



DCB Bank Limited Q2 FY-22 Earnings Conference Call

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

Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q2 FY22 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – M.D. and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 very much. Good evening, all of you for joining this call. I have my team in the Board Room of DCB Bank Corporate Office. For the first five to seven minutes, I'll give some background about some of key items that I would like to highlight for Quarter Two of FY 2022. And then we will open it up for questions.

So, first thing I want to point out is on collections efficiency. And what I would like to point out is that, we are pretty close to pre Covid level in terms of collection efficiency. If I look at the bucket zero collections, including the restructure portfolio, for LAP we are at 97.2 and in January of 2020, it was 98.9. In Home Loans, we are at 98.8 and we were 99.2 prior to Covid. So, I can say that we are pretty much in line with what was our situation pre Covid. Commercial vehicle is a declining portfolio. Since it's a declining portfolio, I don't expect our collection efficiency to be as good as the pre Covid levels. However, it is still improvement. If I look at delinquent and restructure portfolio LAP has come to 95.8 it used to be 97.5, Home Loans is at 98.1 it used to be 98.5. So, looking at the current trend and October numbers are not final yet, I believe that we should be same or hopefully better considering some holidays and so on we should be in line with our expectation. That is on collection efficiency.

I hope you had a chance to download the Investor Presentation and I would very much like you to look at page number #13 which is on Gross NPA movement. The slippage in comparison to quarter one was less by about 100 Crores, first quarter we had a 515 Crore slippage. This Quarter we had 414 Crore of slippage, majority of the slippage is in Mortgage, CV, some in

SME and some amount in MFI loans, but that is not the important part here. The critical part here is our upgrade and recovery is almost 396 Crores and out of that very small amount is due to upgrade on restructure from NPAs. So, we are talking about upgrade through cash recovery has been very strong in this Quarter. And we believe that if the same trend continues, we should have a pretty decent improvement Quarter-on-Quarter as we go forward and this kind of approach has resulted in actually reduction in our Gross NPA percentage and Net NPA percentage. We have not sold any portfolio to ARC this quarter and we have not done any meaningful write off in this particular Quarter. So, that is point number two.

The next point I would like to mention is, on the disbursal, new business disbursal. Please look at our press release and have a look at point number nine on Advances. The total disbursal this quarter worth 3,837 Crores, if I remember my numbers right, last year same quarter must have been 15 -, 1,600 Crores and even first Quarter of this year has been similar levels. So, we are making good progress. And I believe that, if there is no major interruption or disruption due to Covid-19 third wave or something, we should continue to improve our performance on new business disbursals.

The next point I would like to mention is our cost. We are consciously increasing our frontline staff in both deposits, and loans. We want to be ready for capturing the business momentum that we believe will steadily increase over time. And because of that we are building headcount, if you compare our headcount, our headcount is almost year-on-year up by about 600, 700 kind of headcount and due to the conscious decision on our part. And we continue to do that.

If I look at our CASA, performance been pretty good. We have kind of revamped the scorecards on the branches. We believe that we have done a very good job in terms of getting retail term deposits, and making our portfolio of deposits very granular. Our top 20 deposit continues to be below 7%. And our reliance on bulk deposit too continues to be improving. Both on interbank and bulk deposit, we continue to reduce our reliance on that. And of course, we don't have any CDs. So, we are taking this opportunity to restack our resources at the branches to focus on CASA. We believe that this also will give us better results.

All in all, compared to Quarter one. We believe that the situation and as well as our efforts, both in new business and collections are recovering, is starting

to yield results. And we hope to continue this momentum. With those comments. I would like to open up for questions.

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

Akshay Chheda: I wanted to ask - a lot of NBFCs are entering into co-lending agreements with PSU banks and foreign banks for MSME and housing loans in priority sector. So, will it pose any competition to DCB Bank?

Murali M. Natrajan: It won't pose any additional competition to DCB Bank, we have done very well on co-lending tie up, we have done a tie up in the previous quarter, and that is starting to yield results. And that co-lending tie up is on gold loans. We are exploring further opportunities in a tie up with NBFC on co-lending and we hope that by the end of the year, we can at least sign up one or two more co-lending opportunities. So, I don't see that as any additional problem for us.

Moderator: Thank you. The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Sir, my first question is on growth. So, you had a fairly good growth this quarter. So, what is the expectation going ahead. Do we expect the same pace to continue and what would be say, a number for you if any, for this fiscal?

Murali M. Natrajan: So, we don't give yearly growth targets, the way we are building our frontline capacity in deposits and in loans. We believe that if there is no unforeseen situation or Covid-19 kind of third wave, we should be able to double our Balance Sheet between, three, three and a half years to four years. That's the kind of outlook we have at the moment. And as far as we are concerned. We have two challenges; one challenge is the Gross NPA that we have to deal with. And in second quarter we have done a pretty decent job of dealing with that. And if the growth numbers are starting to come back, especially in Mortgages, and Home Loans and the Gold Loans, so we do believe that the way we are functioning now, we should have a decent chance of delivering double the Balance Sheet in between three and half, four years.

Mona Khetan: Got it. And while you highlighted the strong recoveries this quarter, what we also understand is probably high slippages of last quarter, which were more short term in nature, because of the lockdown also partly contributed to a good recovery, and you've seen that across banks. So, do you expect this sort of

phase to continue or you could say slow down and this could be transitional because of the impact of first Quarter.

