DCB BANK

"DCB Bank Limited Q4 FY'24 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to DCB Bank Limited's Q4 FY'24 Earnings Conference Call.

Joining us on the call today are – Mr. Murali Natrajan – Managing Director and CEO; Mr. Praveen Kutty – Designated MD and CEO; Mr. Ravi Kumar – Chief Financial Officer; and Mr. Ajit Kumar Singh – Chief Investor Relations Officer.

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 Natrajan – MD and CEO. Thank you and over to you, Sir.

Murali M. Natrajan: Thank you. Welcome to this Annual Results Call and the 4th Quarter Results Call. I also have in the room here, our Chief Risk Officer, Mr. Sridhar Seshadri, Mr. Gaurav Mehta – our Head of PR and Marketing and Mr. Pankaj Sood, who's our Head of Retail Branches and then of course, some of the support staff that we have.

So, I just want to highlight a few points and then we will open up for questions. I hope all of you have received the "Results," the "Press Release" and also the "Investor Presentation" and had time to go through the same.

What we are quite satisfied with the way things are progressing is that I think we are on a way to keep doubling our balance sheet between 3 to 3.5 years, which is what we were achieving till March 2020 and we got a little interrupted by the COVID-19 pandemic.

Second thing is that deposit growth is ahead of loan growth, which is our intended approach. We have ensured that the top-20 deposits remains within 7%. The overall approach is how do we bring it down below 5%. So, we have invested some more headcount in our frontline branches. When you invest in resources in the frontline, it takes time to get the productivity up.

We are moving in the right direction on Gross NPA and Net NPA. Once again we have demonstrated that our recovery and upgrade is very strong, which is also one of the reasons why our credit costs are lower, and we haven't had much of a problem just as we expected on the standard restructured book. The gross NPA slippages, recoveries, all that includes the standard restructured book as well.

Again, in terms of provision coverage, things are moving up. We also had a small uptick in them. Our intention is to have a NIM of around 365 to 375 basis points, which we will be hopefully able to achieve by the mix change and mix of products both on the deposit side and on the loan side.

The headcount increase this year has been about 1,500-odd. We will continue to invest in our frontline is what our intention is.

Overall, we are moving in the right direction and we believe that the kind of investments we are doing and the business model that we have, we should continue to grow and improve our profitability.

With those words, I would like to take questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Firstly, on the fee side, if I look at this full year, the traction on fee growth has been fairly strong at 28%. So, I just want to understand one, what are the levers and two, could it continue growing at a faster rate versus assets?

Murali M. Natrajan: So, I will have Praveen – our CEO-Designate to answer the question. But what I would like to highlight to you is that last year, the PSLC income, when I say last year means FY'23, our PSLC income was about Rs.25 crores. And before that, our PSLC income was Rs.75 crores. This year we are almost like may be Rs.2-3 crores so which means that we are still generating PSL assets, but the market has kind of been very weak on the fee and we've been able to make it up with the rest of the activities and initiatives. So, I would like to ask my colleague, Praveen Kutty, to talk about the fee and what he expects.

Praveen Kutty: Hi, Mona. So, if you look at the core fee income, there are five components to it, which primarily comes from insurance distribution, processing fee, trade fee income and FOREX and cards and other charges. Now, other charges more for behavior changes, it's not a revenue mechanism, but it adds to the fees anyways. So, we had a decent insurance distribution fee coming up, which has offset the opportunity loss from a PSLC perspective, what Murali spoke about earlier, right far lesser number, it's a single-digit number. So, it's virtually gone out of the market. So, it's been replaced by insurance distribution income. The higher disbursals which you seen has resulted in higher processing fee generation, the trade finance and FOREX income looks sustainable and repeatable. We have income coming from our debit card, travel card more, which is also contributing reasonably well. These are the components and these would be the components going forward also which would be giving us the fee growth that we are aspiring for.

Mona Khetan: So, would it be fair to assume that your fee growth will continue to be higher than the overall growth in assets?

Murali M. Natrajan: I think it will be in line with balance sheet and that is what we have been maintaining all through. Of course, if our cross-sell percentage improves in the branch banking and all, we could perform better than balance sheet growth.

Mona Khetan: Also, just want to double check through this PSLC income. Does it fall under commission income in your case because for most others it's not part of the core fee?

Murali M. Natrajan: It's not part of our core fee. One point in time it was like a core fee because we were making it every year, although we call it trading kind of a fee, but our answer is no.

