not know why even some people aspire for banking licenses. We should have been actually an NBFC probably far easier to do work I would say and better valuation perhaps. So, nothing is easy. So, please do not even use the word it will be quite painful for us if you say that. There are some banks which find everything easy but definitely not us.
- Kaitav Shah:** No, no we are not trying to take away the credit, not at all. Sir, the second question is more on MFI, what sort of portfolio would we have and is there any...
- Murali M. Natrajan:** 5% of our portfolio is exposed to MFI, PTC, BC all that put together is about 5%.
- Kaitav Shah:** Right. So, the point was how much provisioning would you see over the next couple of quarters, have much have you done in this quarter and over the next couple of quarters.
- Murali M. Natrajan:** That you can see the part of the NPA numbers in AIB will be because of the MFI. All I want to say, we have constantly maintained that this portfolio we are there only because this is one way of achieving weaker section agri and all these things. If there are alternative ways we probably pursue that because we always maintained and if you see in total exposure which is 5% means we are talking about Rs. 700 or some crore, this is the same amount

of exposure we have had in the last four years or five years. We have never grown this exposure because we see that this is not a robust, there are risk associated with it, some pockets are having trouble. So, we have some portfolio in stress which we are trying to recover. So, yes, as of now that is why I said there are so many things that are happening in India, RERA, farm loan waiver, MFI, GST, demonetization, BS-IV, I mean it is a pretty exciting period in which we are working actually.

Kaitav Shah: Okay. Any number that you could guide us to as to what is happening in MFI and the provision in that you might require or...

Murali M. Natrajan: No, we are not able to tell you separately on that. Our investor presentation gives us a fair amount of detail beyond that it is tough to give separately.

So, let us take last two questions.

Moderator: Sure, thank you. The next question is from the line of Ramakrishna from State Bank of India. Please go ahead.

Ramakrishna: Couple of questions basically, like in the beginning of the call you were indicating that internally for your both reporting and all those things, internal calculations you take NIMs in the range of 3.7% - 3.8%. Can you please help us with what will be your internal targets or assumptions on ROE and ROA and Cost to Income, so what numbers actually generally you work upon?

Murali M. Natrajan: No, the Board has guided that the projection that we can share with you is now put in October 2015 Press Release in which we are saying that in the fourth quarter of March 2019 we are looking at 55% Cost to Income Ratio of the exit quarter and 14 odd percent of ROE that is what we are working towards right now. And this is including all the new branches that we are putting plus the few branches that will come up for us to achieve the number, right. So, that is where we are. At the moment, it looks like if we continue to perform well and do not blow up our credit cost, we should be able to achieve that projection. Beyond that we will work with the Board and come back if there is any guidance that we need to give to the market we will do so.

Ramakrishna: Thanks, that is helpful. And another one just now we were indicating that around 5% of these loans is towards MFIs and others. So, just like that any number actually in terms of MUDRA refinancing what part of...

- Murali M. Natrajan:** It was I think very minuscule, I do not even think that it is a very miniscule number it is.
- Moderator:** Thank you. We will take the last question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.
- Rahul Maheshwari:** Couple of questions. First of all, in case as you told there is a 22% lending advance growth was there. Can you give highlight that how much is towards the new customers and how much is towards the existing customers, any brief percentage wise?
- Murali M. Natrajan:** We do not publish those numbers. We have our analytics team present to us but we do not publish those numbers. We are a bank which is growing distribution. I go to Erode and meet some customers, we are going to Punjab and meet some new customers, those are all new customers, I would say. And since, we are expanding the business, there will be some amount of top-up or somebody comes for enhancement that would also come as you know enhancement and so on, I do not think I can talk to you about this number.
- Rahul Maheshwari:** Okay. And currently in the current quarter we found that the write offs were at Rs. 24.5 crore. So, in that, there is also a sale to ARC, so can you give that the ARC asset was sold at Rs. 2 crore and Rs. 7 crore were the difference between the exposure and the net book value. So, how much, what...
- Murali M. Natrajan:** No, it was a one simple sale I think the...
- Bharat Sampat:** Rs. 2.9 crore were the exposure.
- Murali M. Natrajan:** Rs. 2.9 crore was the exposure and I think, we sold it at 50-50 ESOP. That Rs. 7 crore were write offs, that is a sacrifice on small loans, these are so many small loans which has been provided 100% so we have to write off from time to time because our Audit Committee also looks at whether we are in time looking at these write offs.
- Rahul Maheshwari:** No, my question was the exposure was of Rs. 2.9 crore and what was the net book value means after providing it what...
- Murali M. Natrajan:** That is Rs. 2 crore.

Rahul Maheshwari: Okay. And in the current GNPA break-up which you gave, Corporate segment it was good to see that the Corporate was growing in downward trend, so going forward also we can expect the same trend to...

Murali M. Natrajan: There are only two to three customers who are NPA in that thing. So, how to make trend, in those Corporate customers. Based on all the hard work that we do, we try to recover from Corporate even before they become NPA and because once it become NPA Corporate loans are very tough to do whereas in Mortgages at least I can do SARFAESI, I can have some leverage. There is hardly any leverage on Corporate loans I think it is about two - three loans, so I am not sure I can draw a trend. Yes, efforts are on to recover the money.

