“DCB Bank Limited Q3 FY24 Earnings Conference Call”

January 24, 2024

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Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q3 FY24 Earnings Conference Call.

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 operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Murali Natrajan – Managing Director and CEO. Thank you and over to you, Sir.

Murali M. Natrajan: Thank you. Good evening. Thank you for joining this call. We are talking from the boardroom of DCB Bank corporate office.

I have our CFO – Ravi Kumar. I have R. Venkattesh – our Head of HR, Operations and Technology. We have Ajit Singh – Head of Treasury and Financial Institutions and also we have Praveen Kutty who is a CEO designate, which you would have read in the announcement that we have made recently.

So, what I would like to do today is to get Praveen to give you a few opening remarks and then we will open up for questions. We also have Sridhar Seshadri, our CRO and we have the support staff of the bank assisting us today here in this meeting. So, I hand over to Mr. Praveen Kutty.

Praveen Kutty: Thank you, Murali. So, without any further ado, I'll just take you through some of the highlights of Quarter 3.

We've grown our advances by 18% Y-o-Y, deposit by 19% and balance sheet by a tad under 20%. We continue our focus on growing the deposit base at a higher pace than the advances base and during these times we've seen that our CASA ratio has improved by 1.09% over the previous quarter to end at 26.13%. We had a fairly decent quarter on the fee front or core fee being Rs. 98 crores and the total fee being Rs. 124 crores for Quarter 3. If we were to look at our provisions, GNPA has come down from 3.62% last year same quarter to 3.43% and net NPA from 1.37% to 1.22%. This also resulted in the provision coverage increasing from 74.68% to 76.42%. Between the last quarter and this quarter, our credit cost has been flat at 0.28%. Net-net, this has resulted in 11.18% Y-o-Y growth on PAT. These are the highlights which we have on the financial performance.

During the quarter, our NIM has come at 3.48%. Our outlook for the future continues to remain at 3.65% to 3.75% of NIM. We believe that the reason why the NIM at 3.48

is because of the increasing cost of funds which would persist for may be a quarter more before it stabilizes.

As far as the ROA is concerned, we closed the quarter at 0.86% and ROE at 11.30%. We believe that going forward, we've consistently brought down cost to average assets. Last quarter, the cost to average assets was 2.63% and if we were to see the last five quarters because of scaling as well as because of management action, we brought down the cost to average assets from 2.87% four quarters back, all the way to 2.63% and there has been a decline every quarter over the last five quarters.

So, this is a summary of the quarter that has passed, and we could take any questions that you probably may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, this is again on the NIMs. Just wanted to get a sense from you, the NIMs are currently at 3.48% and normalized guidance is around 3.65 to 3.75 and with cost of funds likely to increase, so how do we see the NIMs going back to that guided range and what is the time period during which it can move?

Praveen Kutty: So, effectively Rohan, what would happen is that the incremental cost to deposit has got two components to it, which is new deposit that the bank takes and the renewal of existing deposits. So, considering the tenure of our deposits, the deposits we have taken, let's say 18 months back, 24 months back have come up for renewal and that gets repriced at the current rate. So, that story is reaching its ebb now, so effectively new renewals will be renewed at marginally increased rate or similar rates. So, you'll find that the cost of funds would stabilize over the next 4 to 5 months in the current environment. So, once the stabilization happens, we would be back to the 3.65% to 3.75% NIM that we have been talking about.

Murali M. Natrajan: So, also Rohan, if I may add couple of more things. Last quarter also I mentioned we are consciously making a shift from home loans to loan against property. That transition is not complete. Prior to COVID, we had almost 80%-85% of our loans in loan against property business loans and only 15% in home loans. Because of COVID and lack of opportunity, we shifted a lot of focus to home loans, remaining in the similar category. Now the transition is happening which gives us additional yield. And the second point is that also we have been able to deal effectively with all the restructured moratorium the thing, so we expect some further slowdown hopefully in the NPA and therefore that any reversal of interest also would reduce. And the third point is we are changing the score card and the frontline focus to CASA and we believe that CASA is coming at a much lower rate for us than the term deposit, that mix change also should help us with restating our NIM back to that. Effectively what will happen is in about 4 to 5 months, whatever volume benefit, volume growth is there that will entirely result in benefit in interest income. Right now, if you see our gross interest income is growing much higher than actually even the loan growth rate, but it is being taken away because of the drop in NIMs or the basic increase in cost of funds, that's low, has already started slowing down and is expected to improve after 4 to 5 months.

Rohan Mandora: Was there any one-off in NIMs in terms of interest reversals, what would be the component of that?

Murali M. Natrajan: No, there is no one-off at all in this thing. Every quarter there will be some Rs. 2 crores, Rs. 3 crores adjustments happening because of any issue, but nothing material.