Mona Khetan: Then the core fee would be 388 crores for the full year and it will fall in non-core other income part?

Murali M. Natrajan: In non-core also we are working hard. It's not that we are going to destroy value there. But what we are focusing is the one that moves with the balance sheet or ahead of it. That kind of an approach.

Mona Khetan: Again, when I look at the CASA traction this year is of a low base, has been fairly good and unlike what we're seeing for the rest of industry. So, just wanted to understand what is helping in this case and could there be further traction from here?

Praveen Kutty: So, if you see our deposit growth, it has been near 20% growth. Our CASA growth has been around 18% mark. From a savings account perspective, we are one of the banks which gives both -- one of the higher rate of interest as well as perhaps the lowest rate of interest; at the lower end, our rate starts at 2.25% and the higher end it goes all the way up to 8%. So, it gives you a whole spectrum. The rate is not the real reason why you get the incremental savings account going. What keeps it going are certain innovative products. We have launched something called "DCB Happy." We spoke about it in the Q3 call also. That has really improved in Q4 in terms of customer savings accounts coming through. Effectively, you get a cash back on UPI transactions, subject to a particular number of transactions, value of transaction and the balance people keep with us. So, new products have helped. DCB Bank has now got full capabilities on all kind of tax payment, CBDT and GST. This got rolled out in the last quarter and the initial take up adoption rate has been very, very heartening. What this basically means is that customers doesn't have to go to another bank for doing this critical transaction because as you are aware, we concentrate mainly on the SME, self-employed segment. So, having GST into our armory has really helped our savings account growth. We will continue to be savings-focused rather than CASA-focused. Small ticket savings account would be the way we'll be going and we have also lastly added extra manpower, feet-on-street has been significantly increased to get the CASA new to bank customers going. So, it's a combination of three, four factors is what is helping our CASA. Again to sum up, the new innovative products which we are giving. Number 2, this whole new set of services that we are able to give to existing customers on the tax front. Number 3, increased feet-on-street and to a certain set of people who have short-term large amount of money to be kept without really knowing when they want to utilize it, there's a higher rate which is given in the savings account also.

Moderator: The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Just to come back on the quarter, a couple of things. One, you have seen yields improving and so has the cost of deposits. If you can just directionally tell us where you are on this journey?

Praveen Kutty: So, what's happening is that our NIM increase has happened. We are for the full year at 3.65% and for the quarter at 3.62%. It is driven by a few factors you can actually see that. One is the yield on our investment and on our assets have significantly had an uptick in Q4 as compared to the previous quarters. Number 2 is that from our collection efficiency perspective, our GNPA has come down which has really helped us in terms of getting the accruals going. There has been a small change in the mix also. In Q3 we had said that we are realigning and would like to do more of LAP within the mortgage umbrella as compared to home loans. That ship is slowly turning. So, that also has had an incremental advantage coming through. So, these three things are on the yield side. May be some element of hybrid fixed rate loans coming into the floating rate is giving us a positive buoyancy, because whatever the EBLR change that will happen, the 2.4% if you remember over a six month period, that pass on happens only at the time of fixed rate loan becoming floating rate. So, these four factors have helped our yield grow. And from our deposit cost perspective, possibly we are seeing the tail end of that particular curve. Over the next 1, 1.5 quarters, we could see a stabilization happening based on the historical trends which we see. We have to extrapolate that probably about another month, month and a half, we would continue to have repricing of the deposits on renewal at a higher rate.

M B Mahesh: If I were to just kind of complete the entire conversation, directionally, margins will be down in the next couple of quarters because some of these one-offs is unlikely to repeat. Is that the way to see?

Murali M. Natrajan: Remember, last quarter and the previous quarter also we said that we have taken the benefit of the repricing of the EBLR and the catch-up on cost of fund is happening. We believe that that should bottom out in about a quarter or two quarters maximum. Beyond which we should hopefully get the entire benefit of the volume increase.

M B Mahesh: The second question is OPEX has now kind of more or less kind of slowed down there. Directionally, revenue line grows faster than cost from here onwards?

Praveen Kutty: On OPEX, if you review cost-to-average assets, we're at 2.69%. So, traditionally what happens is that the increments in employee cost uptick happens in Q1 as normal and then we would see our go-to-position is we want to be at 2.5 kind of percentage cost-to-average asset over three to four kind of quarters going through. And where will it come from. Primarily come from increased productivity, as you can see disbursals are going up and there are quite a lot of activity happening on the digital space, which is helping us cut down the operating cost.