Rahul Maheshwari: And which sector they have exposure

Murali M. Natrajan: Different sectors, I do not know. It is all some of the old accounts, three years ago there is one NPA that became and one customer is supplying to defense. So, all that is work in progress and fortunately all of them are cooperating but at what point in time they will actually give us the money, it is work in progress basically.

Rahul Maheshwari: And recently, the Insolvency and Bankruptcy Code that 12 accounts any of the account which you have any exposure to?

Murali M. Natrajan: We do not disclose exact name of the customer.

Rahul Maheshwari: No, not name also but how much is the exposure and what is the...

Murali M. Natrajan: So, we had one customer who was in that 12 which has been there for some time with us as NPA and as per Reserve Bank of India we are well above 50% on provision, we do not even have to wait till end of the year and it is strong security we are holding on that particular account.

Rahul Maheshwari: What is the exposure, sir amount?

Murali M. Natrajan: Exposure is in the Corporate.

Rahul Maheshwari: The amount wise in that one account IBC?

Murali M. Natrajan: Yes, that is not something that we are happy to disclose in our investor presentation.

- Moderator:** Thank you. We will take one last question from the line of Prakash Kapadia from Anived PMS. Please go ahead.
- Prakash Kapadia:** Sir, I wanted to get your sense, the total number of clients how many of our clients are opting for the composite scheme? How many of them are above Rs. 20 lakh kind of turnover and especially in Tier-III, Tier-IV cities what is the level of preparedness of IT, Automation and any voluntary support we are offering, handholding to our clients in this transformation?
- Murali M. Natrajan:** Yes, so let us see how far we are successful, but the endeavor currently is to try and get as many people in our frontline who interact with our customer in the branch, SME, Mortgages, to have some strong understanding of GST, so that they can handhold the customer that is our main focus. Second, we have done some seminars, and these seminars actually are double edge sword because you call the customer and you are not able to answer the questions they actually go disgusted and they think that bank has wasted the time. So, we have to be very-very careful. The questions are quite variety of questions. Somebody is doing this business, somebody is that business, somebody is doing dry fruit business, somebody is the onion business.
- Prakash Kapadia:** Could be tricky ones also.
- Murali M. Natrajan:** It is. So, but we have done very confidently we have done a lot of seminar at our branches as we speak a lot of things are happening, we are trying to see how to help customers on filing on, payments and so on. I can tell you that, it is an opportunity that I see as a very important opportunity but at the same time, I am so nervous as to how all this is going to fall in place. I am sure, it will fall in place, but I cannot help but be very-very nervous at the moment. There is fair amount of, please do not think that I am blaming any institution for this, there is fair amount of confusion in the minds of customer and wherever you provide some clarity, they are very glad to kind of listen to it. So there is a lot of work going on. I am sure, other banks are also working and we have to be very careful not to mislead because he makes any mistake on this because of us, we should not put that customer in a spot that is basically what we are working on right now.
- Prakash Kapadia:** And any sense you could give us on your composite scheme kind of your clients how many of them are above that...

Murali M. Natrajan: We do not know that, I mean while some data is collected we do not know. But I will tell you, again it is only anecdotal. There is one very strong services provided by one electrician, I mean I bumped into him I think last week, he is telling me that the shopkeeper is telling him to register (for GST). I said, why? He said that, , it will have benefit, can you tell me whether I should get this registration done or not? And I do not think his sales are more than may be Rs. 50,000 - Rs. 70,000 per month. He is a good guy. So, I think there is a lot of pressure that is coming across the various segments to register. Ultimately, I think the system will force whether Rs. 20 lakh or Rs. 10 lakh or Rs. 50 lakh people will register that is what I think will happen.

Prakash Kapadia: Okay. And lastly, if we look at our CASA obviously post-demon we had seen a spike then at the year end we saw a decrease. Again, we have seen a spike. So, how do you see CASA for us in the coming quarters and internally what are we doing to increase business per employee business?

Murali M. Natrajan: To make these costs very easier, I wish all numbers follow trendline. See, NPA lines should always be downtrend. NIM number should always be uptrend. All like that it will be fantastic for us, we would not have the....

Prakash Kapadia: Easier said than done obviously, I am not underestimating the effort.

Murali M. Natrajan: No, I am not saying you are underestimating. But you know something or the other happens I mean like for example, a group of branches may work very well and have some good break through, so you get it underlying long-term trend you see in CASA, that is what I said. Look at what is our number in 2012; look at what is our number today. And it is again, we have not done any what you call big ticket and things like that. However, we are working on new products, let us see. Our aim is to keep CASA at such a level that we can maintain our NIMs 370 bps - 375 bps, if you do better than that that will be nice.

Great. Thanks everyone for dialing into this call and keep in touch. And if there is any follow-up question please quite to Bharat and Gaurav and we will be happy to answer the same.

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