Rohan Mandora: Sure. And like if you see the ROA from say 4th Quarter 23 to 3rd Quarter 24, a good amount of compression has been absorbed at the OPEX level and last year we added almost 2000 employees in FY23, whereas this year nine months you have added 100 employees. So, how should one look at for FY25 the OPEX trajectory in terms of employee addition and whether we'll see this OPEX trajectory continuing to fall into FY25 as well?

Murali M. Natrajan: Our target is to grow our balance sheet by 20% at a minimum year-on-year, double it in 3 to 4 years. So, depending upon the productivity that we achieve the focus area for our growth, which is AIB, tractor, gold loan, mortgages, LAP, we will continue to add resources. I have said this in the call previously also if we had bigger headroom in cost of acquisition, we will add 10,000 more people because we know that the business segment that we are present in has huge opportunities. So, we will continue to add resources. I can't tell you the exact number or what exactly I will add. All we know is that we are pursuing a very steady growth which should result in doubling the balance sheet in between 3 to 4 years and we are pretty confident about that.

Rohan Mandora: Sir, lastly on asset quality like if you look at the GNPAs in Mortgage, AIB and SME. Also, you're seeing an uptick, so any comments around here and also if you look at slide 23, are SME and MSME disbursements on a quarterly run rate have fallen this year vis-à-vis the last year 3Q-4Q run rate?

Murali M. Natrajan: Yeah. So, Praveen will comment on the SME disbursal, but on gross NPA, all our NPA slippages are in line with our expectation because when you have a restructured book and moratorium, all billing happens, it does take some time for customers to come back to a particular payment rhythm and cycle. So, that is what we have dealt with. And I think now we are pretty confident that all are billed, all are falling into the rhythm. And if you see the recoveries and upgrade, we started with some 62% odd in quarter one. It is now up to 79%. Last year, whole of the year, we delivered almost average 100%, right. So, therefore at the moment looking at our portfolio, we don't have any concerns. There are some seasonal issues in Agri portfolio like your tractor and KCC which resulted in some NPA and over time, it gets recovered. So, we don't have any major concern on that. On disbursal, Praveen can give you his comments.

Praveen Kutty: So, on the SME front, there are two components to the SME. About a year back last year, a large component of the disbursal of SME came from TReDs, which is a small tenure loan which is given on invoice discounting mode. The yield which you get on that is fairly minimal and the capital accretion on that has had an impact in terms of rating. So, we have stopped doing that TReDS business altogether and diverted those particular resources to higher yielding lower risk products that we have. So, effectively SME by itself is contributing to the disbursal of Rs. 300 odd crores, which you see here in disbursal. The Rs. 600 crore difference is primarily coming from TReDS. So, it's a migration to high yield, longer tenure secured deposits.

Moderator: Thank you. Next question is from the line of Drashti from Thinqwise. Please go ahead.

Drashti: Any particular reason why the yield on advances has been declining since quarter 4,23 if I see, so any one-off in this particular line item?

Murali M. Natrajan: I just answered the question, I'm not sure you were in the call. A) there are no one-offs of any material one-off that are there number 1. Number 2, the way EBLR structure works is EBLR increases have happened a few months ago which was passed on to the customer. The cost of fund is catching up. We just said that the cost of fund catching up will get finished in about next maybe about 3 to 5 months, which means that the further increase in cost of funds should stop and the product mix that we are putting together in terms of home loans and...

Drashti: No, I'm referring to the yield on advances, not on the NIMs

Murali M. Natrajan: Yield on advances is product mix changes happen from quarter to quarter. So, that there is no one-off or anything in that thing.

Drashti: Since three quarters we are seeing this on a declining trend, that is why I'm asking this question?

Murali M. Natrajan: Yeah, but you look at the thing, the product mix also like for example, if you do more co-lending, which comes at a lower capital that might have an impact on the yield, but it has a much less impact on risk weighted asset for example, right.

Drashti: Correct, but you also mentioned that we are doing more LAPs versus mortgages. So, what would be the yield differential in LAP versus mortgage portfolio?

Murali M. Natrajan: We are aiming for 100 basis point differential between LAP and home loans. It is a journey which has restarted. We used to do a lot of LAP, it has restarted, it might take about 1 to 2 more quarters for us to reach a higher level of LAP than what we are doing today.

Drashti: Correct. And my second question is when I look at the disbursement number, our corporate banking disbursements, although not material, but since last three quarters, it started going up a bit although our outstanding corporate loans are almost stagnant, so is it that we are seeing a lot of repayments from lower yielding corporates and so what will be the nature of this corporate disbursement is what I'm trying to understand?