Murali M. Natrajan: For example, Mahesh, one area is collection. We probably have operated with a flat headcount in the last or maybe even slightly reduced headcount in the last six months or so, primarily on account of productivity improvement in portfolio and digital intervention. We will continue to add about 1,000, 1,200 people because we want to keep adding frontline so that we keep building capacity to grow because there's an opportunity out there.

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

Prabal: My question was on the MFI business that saw an uptick this quarter. What's the approach here and how should we think about this business going ahead?

Murali M. Natrajan: So, in MFI we have two types of business. One is lending to MFI company and lending to end customers through the BC route. The end customer BC route has seen a steady growth, I don't think there's been any major uptick, but MFI lending to BC, we have seen opportunities emerging because of our understanding of that NBFC, MFI and we have been able to kind of improve our lending to that particular segment. If I was to look back last many years, we probably were the first or second lender to most NBFC, MFI which came into the industry.

Praveen Kutty: Prabal, from a thought process sense, MFI business that we do is to ensure that we meet all the PSL categories and subcategories. We are picky and choosy which state we go with. Currently, it is far less than 5% of the overall book. So, you would see the growth in line with the overall balance sheet growth.

Prabal: When we link to MFI, NBFC, is the yield commensurate with still lending to individual customers in the MFI business or what's the differential there?

Praveen Kutty: I don't think the lending rate to MFI and MFI consumers through the BC route, that's not an information that is publicly revealed. So, I don't think we could answer that question.

Prabal: Because the reason I was asking was a 1% increase in MFI shares can have a positive impact of 10 basis points on the overall yield, going for NBFC lending that impact might not be that much?

Murali M. Natrajan: We are in the MFI BC business and MFI business in order to meet the difficult part of our agri PSL and the SF MF and things like that, right. As you know, MFI business looks very good for three, four years and then suddenly it has a problem. We want to have lot more consistent results and not want to deal with that kind of situation. So, we are very focused on keeping it at about 5% to 6% of our exposure. Your point is valid, if you say that if you increase by X and then you can get a yield, we can increase by multiple times and still get a lot but, is that what we want to do is the question. So, we have other opportunities which are much better so which is where we will focus.

Prabal: Second question was on the co-lending. So, one of our partners had to stop disbursement. So, how are we sort of navigating that because the co-lending book has come down from 35 million to 30 to 33 million?

Praveen Kutty: You're right, one of the gold loan co-lending partners, that volumes have stopped coming in for reasons which are known. But we have about close to eight different co-lending partners across different products and customer segments in multiple geographies. So, what we're doing is while the dust settles and whatever the right action will be taken over a period of time, the time being indefinite, we will wait for that opportunity to come back. There are other partners with whom we are engaged. This particular co-lending guideline came in May' 21 and I think in the year '21-22 itself, we have kickstarted the co-lending business. So, we are one of the early prime movers in this particular segment and we have multiple relationships. So, there are incremental originators coming online and that will continue, that whole affiliate-driven business is something will continue. But would it replace volume-for-volume what has stopped in the market? No. So, in the short term, there would be a reduction in co-lending, But there are many many other partners who we are working with and we should see the co-lending book coming back to the kind of levels that we have seen.

Murali M. Natrajan: And this happened in 4th of March and it happened in a very abrupt manner. So, we haven't had much time to kind of the thing, but we have other tie-ups. Hopefully, some of the tie-ups will come through to compensate for some of the volume.

Prabal: Just last one clarification. This uptick in yield, so 11.71, this is organic in nature, there is no one-off in this?

Murali M. Natrajan: No one-offs. Even last quarter, we never said there have been one-offs or anything. We track one-off problems separately or opportunities, but there is no one-offs.

Moderator: We'll take the next question from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: The first question is on your SA growth strategy. You have a staggered rate when you offer as you mentioned in the opening remarks also that you offer lower and maybe at another spectrum you offer one of the highest rates in the industry. On a QoQ basis, the SA balances have grown at 2%, right, despite we are offering one of the highest rates. Is that satisfactory or you think there is some one-off and hence because of this pricing strategy, we should see slightly better outcome or this is more or less in line with your strategy?