Murali M. Natrajan: We have done far, far better than any bank result that I've seen so far. And that is because we are dealing with secured portfolio, we are dealing with Mortgage and Home Loan portfolio largely we are dealing with self-occupied portfolio. So, current collection feedback trends indicate that we should be strong in recoveries and upgrade, I can't tell you whether it will be the same or different because sometimes holidays can disrupt some recoveries, sometimes some other factor can affect but, on a trend basis, it looks like to me that we are on a good track.

Mona Khetan: Sure. And lastly on the slippage front, last quarter we have seen a few slippages from the Corporate book, and you highlighted that those were very short term and should be recovered, so anything on that?

Murali M. Natrajan: See, unfortunately in Corporate usually we are not the only lender, there are other lenders. So, therefore, there is a lot of coordination that is required and usually we are a very small lender in comparison to the other lenders. Having said that, one of the loan that went into slippage has already been recovered and the balance we have taken the hit so all settlement NCLT, JLM, all got over, the new investor came, money has been deposited in the Bank and is all over. From what it looks like, we should have some upgrade or recovery in another account this Quarter. So, the work is going on sometimes corporate account looks like we are going to close it just today, but it may have slipped to another month or so on various factors. But the recovery on one or two account looks definitely positive.

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

Rohan Mandora: Sir, if you could give some colour on how is the business activity right now, around restructure and overdue customers that we have?

Murali M. Natrajan: So, we have presented to you in the Press Release I hope you had a chance to go through it, the collection efficiency includes the restructured accounts. So, including the billed restructure we have presented the thing and as you can see the definitely the trends are looking quite encouraging. If there is no further disruption of any kind, we hope to steadily improve this and bring it to either pre Covid levels or hopefully do better than that, that is what it looks. Customer

feedback is encouraging, customers are slowly coming back to some level of normalcy. The despair that was there somewhere let's say May or June and even for that matter July is slowly subsiding and we are also in active dialogue with the NPA customers to tell them that if your business has come back, try and borrow money from somewhere or bring in some capital and upgrade your account so that you can get at a later date sometime down the road you can get more money for expansion and all, rather than remaining as a NPA customer. There are quite a few customers who are paying just one installment but remaining in NPA. So, we are trying to encourage them to go and find the overdue balance and pay off to us so that they can get upgraded. So, all in all, I would say that, barring certain customers who unfortunately got badly affected by the lockdown, rest of it is coming back. So, situation is a lot far, far better than what it was when I was speaking to you guys last Quarter.

Rohan Mandora: So, just to understand the colour of the recovery that we have seen this quarter. So, would it be fair to assume that most of them are from the regular repayment as the business environment has increased has improved, or is there also a component of **say** SARFAESI or mutual one time settlement. How would the mix between say regular business improvement vis-à-vis the other?

Murali M. Natrajan: No, it's very difficult to say what has led to what, frankly, the collections and recovery team are having a very strong analytics and strategy to go and approach each and every customer and find a solution for them to pay the debt and pay the overdues. SARFAESI and all take a lot of time. If you do SARFAESI activity, it will take anywhere from six months to 12 months. And you do know that till August, or something like that, most governments were very busy with dealing with Covid related matters. So, attending to SARFAESI notice may not have been their priority. So, these are all, why we will continue to send notices on SARFAESI auction and all these things. But these are all based on one to one discussions and negotiation with customer and getting them to see the point of upgrading themselves so that they can have a better future for their business. And some of them obviously also in terms of the customer themselves agreeing to sell the property and squaring of the debt.

Rohan Mandora: Lastly on comments on Cost to Income Ratio, likely to stay slightly elevated in the near term. So, just wanted to understand what kind of branch additions are we targeting on say next one year?

Murali M. Natrajan: We have already mentioned that in our press release in 12 to 15 months, we are getting 20 to 30. So, it is not just about branch addition, we are giving

additional headcount to our existing branches, we have categorised the branches as we normally do into various performance, potential and so on. And based on performance and potential, we are giving additional headcount to various branches so that they can grow their branch to a bigger Balance Sheet. There are many branches, which are wanting to do more, but they don't have enough space. So, we are helping them to get more space or relocate to a nearby place with a bigger branch so that they can perform better. So, all those activities are going in full swing at the moment.

Rohan Mandora: And on this cost thing further. So, one would be like a normal capital addition which is happening and we would also include the new initiative like the technology expenses and other things. So, in terms of incremental Opex, how would it be split between, the growth of Opex with respect with the new initiatives vis-à-vis capital addition?

Murali M. Natrajan: We don't have those kind of breakup, we don't disclose those kind of breakup. All we can tell you is that, we have put some 500 odd projects in our Mission 309 digital initiatives. And about 20%, 30% of the projects are being done in-house. Some of the projects are being done in combination of in-house and external. And some are being completely done outsourced because we don't have the skills to do those kinds of projects. Each project is being evaluated on its merits to see whether it can give us a break even within 12 to 18 months type of thing. And there is a complete project team that makes sure that those kind of discipline and governance is taken care of. All I would like to say is that, the way we are looking at it now is that we see an opportunity, we see that we are in control of our portfolio. And we want to focus on steadily growing our frontline, including branch network, as we have mentioned in our press release to step up our growth and our intention is to double the Balance Sheet between three to four years.