Praveen Kutty: So, it's a combination of short-term loans which we use as a liquidity management tool. So, you will find increasing corporate loans coming in, then to absorb the excess liquidity at a reasonable yield or go forward position on corporate remains the same, which is that we will be in the proportion of corporate loans to the overall book consistently remains around where it currently is at 8% to 9% and that will continue in the future. So, that is the way the corporate book strategy is for us.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Elara. Please go ahead.

Prakhar Agarwal: Just a couple of questions. One is in terms of co-lending, so we have reached around Rs. 3,300 odd crores of portfolio, what is exactly the nature of this portfolio plus where do you think that it can go in a year's time? How do you look at this portfolio?

Praveen Kutty: Prakhar, on co-lending, what we do is it's a mixture of our co-lending philosophy is based on having partnerships with the originators who are either in a different segment, different product or different geography from us, that's core platform on which our co-lending origination works. So, we do gold loan, home loan, school finance, business loans, there are multiple partnerships that we have on multiple products across different geographies. So, there is a selection process of getting the originators in and then we manage the book where you would see similar kind of growth happening on the co-lending book as well. We don't expect this co-lending book to as a percentage of the total asset to increase from where it currently is. So, if you're talking about 18% to 20% growth in the asset book, similar growth will happen on the co-lending book as well.

Prakhar Agarwal: So, just a follow up on this and in question to what last participant also asked, in terms of yield on advances and going forward while we have one trigger wherein we are saying that LAP proportions we are increasing versus mortgage but given the fact that my co-lending will be 8% to 10% of the entire book, which is where it is. How do you see that yield on advances moving on? What are the levers apart from right mixture that we are told about in terms of LAP and home loans that yield on advances will go up?

Praveen Kutty: So, 53% of book is mortgages, right? And half of it is home loans, half of it is LAP give or take one way. Moment you make changes in the product mix, you will find that there's an incremental 100 basis points plus which you would get on LAP originations over home loan originations, that process started and that will continue in the future as well. So, that's one lever on the product piece. The second portion here obviously is how do we ensure that the slippages are continuing to get controlled the way it is so that reversal of accrued interest does not happen. That's a second point out here. The third is we plan to ensure that the incremental loans that we get are priced right going forward which will result in higher, you know our incremental yields being reflective of yield in advance.

Murali M. Natrajan: And to add to that, in co-lending right now most of the co-lending is skewed towards gold loan which is coming at a slightly lower rate. Now the kind of partnership that we are doing where we are doing products which are coming at a higher rate. So, even within the co-lending product mix will change, which should help us in the improvement in yield and this all should play out in the next 4 to 5 months is what our aim is.

Prakhar Agarwal: Is there an FLDG arrangement with co-lending partnership?

Praveen Kutty: It is not possible. We cannot have an FLDG arrangement on co-lending. It's equal reward sharing and risk sharing and that's the way the policy is.

Murali M. Natrajan: On DA and co-lending, there can't be FLDG.

Prakhar Agarwal: And just one last question on CV, if I were to just look at and what is happening around that portfolio because that is something which is still struggling for us, not able to pick up to, any thoughts on what is happening on CV side?

Praveen Kutty: So, CV portfolio is a declining book. We have discontinued that pre pandemic onwards. So, March'20 onwards that's declining. So, we're not actively increasing that book, it's mainly recovery and upgrades which happen on that particular book.

Moderator: Thank you so much. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Firstly, on the saving rates, so I think last quarter around September and we had the saving rates on to around 8%. And so we believe there has been some traction also seeing in the CASA deposits due to that decision in the current quarter. So, just any ballpark number, how would the saving cost for Q3 versus Q2, any impact meaning how much bps would have it increased? That also would be helpful. Any comments on that?

Murali M. Natrajan: It seems like your favorite question on savings. I remember answering this question last quarter also. Anyway, I will answer it again. First of all, the 8% and all we say it comes only in higher ticket and HNI. Second, the branch focus is on getting ticket price of our average ticket price I think is probably 1.5 lakh or 1.75 lakh where we pay very little interest, not the kind of interest rate that you see at the top. It is more aspirational for these customers as opposed to really getting that. Third, recently we have introduced a product called DCB Happy, which has got a unique feature which I don't think is there in any bank called cash back on UPI transactions and that is also attracting quite a lot of customers. And fourth and more importantly, we have tweaked the balanced score card of branches to focus on retail CASA, not the HNI CASA, which is higher ticket, retail CASA and we have a separate team also which is focusing on retail CASA. So, I don't believe that there has been any increase in cost on a quarter-to-quarter basis on our savings deposit.

Chintan Shah: So, that means that the large part of the decline in margins of the rise in the cost of deposits can be attributed to the rise in the TD cost that would be my assumption?