Murali M. Natrajan: Jai, we discussed this in our last quarter call also. Praveen has mentioned to you that SA rates are very low at the low end and high at the high-end catering to completely two different segments. So, the reason why we are getting higher rate on one end is to make sure that the flexibility that is required by some of the HNIs instead of keeping in term deposit are keeping in there. The actual growth is always coming from the low to mid end because there we are offering innovative products. For example, we launched a product where we give cash back on UPI, both incoming and outgoing, and the information that we have from our frontline team is that product is doing very well and the average ticket sizes have improved better than what had we not offered that thing. So, we are monitoring the SA cost very carefully. Because we are offering that 8%, I don't think you should think that that is where our SA rates are. We don't publish our SA composite rate, but I can tell you that our SA strategy is actually helping us to reduce the cost of funds and cost of deposits.

Jai Mundhra: No, I wanted to get a comment on the growth. The product is very good because it should take more but the QoQ growth of 2% was slightly not so, I mean, it looks like it could have been done better. That is what I wanted to have a comment on this 2% is satisfactory in your view or you think hence it can grow up is the question.

Praveen Kutty: So, in this year, what has happened is that there has been tightening of liquidity in most part of the year. There are two things which we are very cognizant of. Our CD ratio has remained at sub-83 levels, right, and we have grown deposits by almost 20%. Third thing, we need to keep in mind is that our top 20 has decreased to 6.57%, at one point in time was over 7%. So, effectively what is happening is there is a granulation of the book and that's what is growing. In an environment where the retail term deposit rates are attractive, there is a propensity in the market for savings account customers to move their money into retail term deposit in the same bank, some amount of cannibalization happens that we are very comfortable with it. Now how we're countering it is that a lot of the increase in people which Murali spoke about earlier has come in the front-line deposit mobilization unit, which is solely focused on getting CASA going. Number 2 is that we have partnership with some relevant fintechs, which is contributing pretty well in terms of good profile, new-to-bank savings account customers. So, there's a partnership we have with NIYO and you probably would have seen advertisements in some of the media. So, I talked about feet-on-street, we talked about partnerships. The third element which comes into play on the savings account piece is from new accounts that we are providing. There's a very large cross-sell machinery which is at work. If you see. 54% today of our asset book is mortgages, right? So, there is a very active cross-sell happening to these customers where we're getting incremental savings and most of them are SMEs, so they open their personal savings account with us. So, that activity has come up to a different level. So, three verticals are working on this and we expect in line with the balance sheet growth of savings account to happen during the course of time.

Jai Mundhra: My second question is if you look at slide 31, that gives the yield on advances on YoY basis. So, that increase in yield on advances in FY'23 where most of the redemption happen, that is somewhere around 35 basis points and in FY'24, at least the policy rates were very stable, yield on advances has risen even further by more than 50 basis points. Of course, I can understand some lead back. But I what is driving this better rise in yield on advances in a year where there is no policy action because part of that could be explained by some of the lower Net NPA that we had, but if there is anything if you can say please?

Praveen Kutty: Perhaps it's not correct to assume that the entire advances book is comprising of EBLR and therefore benchmark rate change alone will change the rate of the existing portfolio. So, you continue to have fixed rate loans and you continue to have marginal cost lending rate loans plus you have EBLR loans also. So, some of these EBLR-linked loans are fixed in nature for a certain period of time, after which it becomes floating as well. So, there is a composition of the asset book which is there in most banks and in our bank also, that's one point we have to keep in mind. As and when this hybrid part fixed EBLR-linked loans come into the floating rates scenario, then the repo rate increase of 2.4%, which all of us knew of between September '22 and March '23 kicks in, in some form or other depending on when those particular loans you got. So, that's one part of it. The second part of the yield increase is coming from improved sourcing yield. The third part of this is coming from better mix. If you remember, last quarter also we spoke about this, we are kind of shifting, at that point of time 52% mortgage, now 54% mortgage, more into LAP than from home loan. Going into home loan was a part of the COVID safeguard fortification strategy. Now, COVID is done and dusted. So, now we're going back to the pre-COVID levels of higher business loan. So, there is an increase happening on that count also. Lastly, the point which we just now mentioned, less slippage, more upgrade, not just recovery, which means the NPA customer continues to bank with you. You get the benefit of the X number of months of interest accrual, which you derecognized, thus incremental revenue also come because the customer is post NPA regular with us. So, all these factors contribute to what is resulting in the change in the yield. Long answer for a short question.

Jai Mundhra: You said that there are a few products wherein the starting rate is fixed, but over the tenor it will increase, it will turn into a floating rate product for the customer. Is that understanding correct?