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

Darpin Shah: First is on the restructured book, is there any more pipeline which might come in 3Q, so you must have received some queries and you have worked on it but it is not yet implemented?

Murali M. Natrajan: So, Darpin about 62% of our restructure is Mortgages, both Home Loans and Loan Against Property. And less than 2% is on any unsecured loan, so I want you to know that first, because our restructure book is not some MFI book or

personal loan book and so on. So, that is point number one. Then you have a smattering of commercial vehicle, SME, MSME, a small amount in Corporate and some one or two Construction Finance and so on. So, we are pretty confident about our restructured portfolio. Secondly, we are carrying a provision for the restricted portfolio and that is also disclosed in our Press Release point number, there is a point on provision, point number 13, that is point number two. Point number three is, in restructure July was a difficult month because customers were not having confidence and while we kept encouraging them to not take the restructure because of peer pressure and because their loan may have got restructured in some other bank or whatever be the case was the high, in August and September was pretty much low and October looks negligible. Having said that, there is some limited promise that has been made to customers and if they behave for three months, six months we will review their account for the restructure and those will come through, but I believe from here on restructure would be very limited. And on collection efficiency what we are presenting includes restructure portfolio.

Darpin Shah: The second bit is in terms of our cost have gone down, cost of funds or cost of deposits have gone down, our NIMs have improved on a sequential basis, but margin improvement is very near 6 basis point so, what explains this?

Murali M. Natrajan: Two explanation is there, there is the restructure book causes some damage to the NIMs because you capitalise some of the interest that has not been paid for example, or partly not paid or whatever, that is one. Secondly, we kept carrying excess liquidity throughout the Quarter again, because we wanted to be very sure before reducing the excess liquidity, we hope to reduce excess liquidity in the coming Quarter. And we wanted to make sure that our granularization of deposit is firmly, on firm footing before starting to kind of reduce our deposit rate and all so that is also happened. So, I do expect some improvement in NIMs going forward as long as we don't have too much of slippage over and above our recoveries and upgrade.

Darpin Shah: And sir just one last data clearing question, can I get the breakup of provisions?

Bharat Sampat: Towards NPA 28 Crores, Floating Provision 3 Crores, provision towards Standard Restructured assets 69 Crores and net standard provision regular as well as additional provision running at (-13), that is utilisation has happened.

- Darpin Shah:** Okay. So, just to check one last thing, in Press Release the provision breakup which you have given as on September, this 115 Crores is a floating provision, this is part of GNP, is part of provisions when you calculate PCR?
- Bharat Sampat:** Net NPA, yes. It goes in Net NPA included in Provision Coverage Ratio.
- Murali M. Natrajan:** I don't have the number here but the pre Covid NPAs what we have would be almost 97%, 98% provided at the moment. It's only the fresh slippages that we are catching up on the provision. And like I mentioned in the past, our loss given default in mortgage is like 23%, 25% and we probably are already provided 45% or something like that.
- Darpin Shah:** Okay. So, sir non-NPA related provisioning will be towards restructured assets of 265 Crores, contingency provisions of 78 Crores and specific standard assets of 24 Crores?
- Bharat Sampat:** Yes.
- Moderator:** Thank you. The next question is from the line of Renish Hareshbhai Bhuvra from ICICI Securities. Please go ahead.
- Renish H. Bhuvra:** Two question, one on our CD portfolio. So, sir what is the ground feedback we are getting because in the recent fuel prices, whether the transporters are able to pass on the fuel price to end customers or no sir?
- Murali M. Natrajan:** See, we are a small player in CV, but the feedback that we are getting from the ground is, that at least the loads are improving. There is no doubt about that and many of our customers are guys who are getting the contract from some bigger guys, because our portfolio is of small transporters, like maybe three, four, five kind of trucks. So, what we have seen even in the past is, the big guys don't easily increase the rate. In fact, they try to squeeze all these small guys. Having said that, whatever cash flows that we are seeing and whatever recoveries and collection efficiency are going, clearly shows that there is some pickup in demand as well as in terms of pricing, and that is the reason we are able to kind of recover these dues from the customers.
- Renish H. Bhuvra:** Got it sir. And sir next question is on the realization value of the mortgages of course. So, last one and a half year, we have not been able to sell those properties, but whenever we are approaching the courts or maybe whenever we are approaching the agency, what sort of market value we are getting, as of now what is like say pre Covid levels?

Murali M. Natrajan: So, what is that one and a half year point, you made because I'm not clear about that?

Renish H. Bhuva: So, let's say during this Covid time, since courts and everything was not working, we might not be able to sell the properties and we might have not approached valuer as well, to get the value of the property.

Murali M. Natrajan: No, that is not what I meant. So, let me clarify. Courts, were not giving repossession order. But where we are approaching the customer directly and the customer doesn't necessarily, some of the customers wait for the repossession order before they actually react. But most customers as soon as they get legal notice SARFAESI and all they start to react because they don't want to lose that self-occupied property. So, wherever we have seen we encourage the customer to sell themselves. We have not seen any loss given default problem, what we lose in those cases is some accumulated interest, some part has to be given up, or some delinquency charges that we have charged them have to be given up or some legal charges that we have charged them has to be partly given up or given up completely those kinds of compromises we have to make on this. In smaller properties, unless we have made a mess of the valuation at the time of originating the loan, we have not seen any decline in value. Where we have seen and our portfolio in this category is very limited is where is the property price is 1.5, 2 Crore. The demand also has been less also the realization is not that great, like you probably lose about 20%, 25% of the value. All in all, experience tells us that our loss given default is in the range of 23% to 27% in mortgages.