Murali M. Natrajan: Yes, absolutely. Rise in the TD cost and the repricing done by the refinance agencies like NHB or anybody. Since we have a huge mortgage book which gets refinanced also by NHB, they also repriced their loans.

Chintan Shah: Sir, considering that the TD rates, the cost of deposit stays around the current level for the next 2 or 3 quarters, if it is so, then how do we expect margins to improve from here on? Would it be due to rise in yields, due to the change in the loan mix, would that be the reason?

Murali M. Natrajan: Yes. Because like Praveen explained, the previous deposits, most of it has got repriced. The new deposits anyway were coming at the new price. Most of the repricing of the old deposit has happened. There is one more thing, the part of the book which has still not been repriced yet in mortgages also will get repriced where we will get the benefit of yield.

Moderator: Thank you. Next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead.

Krishnan ASV: First of all, congrats Murali on an excellent stint with DCB Bank. I know we are nearing the sunset stage there, but what you inherited versus what you're leaving behind, it has been an incredible journey, right? So, congrats on your tenure. Congrats also to Praveen who is now stepping into your shoes. I think these are big shoes to fill. I just wanted a flavor of we talk a lot about liquidity in the system and while we are obsessed about liquidity in the financial system, I just wanted to understand how are SMEs and MSMEs coping with liquidity in the system right now the fact that there is limited liquidity. How much of the pricing power are you able to exercise? What are these SMEs currently up to when it comes to their working capital cycle etc.? Could you just give some color on that?

Praveen Kutty: So, Krishnan, we'll talk about the kind of straw man that the bank has is a common customer is a 20 to 25 lakh loan customer and in that particular segment, we see continued demand coming in. It's true when you speak to others in the industry also, we find that there is clear demand coming from that particular segment both on the business loan front and the home loan front and also on the SME front. And across geographies we are seeing heightened demand for the business loan, LAP, SME customer. And this same thing is being you can see in terms of the GST numbers which are coming out. What we also see is that the rejection rates across has increased but as far as the working capital cycle of the self-employed customers that we see, we are seeing there's a demand for those, the consumption led demand clearly in urban areas which is resulting in this need for loans and overdrafts from the banking system. What we don't see, however, is there is a slowdown in terms of takeover and that's pretty much typical because the rate of interest that you see has been stable for a period of time, so one would tend to see the similar kind of demand and loan growth happening for the segment that we speak about.

Krishnan ASV: Right. And so just continuing on this, it's reasonable to assume that if large banks, small banks, large NBFCs, everyone through the financial system is facing this pain of tight liquidity environment, I mean it would be reasonable to assume that these SMEs are not immune to that and that kind of reflects why this demand seems a little more picky at this point of time. Just wanted to get your thoughts on how easy or difficult has it been to exercise your pricing power given that these are core customer segments for you, where in which pockets is it easier and which pockets is it now getting a little more difficult where you believe NIMs might then come at the cost of asset quality?

Praveen Kutty: So, let me give you an example. I mean this will help you understand the current situation much better. There is a chunk of a customer base which has a self-employed customer base which enjoyed the benefit of moratorium for a period of 24 months. So, effectively, if you talk about 20 lakh customer, you're talking about a customer who's got let's say Rs. 20,000 EMI. And if you have Rs. 20,000 EMI, typically you will have Rs. 40,000 income per month. This customer enjoyed all the Rs. 40,000 which he or she used to generate without having to pay the EMI so long. Now, when the moratorium is over and when you have to start repaying the EMIs, the EMI is no longer 20,000 because there is a time value of money and the 20 would have become something like Rs. 25,000. What we are seeing is even NPA customers, the recovery that we see, the 79% recovery, which Murali spoke about earlier, you're seeing the ability of this customer to come back and make a higher payment even in these times post moratorium and these are customers who have been really, really impacted by the pandemic. So, what we are seeing is the resilience about this customer segment and even in this market, they are finding ways in paying a much higher obligation than they would have otherwise paid. And you can clearly see that in the current set of customers that we have.

Murali M. Natrajan: So, let me add to that. Thanks, Praveen. Krishnan, thanks for your kind words. See what I want to say is we have on a monthly basis 4 to 5 meetings with both deposit and loan business managers. And we take feedback from them in terms of segment, market, productivity, sales, hiring, all kinds of things. We are in the market where the average ticket size is like 30-40 lakh. Majority of our competition we see in from the NBFC segment here, so many times I feel that we are actually an NBFC with banking license with all the responsibilities of a bank like PSL and so on. So, we don't see any major resistance when we talk about expanding and we talk about growing and so on. That is point number one. Point number 2 is the income this year we have been majorly impacted by the NIM compression, but as it is bottoming out, we are very clear that the discipline would be you grow the deposit and in line with your loan growth ambition and we think that at about 18%-20%, we don't seem to be stretching our balance sheet in any and you can see that we have grown our CASA as well and we think we're reasonably confident that we'll start moving in the right direction in CASA from now on. And even if we were to assume that there is a marginal improvement in NIM from here on, but the entire benefit of volume should play out after 4-5 months, is what our projection seems to indicate.