Praveen Kutty: That's right.

Jai Mundhra: This would be business loan or mortgages, I mean because

Praveen Kutty: Could be something else also. It's available across various products, most floating rate loans have the part hybrid floating facility available.

Jai Mundhra: It will necessarily turn into floating rate, right, because the customer may not want that, right, because it is a subject to customer discretion, then

Praveen Kutty: At the beginning, the customer can choose a fully fixed rate loan or a fully variable rate loan or a hybrid loan.

Murali M. Natrajan: But fully fixed is only in a commercial vehicle like tractors, very less.

Jai Mundhra: The hybrid at some point of time necessarily will turn floating, right?

Praveen Kutty: Yes.

Jai Mundhra: If I total the disbursement in this year and last year, there is more or less similar disbursement, but there is a drop in the calculated repayment and that seems to be driving or at least contributing to the loan growth. Is there anything within the loan product which is keeping the repayment rate lower or that is the kind of a general thing that a year, two years repayment rate may differ or there is something structurally within the product segment that repayment rate seems to be declining?

Praveen Kutty: Essentially, Q4' 23 had a reasonably high composition of TReDS, which forms a part of SME. TReDS are typically average 45-day loan, which gets turned around. It's a liquidity management tool for the bank. So, as and when there is a short-term opportunity available, you go into threads, if it is not, you go into longer-term loans. So, that's why if you see if you're looking at the page number 22 there is a 838 crores disbursal coming under the SME, that is now reduced to 500 crores So, effectively what's happening is the longer term loan is coming to play.

Moderator: We'll take the next question from the line of Rohan Mandora from Equirus Capital. Please go ahead.

Rohan Mandora: Just wanted to understand the frontline people that we are adding. But this is the liability accretion incrementally. So, as an external entity, if we have to track how effective they have been in terms of generating liabilities over next one, two years, sir, what are the metrics that we should track, so obviously total deposits per branch or per employee can be one metric, but anything else that you can indicate would be a better metric other than this?

Murali M. Natrajan: Total business per employee and total deposits per branch is, I think, effective because when we our product team and our frontline team makes continuous comparison on through the door acquisition capability and productivity of various banks. And it's not very difficult to do because you conduct a lot of interviews, and you know what kind of scorecard they are operating in various different banks. So, we know where we are and where they are. Of course, there are some differences here and there, but we know that. So, I think that is the best metric overall to keep tracking.

Rohan Mandora: In terms of the KRAs that these people would have who are focused on liabilities, would that be different from normal branch employee or they would have all the KRAs on asset as well as liabilities that a branch employee would have?

Murali M. Natrajan: They're all part of the branch.

Rohan Mandora: So, just trying to understand in terms of the focus, has there been any change in the KRA with respect to the liability accretion vis-à-vis last year?

Murali M. Natrajan: There are some employees who do multi-products. Like mortgage, we have a separate team, and for loans generally, we have a separate team, the branch team always has deposits, CASA, term deposit, fee and gold loans. Of course, within this there are employees who only do deposits and do nothing else. So, the scorecard would be different for them. So, there are all types like that. For example, a person who paid 6 lakhs or 10 lakhs could be having a slightly different scorecard from somebody who is an entry point kind of an employee.

Rohan Mandora: Is there any guidances for slippages next year?

Praveen Kutty: So, if you look at our model, we essentially work on a model of NIM of 3.65 to 3.75. Fee tending towards 1% of average assets and the credit cost typically around 28 to 30 bps mark. What you see now is at 16 bps, I think it is not a sustainable kind of credit cost number. It typically will range somewhere around 28 to 30 bps kind of mark on an ongoing basis. But having said that, we have about 1,300 crores of NPA pool to work on. Most of them matured from a legal perspective. So, SARFESAI orders in many cases have come through or in the process of coming through. All are secured. In fact, that's one thing about the bank and most of it is secured by self-occupied property. Effectively, the moment orders come in, customers find a way of reprioritizing their payment towards keeping their house than to some other activities. That's how most of our credit cost reduction is coming from. But on an ongoing basis, I think the model you should assume a 0.3% kind of model to go with.

Murali M. Natrajan: So, the approach is that we are running a very capital-efficient model. So, our risk weight asset consumption is pretty low as you can see, and it has been low over the year because that's how we refined the model is. And given the current capital situation, I think we probably will look at our capital and we have a proposed and enabling resolution. On Tier-2, the bank has always had an approach of being slightly opportunistic and as and when there is an opportunity to pick up some Tier-2, I think the team will work on that.