Renish H. Bhuva: Got it sir. And just a last question if I can just squeeze in, on the restructured book, let's say of this entire 1,800 Crore book, what percentage of book is up for billing, is out of moratorium?

Murali M. Natrajan: So, there are different categories in there. Some people may have given zero moratorium, some we have given three, some we have six, some of the home loans which is as per the RBI guideline we may have given two years also. So, it's all in various categories. What we are seeing is, as a as a strategy we have decided irrespective of whether the customer has asked for moratorium or not. Keep talking to the customer, calling the customer we are encouraging a lot of moratorium customers also to say look, why don't you start making some payments if your business as a comeback. So, I don't have that separate figure here because let's say last month some people have come out of the moratorium, they would have already been part of this billing.

- Bharat Sampat:** In collection efficiency, the amount billed is there in the denominator and amount recovered, except for those who are in moratorium.
- Murali M. Natrajan:** Every month somebody is coming to the moratorium, they come into the billing cycle.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.
- Bunty Chawla:** It seems to be our collection and recovery efforts are doing very well which is reflecting in upgrades and recovery. So, from that point of view, if you can share some data points. First is how much of the total employee number or headcount will be the collection team. And similarly, what proportion of the employee cost is related to our collection efforts. And in this quarter there has been a slight increase in the total operating cost. So, how much increase is due to this higher collection effort we are put?
- Murali M. Natrajan:** Yes, so we don't, first of all, I want to say we don't use any collection agency at all, everything that we do in our bank is in-house, including some junior lawyers who are in our payroll to do all the legal work that needs to be done. So, we hire a collection agency only for repossession of trucks because we can't do that. Other than that, everything is done by in-house when we repossess the property, and we put a security guard outside the property there we use agency because we don't have that kind of manpower or skill set. So, everything we do is in-house. So, since last year, I believe we would have added at least 150 people into collections. And that has been a conscious decision to do that, for two reasons. One is the intensity required to talk to customer has definitely gone up for obvious reasons. And secondly, if you have to make sure that you are to really step up on the collection, then you need to have a lot more headcount and coverage. So, therefore, we have increased our headcount. We don't disclose a number of headcount that we have on collection, but almost about 11% to 12% of our staff would be in collections. And this correction means tele calling collections, field collections, mid bucket collection all types of collections, including supervisory staff.
- Bunty Chawla:** So, sir total headcount, you are saying out of the 11% to 12% will be into this collection. So, similarly, I can take....

Murali M. Natrajan: 10% to 12%. Not, necessarily because collection staff, the tele calling staff and field staff and all are usually junior staff. So, if you go by some average cost, you may not get the right number there.

Bunty Chawla: Okay. And secondly, as you have rightly said, the moratorium number for the restructure would be some three, some six months, some two years. So, roughly an average number if you can share if it is possible?

Murali M. Natrajan: We are not disclosing that number. We are disclosing the restructure number due and also the collection efficiency.

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

Rakesh Kumar: So, first question like we have seen in case of some other bank also, like what is the reason that there is some volatility that in the NRI deposit we are witnessing, like is it industry wide phenomenon or is it happening only to us?

Murali M. Natrajan: There is one of the things that we have seen some times we have reported very high numbers on NRI deposit growth. Our NRI deposit growth was predominantly dependent on NRIs visiting India during holidays, our best month usually on NRI deposit used to be from say, September to January or February. Because of fear of travel and restrictions and all the inflows of such customers have been very limited. And secondly, in our customer segment, we found that a lot of the customers have their own compulsions of supposing they are living in different countries and they have their own compulsions of cash flows, they have not added too much to our deposit. So, we don't find any one particular reason or anything like that. And given that we are pretty strong on this NRI deposit, we believe that over a period of time this should start to build back again.

Rakesh Kumar: Got it. And sir secondly, could you please explain like what is the characteristic of our CV loan in terms of customer segmentation, the ticket size, geography wise breakup, if you can give some flavor around these three things, that would be very carefully.

Murali M. Natrajan: We have a pretty small portfolio in comparison to the industry in commercial vehicle. And as I mentioned in the past also, we don't do any strategic. Big ticket and all we don't do. Our ticket sizes are usually in 30 Lakhs, 50 Lakhs. So, between the used and the new the breakup would be probably used is about 40% and new will be about 60%. And this is all first time buyer, first

time user kind of portfolio, that is what we have and we always find that the delinquency may be higher. But over time as the truck starts to operate, our recoveries and collections starts to pick up and we are seeing improvement in CV collection efficiency as well.

Rakesh Kumar: And sir with the margin that we have for the first half of the quarter, and kind of credit cost that we incur on a sustainable basis, what kind of ROA that you internally would have discussed that or what is the sustainable number that we can report on the ROA, ROE basis?