Krishnan ASV: Understood. Just one last question, how large within your MSME core customer segment would be a part of the larger enterprises value chain, given the kind of linkages that are now building up across the ecosystem. Just wanted to understand how many of these MSMEs are actually part of a large enterprise value chain and hence what I'm trying to get at is large enterprises are deleveraging and they look at every opportunity to be more efficient. And the first thing they do in a tight liquidity environment is to use the smaller enterprises. Is that something that you see visible on ground when you talk to your borrowers, when you talk to your depositors and….

Praveen Kutty: We'll talk about the borrowers first, Krishnan. If you look at the self-employed base that we have, you can actually divide into three. You have a manufacturing base, you have a retail space and you have a services space. The services and trade, service and retail accounts for the bulk of our self-employed book. So, this linkage to a larger organization is fairly limited. We are talking about wedding halls, bakers, typical whoever earns 5,00,000 a year of income that is the kind of base you're talking about, which is really dominated by the service trade retailer, that's kind of network across geographies is a very significant portion constituent of our customer base. So, the manufacturing part is fairly limited and even there, there would be people who do value ads like welding and those kind of stuff. So, real linkage with a large company fairly limited.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Sir, a few questions. First is on the loan growth, so if you look at the loan segments that we report and so we basically report 8 segments. Out of those eight, four are growing Y-o-Y and four are declining. So, this is a very skewed growth that we have had over the years and now to deliver 20% loan growth, the growing segments need to continue growing at 50% to maintain a 20% growth on the overall portfolio. So, how do you really look at the skewness of this and by when do you envisage to have a more uniform growth across portfolios?

Murali M. Natrajan: So, which are the segments that you are noticing as not growing just for my understanding?

Nitin Aggarwal: So, gold loans, CV, corporate banking, SME, MSME. They are collectively almost 17%-18% of the loan book, and they're all declined.

Murali M. Natrajan: Yeah. So, corporate, I have never claimed that we will grow and we continue to be maintaining at the same level and despite that, we grow our book by 20%. CV is already bottomed out at about Rs. 200 crores or something, so it is not part of the base for it to make any difference. We are growing AIB at about 28%-30%. We are growing co-lending almost at 25%-30%. We are growing mortgage at about 25% and further scope for improving. And SME-MSME, we explained that the TReDS portfolio is almost bottomed out, so the organic portfolio that we have is starting to now have monthly what are called disbursal and starting to show growth. We have combined it here. That is why you don't see that. So, when you put it all together, for us upwards of 20% growth in line with our deposit momentum seems to be entirely possible.

Praveen Kutty: So, Nitin, look at it this way, you probably look at the disbursal chart, look at the product mix chart and you can compare Q3 with Q2 or even earlier. 53% mortgages right, 45% retail mortgage, AIB contributing another 24%. There is 8% of gold, 8% of SME. Plus you have co-lending. And these will continue to be the engines of growth for us. So, what probably is not growing is a less than Rs. 500 crore book of commercial vehicle and corporate also, the growth will be proportionate to the book. So, effectively what will not grow is in the larger scheme of things is commercial vehicle because every other construction finance is a growth area for us. SME is a growth area for us, retail mortgage you can see what's happening there, right? Gold loan clearly is a growth area for us. So, even leaving co-lending aside, organic growth engines are multiple different products. All mostly are secured, but other than that, they are very homogeneous.

Nitin Aggarwal: And second question is on the savings deposit side. We have reported a 10%-11% Q-on-Q growth in savings deposits, probably the highest in the last many quarters. So, anything to read into this, what has really driven this strong inflow this quarter?

Praveen Kutty: The savings account growth primarily is because of the new products that we have launched. We have also done a lot of technology adoption. We've increased the frontline. So, there are multiple ducks aligned for this savings accounts to grow. So, there is a large feet-on-street channel. There is a very effective fintech tie up which has resulted in pure retail, small ticket savings account growth. There is a completely seamless onboarding through the Zippy platform is helping us increase our productivity significantly. Our feet on street channel, we have introduced a separate vertical with workforce working on this. Murali spoke about this UPI cash back product called Happy which is again our belief is the industry first and so far industry only. So, there are multiple things that we said we would do to grow the CASA ratio and this is what you're seeing is the beginning of what we hope will be a consistent increase in the CASA ratio as we go along.