Murali M. Natrajan: We are confident of crossing 100 basis points of ROA and 14% ROE in due course. There is a big needle mover on that will be as we start to grow our collection recoveries and start to reduce our NPA fresh slippages on, we believe our credit cost would start to become more normal, which is what we had pre Covid, which is more like at 50 basis point level. As we reduce our excess liquidity as the slippage starts to come down. And as we keep reprofiling our deposit base, we believe that that should also help us to get some better NIM. And we are also planning to, as you would have seen in our stock exchange disclosure, we are also planning to repay some of our debt, that also should help us to improve our cost of fund. Of course, some of the cost of fund will get passed on to customers, our product mix is actually helping us to make sure that we have a sustainable proposition on our yield. If I was to divide the whole business into very low risk, medium risk and high risk, I would say that we are probably operating somewhere between medium risk to medium-low risk. And therefore, our yields reflect that, we could very well go into some of the SME businesses where we could get 17%, 18% but we don't believe that, that is a sustainable proposition. So, NIM will start to improve for the reasons I said, and credit losses seem to start to come up. And you can see that we are already performing quite well on our fee income, and we hope that it will improve further. As far as cost is concerned, in near term costs will go up. And it's a very conscious decision for us to keep building frontline so that we can build on our Balance Sheet because we have had about almost one and a half years of very flattish kind of a situation. And we want to like start building on that, and so in the due course they are looking at least three to four quarters down the line, numbers starting to really improve from here on, that's the way we are looking at it.

Rakesh Kumar: Great sir. So, around 100 bps of ROA and around 20%, 25% balance?

Murali M. Natrajan: I didn't say 20%, 25% I said that we are looking to double the Balance Sheet between three to four years and whatever that translates to is what. And that doesn't mean maybe one year we might do 18 another year, we may be able to 21. It all depends on how this happens, but that is our ambition at the moment.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Institutional Equities. Please go ahead.

Gaurav Jani: Sir, firstly just want to understand on the restructured portfolio. So, how should we look at what proportion of the portfolio will sort of slip because most of it would be longer term. I was asking on the restructured portfolio. How should we look at the slippages from the restructured portfolio to the stressful because a lot of it will be longer term. So, it could be sticky, because 60%, 65% is housing for LAP for that matter. So, how should we look at it?

Murali M. Natrajan: What does sticky mean?

Gaurav Jani: Since the tenure of the loan would be longer, so repayments will also be that way hence we have probably given a longer moratorium on the restructure.

Murali M. Natrajan: So, we are consciously in the mortgage business and 47% of our business is in mortgages, which by nature, the ticket price that we do 30, 40 Lakh by nature is a long term, term loans that we are giving and that's the way we see risk and build that into the pricing cost, and collections and so on. So, that's the model that we have so we don't have any short term loan, we don't have those, except for MFI loans, which is unsecured, we have very limited unsecured exposure. So, that's by design, we are in this business. Now coming to restructure, the collection efficiencies that we are reporting includes the restructured portfolio that is built in the denominator. So, if the NPA flows are happening, if customers are slipping either in restructure or in the normal portfolio all are coming and reported as NPA and that was about 500 Crores and became 400 odd Crores hopefully we keep reducing this slippage as we go along. And hopefully there is no interruption or issues that come up in the country. So, that is the way we see it. Now, there is a collection team, which is constantly in touch. And I kind of indicated you that we are trying to step up on collections and recoveries. The same pool is what have given you this collections and recovery. There are customers who are coming out of restructure, there are customers who are coming out of moratorium saying that I don't need the moratorium anymore. There are customers who are able to upgrade from

delinquent situation to high situation. So, all kind of mix is happening at the moment. Plus, ours is a secured portfolio, even if it is a long term portfolio, it's a secured portfolio, it's a mostly self-occupied portfolio. And that is what we have been saying in the call repeatedly. So, that is the way I see your portfolio, I don't know what you are saying but that's how I see it.

Gaurav Jani: Sir, thanks for the reply. But I just was looking at trying to get at it, how soon could we sort of reduce our restructured portfolio, that is what I was sort of looking at, that's why I asked.

Murali M. Natrajan: I am not too worried about our restructured portfolio. If it was an unsecured restructured portfolio, I'll be very worried, even like I mentioned, guys who are in moratorium, about 70%, 80% of them have already been touched base by our Bank and because if you give a moratorium let's say in June, I'm just saying April or June. Now June situation is different, October situation is different. We are saying look, businesses have come back why do you need to be in moratorium many of the customers are agree and say okay, give us time, we'll tell you what to do, et cetera. So, if you are given an unsecured loan, which I've already told you, less than 2% of our restructure is an unsecured loan. It's a different, so therefore, I have a lot more confidence in our restructured portfolio and we have also provided by the way, I've told you 265 Crore of provision has already been made on the restructured portfolio.

Gaurav Jani: Sure, thanks. Sir lastly, on the slippages to the recovery upgrade. So, this quarter right now has been fantastic. We've almost recovered all of our slippages. So, at least in the next three, four quarters would this ratio hold or would this taper off a bit?

Murali M. Natrajan: See, the collection team doesn't feel like that. However, I want to see month-on-month performance, despite Diwali holidays, despite festival, despite Christmas, whatever be there. I want to see the performance before telling you whether but at the moment, the momentum looks encouraging that's all I can say.