Murali M. Natrajan: Nitin, majority of it is coming from retail growth, not bulk. Otherwise our cost of funds will go up on savings also.

Nitin Aggarwal: Right. And lastly on the mortgage GNPA wherein we are reporting like a 16% odd sequential growth in the mortgage GNPA. So, how do you really look at that. And should we expect a more moderate growth here? So, any more color here actually?

Murali M. Natrajan: Growth of what the NPA?

Nitin Aggarwal: Yeah, the GNPA and the mortgage, which are running high on Y-o-Y.

Murali M. Natrajan: So, Praveen and I do reviews of collection almost every week of all products and especially of course mortgage occupies because that is almost 50% of our book. So, most of the loans that were in moratorium, almost 80%-90% of them came in moratorium, came out of moratorium between April and June. And the team had started working on this last December itself to make sure that they don't suffer from muscle memory to start. So, we did a lot of work. So, that kind of helped, but yet it takes time for customers like the reasons explained by Praveen. See, one of the challenges is that in a moratorium a year of principal and interest would have been capitalized and therefore his installment will go up prior to what he was before moratorium. So, those are all things that are slightly shocking for the customer to cope with initially. So, all that we have dealt with and it takes about 6 to 9 months for the pool to mature for our recoveries and upgrades to kick in, which we have demonstrated that if you see our recoveries was 73% or something this year, this quarter it is about 79 and our upgrades are usually more than recoveries that tells you the underlying quality of the portfolio and the fact that customers are able to find cash flows to repay us.

Praveen Kutty: Nitin, if you were to look at the recovery and upgrades. We were 62% in quarter one which is consistently gone up in quarter 2 and now in quarter 3 also, now we have reached 79%. So, that's one part of it. And secondly, almost two-thirds of whatever recovery that we get is happens to upgrade, which means that the customer stays with us. It's an income accruing customer and we also get the benefit of reversal, the reversal of whatever reversals which are done on the interest accrual. So, it's important. So, effectively there is a resilience of this particular customer, so we would rather have upgrades than recovery and that trend is clearly coming in. Leave aside this moratorium, even during COVID, even during the pandemic, we have seen this customer behavior where once the customer comes to the billing cycle, it takes some time for the customer effectively to get into the discipline of payment. So, we've gone through this cycle for the last 2 years, the last two chunks were in January and July.

And we reasonably confident about getting recoveries and upgrades from this customer base as well.

Moderator: Thank you. The next question is from the line of Neel Mehta from Investec Capital. Please go ahead.

Neel Mehta: My first question is on slippages. Sir, we've seen our slippages ratio being elevated over the last few quarters. Would you give a target level to which you will try to bring the slippage level down over the next couple of quarters in a medium term? That's my first question. And then secondly, on the NIMs, we've seen our NIMs decline over the last few quarters and if there is a rate cut, then it is likely that they may fall even further. Would there be a level of NIMs that you would say at a steady state we'll be able to achieve going forward? These are my two questions.

Murali M. Natrajan: Steady state, we are targeting 3.65-3.75. We have not changed that at all. We used to say that our credit cost will be 45 basis points, but we are actually operating on 28. We said that we will consistently reduce our cost to average asset. We are doing that clearly. The design of EBLR is such that you get the benefit of EBLR first and then your deposit portfolio keeps repricing, which is what we are experiencing. So, I do believe that this should get stabilized and even assuming that the NIM goes up only slightly slowly over the next whatever because the cost of fund issues are getting bottomed out. Over the next 4-5 months, we believe that the entire benefit of volume should start coming to us barring any change in environment. Having said that, if there is an EBLR cut, we have savings portfolio, which we can reprice and all the new deposits that comes in, which is substantial for a growth book like this also gets repriced. We also have a fixed-rate book which will get the benefit of a lower rate. So, there are balancing factors in it. Slippages, excluding gold is 2.55% and it was 2.69% in the previous quarter. So, gold loan and some co-lending slippages which is predominantly gold, doesn't bother us too much at all because they're all absolutely secured. As long as there is no fraud sitting on the gold loan, we don't worry about it. We don't lose one single night's sleep on that slippage.

Praveen Kutty: Just to add on to what Murali said, the slippage ratio of non-gold has come down and guess what, the NPA stock of gold has also come down from 42 crores to 32 crores.

Moderator: The next question is from the line of Prabal from Ambit Capital.

Prabal: My first question is on operating expenses. So, last three quarters, we have seen the pace of growth in OPEX decelerate versus what it was in last year. Last year, OPEX every quarter was growing 6 to 7 percentage points versus this year growing at 1% to

2%. Would it be fair to assume that the infrastructure that we have now is it good enough to fund the loan growth aspirations that we are guiding for 18%-20% for next 2 to 3 years?