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

Mahesh MB: Just an extension to the previous question. If I heard it correctly from Bharat, Bharat said that the provisions for restructured loans for 70 Crores for this quarter, right?

- Murali M. Natrajan:** Yes.
- Mahesh MB:** So, essentially, would you say that this quarter the provisions for bad loans was let's say the provisions for NPLs was close to negligible?
- Murali M. Natrajan:** Because we have some reversals of Rs. 400 Crores we would have made some provision on the slippages. The aging provision will continue to have, so let us say we have a NPA of stock of say 1,000 odd Crores. As they age that aging provision keeps coming up.
- Mahesh MB:** Perfect. Sir just trying to understand if next Quarter, you do not have restructured loan provisions of the same level as what you're seeing today. That means the second half credit cost would be meaningfully lower?
- Murali M. Natrajan:** We are keeping our fingers crossed. And we are hoping that we do a far better job on the credit cost of second Quarter than first Quarter.
- Mahesh MB:** Perfect, and also this ECLGS, while the sanctions have come through disbursements have not moved much Q-o-Q?
- Murali M. Natrajan:** We are very stingy on this and frankly, I've been telling you this many times also, customers who have taken a 12-year LAP. If you go and give him a four year ECLGS, he is saying that why don't you give me a 12, why don't you just give me a top up because I am not a delinquent customer, why don't you give me a top up, and top up is allowed. Although we have done it, because he has to show business performance for top up. So, second thing is that, I don't want to give ECLGS to fix our NPA issues and all, that's not the way we want to operate. So, therefore it is like when I look at RM you tell RM that why don't you disburse ECLGS, I am thinking that I would rather find a new customer and make my business volume, then go after ECLGS, to administer it you need people to do the documentation and so on. And the front man is thinking that why don't I just do a new loan of mortgage or home loan or something rather than do ECLGS. So, all these are a mix of things that is happening in this. So, I'm not very worried about it. I think we are okay on that.
- Mahesh MB:** In the sense the customer has been sanctioned, but he's still not utilizing it. So, why does that?
- Murali M. Natrajan:** The department itself has sent him an SMS saying that your loan has been sanction, we have followed up with him he's not interested anymore.

Mahesh MB: So, overall, you said, look at this quarter performance. It's been good on growth, margins have held up, asset quality seems to be showing improvement. There are no major let's say headwinds that are sitting in point of view except for any unexpected events hitting us as a sector, is that the fair way to look at this?

Murali M. Natrajan: It's a fair way to look at it. It's also fair to say that, how difficult the first Quarter look, whatever has come out on second Quarter I take it

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Most of the questions have been answered, just wanted to get your comment on growth again. So, I heard and we have always been maintaining that the intention is to double the Balance Sheet over every 3, 3.5 years, but if I look at the last six, seven quarters the growth has been single digit, and for obvious reasons. But in this Quarter, the growth of course in the disbursement it looks like all-time high. And that also flows through the, in the loan book uptick Q-o-Q. At the same time, the collection efficiency the table that were shown the second table including NPL restructuring. showing one way uptick trajectory, so in the light of this thing, anything new you also answered to Mahesh question that this Quarter is sort of a turnaround Quarter, if one were to say that. So, maybe we did not give guidance in the earlier Quarters, because the visibility was may not be there. But can you help us in the next 12 months, could we reach the previous run rate in terms of growth or they are still sometime before you will make that comment. Want to check, when do we get back to that doubling of Balance Sheet phase, when do we reach there?

Murali M. Natrajan: We have, based on whatever efforts are going on, including headcount increase that we have done in frontline, including our branch expansion plans that we have said 20, 30 within 12 to 18 months, including the additional headcount that we are giving to branches which are having potential and performance. We have every intention to double the Balance Sheet between three to four years. Now, as you know in a retail and it will not be in Corporate loans. Our Corporate loans will continue to be 10% to 11% of our total book, it will not be in some fantastic MFI loans because we believe that it has a lot of risk which are unpredictable and can derail you from time to time, it will be mostly in Mortgages, Gold Loans, SME, MSME, AIB, that is where we are planning to grow. And we believe those losses are very predictable and the portfolio, we were doing quite well on the portfolio till whatever Covid hit us,

and even there my guidance has always been, we are having self-occupied property mortgages. And we should be fine. That's what I've always maintained and I continue to maintain that. Yes, we have to deal with our NPA portfolio, which is about 4.5%, plus we have to deal with our restructure portfolio. But again, they are all secured portfolio. So, the efforts that are going on both on the deposit side and loan side, by any major disruption that completely throws us off rail. We are on track to deliver a double the Balance Sheet between three to four years, that's how I see that right.

Jai Mundra: Okay. And second sir, just a small two clarification, one is the restructured loan that we have given, if I were to calculate the gross restructuring book then I should be adding back the provision to 65 Crores provision that the bank has done?

Murali M. Natrajan: Yes.

Jai Mundra: Right. And second is the co-lending figure that you have given separately disbursement, is this given because this is a separate channel or this would also include these products, but the only difference is the channel, the co-lending disbursement of 885?