Murali M. Natrajan: Our business model is such that and the opportunities, we have to look at business model and the opportunity, when we look at both, we have to continuously add some level of capacity in our front line for us to grow. Of course, we are supporting it with technology, operations, automation and so on, so that the rate at which we have to add these resources is not the same as it was 2 years ago and so on. So, our intention is to grow our OPEX slower than our income growth. Look at our impact on NIM compression. I estimate NIM compression itself this year has robbed us of a lot of income. Despite that, we have been able to kind of deliver a reasonable set of operating profit and profits keeping many of the items in control. So, that is what is the resilience of this business. So, you will expect our headcount to be growing consistently because our ambition is to double our balance sheet, we need the CASA. So, therefore, we have to add people to our front line. We have to add branches, which will be at least about 25-30. We need to within our existing locations we have to go to new areas, open up new cities and so on because we see opportunities for our SME, mortgage and LAP business. So, this will be a continuous expansion but in a very methodical manner so that we continue to deliver profitable growth.

Prabal: So, would it be fair to say that the OPEX ratio, if it is at 2.6% today as the productivity kicks in that can come down by 10-15 basis point every year?

Murali M. Natrajan: Intention is to operate around 2.45-2.5. But it may not be linear like exactly will come down in this thing. It will be like there may be some few ups and downs but directionally it will move like that and we have demonstrated that for you over the last few quarters.

Prabal: My second question is on slippages. So, while I do understand that on the gold loan side our LGDs are virtually zero, we don't need to be concerned there. But have you identified because of what factors were these slippages higher from the co-lending side and were we able to tweak those factors?

Praveen Kutty: Where is it mentioned that the slippages happen on the co-lending side? There is no slippage. There is no material slippage on the co-lending side. But having said that…

Prabal: I was referring to the slide that overall slippages were based, and ex of gold slippages were these. So, I was assuming that these slippages would have come from the co-lending side.

Praveen Kutty: No, let's explain this to you. So, 4.63% is the overall slippage and 2.55% is the slippage excluding gold loan and where does slippage come from, it's fairly simple. So, like we explained earlier, the large chunk of restructured mortgage book was…

Prabal: Actually, my question was on the gold slippages. Is it our core book which is throwing these slippages or is it the co-lending model which is throwing these slippages?

Praveen Kutty: It is similar because there is hardly any difference between one and the other. So, it's a common segment and therefore the slippages on own book as well as the co-lending book is similar.

Murali M. Natrajan: See, the gold loan customer thing and probably because of the habit forming and I'm not saying it's wrong or right, I'm just giving you how it operates. Mostly NBFCs don't press too hard on the recoveries and collections and customer thinks that since the gold is with the bank, if I do delay because he's taking it mostly for some emergency or personal use or so on or even for some business expansion and so on. So, the habit is that, okay, bank has got the gold. Even if I slip into NPA or something like that, I will be able to retrieve it before the auction. Most of our gold loans get paid off before the auction. Very rarely, the threat of auction works but the fact is that they pay off. And they pay off, including some extra charges and so on and so forth. So, the learning for that is a segment is like that where there is a higher slippage and higher kind of delay in payment. So, other than that, I don't see any major lesson. It's not like credit cards, they pay exactly on time so that they produce. They don't really worry about it.

Prabal: Just last question. We are growing at around 20% and our ROEs are around 10% to 11%. Do you see a risk of higher capital consumption getting us to the market for a capital raise because our Tier I has dropped to 13.5%?

Murali M. Natrajan: So, first of all, we have one of the most efficient risks weighted asset consumption business model I would argue. We consume about 53% to 55% of whatever loans we book. That is point number one. Point number two, we do expect RBI to give us a favorable response on the capital infusion of $10 million by promoter which would be quite encouraging for us. Secondly, the current profit that we have delivered so far is not included in the Tier I as of now. It is without the current year profit and whatever else we perform in Quarter 4. So, given all that we believe that we have sufficient capital to grow the book at least for the next 12 months or so and then we will take a call on what is the capital raising plan that we should come up with.

Moderator: The next question is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: First question is on margins and the way our business model works. We had a very broad range, let's say a business model which is thrown by business model 360 or 375. Nothing seems to be unusual in this quarter in terms of sudden movement in the rate at the system level and we have come below that threshold and that seems to be a negative surprise. So, of course, things move in a quarter or two, but we have breached the usual business threshold. Of course, it has a combination but that was one observation that and despite that, in general, I think you had mentioned about the yield. But I wanted to check the loan mix thing that you had said that there's some unfavorable loan mix and hence the yield is not rising. But if I look at AIB is growing at a much faster pace and then the core mortgage book is more or less similar and within that the proportion of LAP is also rising. So, I'm failing to understand what suddenly happened in this quarter which was not envisaged earlier to suggest that the NIM may breach the usual business case.