Murali M. Natrajan: Co-lending is purely gold loans. And co-lending is a separate business vertical, which we created about six, seven months ago. And we intend to build on that vertical, we are not interested in doing co-lending on Mortgage Loans or LAP, we are good at that. So, we don't need any co-lending assistance on that. Even in gold loans, the co-lending is being done to a segment that we are not focused on. So, again, we are very careful what we want to do the segment and they are focused on that the NBFC is focused is not the segment that we are focused on. That's the reason our pricing is acceptable to us. And you know that gold loan does not attract capital. That's the other advantage of that. We have also done **TReDS** in order to drain our excess liquidity, we are actually participating in the **TReDS**, which is also PSL and which is a short term three months, 120 days kind of lending. So, these are all new things that we are doing and seeing how we can support our basic growth in Mortgages and AIB.

Moderator: Thank you. The current participant has left the question queue. We will take the next question from the line of Darshan Deora from Invest Capital. Please go ahead.

Darshan Deora: It's great to see the uptick in the CASA numbers, just wanted to get some thoughts on where you see the CASA going over the next 12 to 15 months?

Murali M. Natrajan: See, we've done a pretty decent job in the last three years starting from 2018 on retail term deposits. The reason we did that was, I didn't know that PMC is going to happen. We didn't know that Yes Bank kind of problem could happen. We didn't know that Covid would happen. But we didn't want to continue where our dependence on interbank and bulk deposit is at a level which is like 17%, 18%. So, we changed our entire scorecard and focused on retail term deposits. I thought we did a pretty good job, now our top 20 deposit is below 7%. And we hope to bring it down to industry best like Federal Bank or ICICI which is more like a 5% kind of thing and over a period of next one and half, two years, that's our intention. Now that we have done that, we have recently restart our scorecard of the frontline which is a branches to focus on pure retail CASA which means not institution CASA only retail CASA which means natural person CASA. That is what we want to focus on. We have tweaked our pricing and all here and there to help that. So, we see that they are fungible between the pricing between term deposit and CASA has fungible so we've done some tweaking of that. That is because we are in the market fighting IDFC, AU, Equitas these all banks which are probably offering far better rates in CASA. But having said that, we hope to continue to maintain pretty decent growth in CASA, our year-on-year growth has been about 20%, 25%. And that's the kind of growth we are aiming for. We have started this journey recently, rather restarted this journey, let me see one or two quarters, and then I can give you guidance on where we are going to end up.

Moderator: Thank you. The next question is from the line of Akshay Chheda from Perfect Research. Please go ahead.

Akshay Chheda: Sir, I would like to ask that there is a common perception among investor community that banking is a scale game, and larger banks will keep getting larger and smaller private banks will be small. So, what are your thoughts on that?

Murali M. Natrajan: We have to discuss it outside this forum, because it will take a lot of time of everyone, I have a view but others may not the bigger bank may think that we don't have a chance, where we may think that we have a chance. So, I don't know where the answer is. As far as I know, the kind of work that we are doing, we will continue to build our Balance Sheet and growth is what I know, separately when I meet you personally, we can exchange views.

Akshay Chheda: Yes, sir. Sir, and another question would be, can you throw some light on the threat technologically advanced like Paytm versus the traditional banks?

Murali M. Natrajan: Technology is pretty common to everyone, of course Paytm has established completely huge market for it. There is no, we have to give it full credit for what they have done in the last five, seven years. But having said that, I don't see any bank technologically backward. And as you can see, we also have put together almost 500 projects which we are working on, which we believe will be very, very beneficial to the frontline and customers. Therefore we continue to work on it, it's not something that we can do and then forget about it, we have to continue to be focused on this aspect.

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

Rohan Mandora: One thing on co-lending, if you could share what is the arrangement on that front and what kind of an ROA differential we would see vis-à-vis a normal business, in that co-lending?

Murali M. Natrajan: We are very clear that we want to be in co-lending in a business or product that we are not ourselves doing or we will have a lot of cost in building that particular capability. The model that we have chosen for co-lending is gold loans. Gold loan is very short term anywhere from three to six months. And the pricing depends on what kind of ticket size they are giving, at the moment they are giving us ticket size that we are not focused on, our average ticket size is somewhere like Rs.1.5, Rs.2 Lakh, their ticket size is more like 50,000 kind of ticket size. Gold loan does not have any capital charge, so therefore and there is no cost in co-lending we don't have any cost except some few people in head office who have to take care of reconciliation, who have to take care of technology, who have to take care of the payments that are coming in make sure that there's all accounted well and the relationship management, cost are negligible on the entire initiative. So, the model, even with limited and capital is not there you can always calculate it's a pretty decent ROI business.

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

Roshan Chutkey: Sir, I joined the call a little late, if you can talk a little bit about the CEB growth, where is the growth coming from?

Murali M. Natrajan: Core free income is coming from various categories, cross sell of insurance, trade, ATM, processing fee all these are contributing, everything is contributing to the growth and we hope to continue to build on it, there is no one any, we are not having one sixer in this, everything is contributing to it.

Roshan Chutkey: And if I look at your press release, the home loan segment particularly, there is a statement which says that the percentage of portfolio was paid 3 EMIs or more from April 2020 till date is about 19%. How does this reconcile with the fact that the collection efficiency, if you look at the entire year, this calendar year particularly?

Murali M. Natrajan: Salaried Home Loan, would be more in moratorium. So, the 3%, 4% could be explained by the moratorium, home loan customers were more demanding of moratorium than LAP customers in some ways.