Murali M. Natrajan: No. If you recall our last quarter call as well, I have guided saying that the NIM compression is likely to continue for one to two more quarters before it starts to become better. I think I'm pretty confident that is the kind of guidance we had given last quarter also. The second point is, I had said right at the beginning of the start of the year itself, that the NIM of some four point whatever is not real because the moment EBLR is increased, you pass it on to that customer. But the portfolio, which is essentially the term deposit portfolio, gets repriced over time based on the competitive term deposit rates that are offered in the market. We are probably comparable to some of the banks that are also growing their book at about 20% or higher like that. Now what we are saying is that and the plan that we had in terms of the product mix, which is essentially moving more towards LAP versus home loan, is taking time to get roots in the market because it has been almost 2 years since we have operated at about 40- 60, 50-50 kind of thing, we are trying to move it to a 70-75 towards LAP which is taking time and there has been some slippages from mortgage. So, we understand what are the various explainable reasons. I don't believe quarter-on-quarter our cost of fund increase is out of line with the market. We have seen the results that have been declared. We have looked at some have increased by 10 basis points, some have in 20 and some in between. So, we are in that range, and we believe that in about 3 to 5 months is where we will find the bottom of this as we see our portfolio. Beyond which our benefit of our volume should start to kick in. That is our answer.

Jai Mundhra: In terms of mix, incrementally LAP is getting better. The pace may be different but incrementally that is getting better. AIB is higher yielding and is growing.

Murali M. Natrajan: No, not all AIB is high yielding. AIB has got a mix of products. It's got tractors, it's got KCC which is very competitive. It's got, what's it called MFI loans, it's got lending to MFI institutions and it also has got some bit of mortgages and SME. So, the highest yielding in that would be probably tractors, which will probably come at maybe 12.5 or maybe 13, depending upon old tractor, new tractor and so on. KCC and all is very competitive. So, you had to be there offering the same level of pricing as other banks, otherwise we'll have adverse selection.

Jai Mundhra: Lastly, we have had a very significant increase in the headcount. But similarly, the same pace is somehow not visible in disbursement or in fee on a cumulative basis, the disbursement for the last two-three quarters even if I exclude the TReDs or the SME altogether, the growth is 10%-11%, 10%-12% kind of a number excluding SME whereas the employee headcount have been much higher. So, is this a good comparison to start with because the additions may have been happened to CASA or some other thing or you think that kind of a throughput should come even if you were to exclude the TReDS etc.?

Praveen Kutty: So, Jai, with the increase in headcount has got an impact on deposits, it has got an impact on loans, it has got an impact on collections. There are multiple areas in which the frontline hiring that we do has an impact. So, the 19% growth in deposit, I want to just bring your attention to one thing. Our top 20 has come down from 7.06% if I remember right, to 6.75% in a tight liquidity market where people are running after bulk. How did that happen, where does the growth come from, it comes from retail. Where does retail deposit growth come from, it comes from people with the aligned technology and the zippy and the products which we spoke about in the earlier answer. Our collection efficiency on bucket zero has gone up to 98.8 for LAP and 98.9 for home loan, 98.8 and 98.9. That collection efficiency is coming in because of the incremental input that has come in there. There are people, the third component, what you said is right but that's a subsegment. So, there has been an increase in our mortgage frontline. There has been an increase in our AIB tractor, KCC frontline as well. But this 9% increase from 9,600 to the current employee base over a year has been across all these frontline segments.

Murali M. Natrajan: Let me add some more color to very important that what Praveen mentioned. When we crystallize all these headcounts and everything what we come to is that an average account which comes in and of course all banks suffer from attrition, so we do. So, it takes about 3 to 6 months for the RM on the front line to become productive. And in the deposit side they actually deliver about 1 to 1.5 crore of retail volume per year. In a loan depending upon the loan, they deliver anywhere from 2 to 4 crores depending upon the product and so on. So, we add headcount such that we are able to make sure that they are all ready by April, May, June to deliver the volume that is required for that next year. If we start hiring in April or May, it may not give us the benefit before

October or November which would not be useful. That's the way we plan our headcount.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: I just want to understand with respect to that RBI circular on risk weight. What was the impact for us?

Murali M. Natrajan: I think it's about 20 basis points for us.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to management for the closing comments.

Murali M. Natrajan: Thank you very much to all of you for attending this call. We look forward to talking to you again. Thanks for your participation.

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.s