Roshan Chutkey: And the moratorium period have been fairly long here?

Murali M. Natrajan: They will always say give me two years and all, that depends we make it, I won't say difficult, we make it more systemic with the customer because if you ask for details of a customer saying give me your bank statement, give me your income statement and all, he himself realizes that he doesn't require a two years kind of moratorium. So, if you say okay two year automatically you give, then it's sad. That's not how we have done it. Our collection team had worked, each and every customer to figure out what is their cash flow. Some people may sound very definite, no matter what. My friend has got two years, you all give me two years then probably we can't do much because by law they can demand.

Bharat Sampat: And we also make them understand that two year upfront does not mean two year at the end.

Murali M. Natrajan: Can be four year at the end.

Bharat Sampat: Sometimes person who is not aware may just think that I will get two years relief now, and I have to pay two year in the end more .

Moderator: The next question is from the line of Sohail Halai from Antique Stock Broking. Please go ahead.

Sohail Halai: Sir, first just on the entire macro thing, in terms of we look at it the system has had access to liquidity, the entire lending piece is not growing much. So,

perhaps the yields would be under pressure, when do you think that the situation would reverse and we will move back to a normal range of margins?

Murali M. Natrajan: What is normal range of margin?

Sohail Halai: Sir probably you operate in a bandwidth of 3.5 to 3.75 and for most of the time, you have in fact, surprised us by being closer to 4. So, do you think that once the recovery starts improving, we could move closer to those range in FY23?

Murali M. Natrajan: Instead of looking externally, the pressure on yield has always been there. Now, in six months I am going to finish 13 years, pressure on yield has always been there on the thing. So, instead of looking at the external environment, I would say that where we are seeing possible improvement in NIMs is as the NPA starts to come down slippage, and all starts to come down, that is one that will help, as we start to not do any more restructure that will definitely help. Third is, we are steadily improving our deposit profile and we grew our CASA ratio that also should help this thing and fourth is like I mentioned to you that we going to take the call option on the Tier II bonds, which is about 230 odd Crores. Then next point is that, I told you that we are maintaining excess liquidity. And as a bank, we have decided that we will start to reduce that all that should start to steadily help. So, we are confident on a steady state basis. We should go about 350 basis points. But, it might require about two, three Quarters maybe two quarters I don't know. That's how it looks right now.

Sohail Halai: Sure. And sir in terms of asset quality, just one thing, in terms of we saw an upgrade of 300 Crores this quarter and perhaps in your commentary, you also did mention that in terms of some of these court related cases or the DRT it's taking time. So, is it fair to assume that if the current environment continues probably you would be net negative slippage is in FY23, how can you read into basically in terms of the trend of going forward?

Murali M. Natrajan: I am confident of our collection effort and the momentum that we are seeing, I don't want to make any prediction whether we are going to be net negative and all, our intention is to steadily reduce the NPA ratios as we move forward. If you will ask me, whether we would be in this kind of situation at the end of June, I may not have thought that this was possible, but as we started working on, as the environment started improving, and as the intensive, we got some better results than we planned for. So, we hope to sustain this, let's see one or two more quarters before we decide how it looks. So, at the moment, the momentum is quite alright.

- Sohail Halai:** And sir any colour on the current quarter of upgrades like how granular it was and what led to these upgrades?
- Murali M. Natrajan:** Everything in our bag is granular, we don't have any Corporate 100 Crores upgrade, we don't have those kind of things. Even a Corporate upgrade will be like 5, 6 Crores. So, it's very granular. So, everything is granular this quarter also it looks granular only.
- Sohail Halai:** But anything due to restructuring that got upgraded during the quarter?
- Murali M. Natrajan:** Means what?
- Sohail Halai:** That you would have implemented the restructuring and it got upgraded during the quarter or it is entirely outside the restructure?
- Murali M. Natrajan:** See, we don't encourage that. We encourage the customer to pay us something for us to do something. Unless the customer like really becomes very stubborn and not want to cooperate that's a different matter. So, that is very well, most of the upgrades and recovery that have happened is cash.
- Moderator:** The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** I just had a question on the slippage number, although the overall trends of asset quality has improved significantly. But if you look at the gross slippage trend, it is still at significantly elevated levels. So, when do you think that will correct to more normalized, 2% to 3%? slipping number and is this 6.5 kind of number likely to be significantly lower?
- Murali M. Natrajan:** If the situation continues to grow in the environment. And we continue to do the work that we're doing on collection recovery, quarter-on-quarter, I expect some improvement in the slippages. Because you can see from 500 to 400 and we are looking at the slippages. Even our MFI book is starting to show some improvement and lower slippages. So, barring any unforeseen situation, quarter-on-quarter, we should see improvement. If I was to take a guess, maybe give it another two, three quarters before it comes to some normal kind of levels, assuming there is something called normal.
- Murali M. Natrajan:** Thanks, everyone for your, I know that we always do this call on Saturday evening and probably messing with your evening on Saturday, my team suddenly thinks that I'm messing with their Saturday. To compensate for that

I'm taking them out for a drink today. Unfortunately, I can't invite some of you because of Covid protocol. Please enjoy your evening. Thank you very much for participating in this call. I look forward to talking to you again. Bye.

Moderator:

Thank you. Ladies and gentlemen on behalf of DCB Bank Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.