Rohan Mandora: And Sir, to the previous participant's question, we told that we were having on the fixed/floating rate in terms of hybrid loans. Just wanted to understand what would be the proportion of total loan mix right now that would turn floating in the due course of time?

Murali M. Natrajan: We don't disclose on that. But, if we disclose, we'll disclose it for the entire set of investors.

Moderator: We'll take the next question from the line of Krishnan ASV from HDFC Securities. Please go ahead.

Krishnan ASV: Given the kind of regulatory environment where the RBI has been fairly stringent on looking at partnerships between banks and anything that they do on the digital side, you have a partner which is not just helping you digitally acquire NTB customers, but also in the field where it is for FOREX cards, which is not being very kindly taken to by the RBI in the past. So, just wanted to understand what kind of safeguards do you have in place to make sure that DCB Bank does not fall foul of the RBI now because no matter how conservative lenders are or how they push the envelope at times. It seems that the RBI is scrutinizing a lot of these relationships with very fine comb. So, just want to understand what is it that makes you feel comfortable that you're on the right side of regulations here? I mean, is the bank currently being investigated or scrutinized for this relationship at all?

Praveen Kutty: So, this may sound like a repeat of the master circular and master direction, but then that's a question you asked. So, here's the answer. How does it work? The video KYC-based customer identification process is done by the bank. The audit of that particular process happens currently and that is done by the bank. Once the customer is onboarded, it's a savings account customer just like any other digitally acquired customer of the bank. When these customers either use the account domestically or internationally, the AML flags which are in the system come into play. We are reasonably confident about our AML flags which are there in the system and we look for anomalies including one to many, many to one, usage of the debit card abroad with the app showing that the customer is in other country and a whole host of things is something which we have. We are not wholly predicated on one partnership for our program. Why we are part of this particular partnership is because there's a space which we want to be in and if done right can considerably help the bank. So, effectively it's about how strong your customer identification and onboarding processes is fully in-house. Second is about how well you manage the transactions of the customer and is as per what we believe the customer is capable. Third is the technology angle to ensure that the transactions which happen internationally matches with the GPS, etc., of that particular customer in the same place. And fourth, this data is exclusively with DCB Bank and not with the partner. The partner does not have visibility to any of the information. It's tunneled through. So, there are various things that we have done. And the last piece is from what the letter of the master directions are concerned in this regard of both co-partnerships as well as digital account opening and partnerships, it meets the conditions that we have currently. But what you said is right, there is a heightened scrutiny of the regulator not only on this area but in multiple areas, and our belief is that we will always play conservative than go by the philosophy of being aggressive.. We internally say that anything grey is black.

Krishnan ASV: The other bit was very often lenders don't walk into this or let's assume that lenders don't want this with their eyes open, sometimes they think they're doing the right thing, and they are going by the letter and the spirit of the regulations but still the RBI seems vigilant and a bit stringent on making sure that digitally whatever is happening digitally is something completely above board. So, just to reiterate the earlier query is DCB Bank currently being probed or investigated on this?

Murali M. Natrajan: So, first of all, I want to say that we can't comment on what is the regulators approach and what they are planning to do and how they are doing. When you talk about digital lending, I am not aware of any digital lending that we are part of. I think we have examined several, several fintech and probably didn't feel comfortable in terms of their approach and what are the regulations and so on. The digital thing that Praveen was referring to was on the deposits side on NIYO, and as far as we can see, we seem to be following all the guidelines, but the regulator has the right to keep raising the bar on these and we have to make sure that we follow. You are using the word investigative and things like that. I'm not aware of any investigation and so on. But you know that in the risk-based supervision, at any point in time any of the regulated entity can be called upon for any information and so on. And that is a new way of how the regulations are being applied and managed. So, that is my response to your question.

Moderator: We'll take the next question from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: I had a question similar to what previous participant had on this ex-floating EBLR, T-bill, or may be repo. So, if we can get the breakup of EBLR, MCLR and fixed rate loan breakup in this quarter March-end and December quarter, that would be really of great help.

Murali M. Natrajan: We are not presenting those details; I don't think we have ever presented those details. The way we approach is, there is a mix of products that is there on the deposit side, and we know that in the model, it yields about anywhere from 365 to 375 basis points. Of course, if you have in any one quarter, some more NPA or we end up having some repricing issue, even for that matter, let's say we have borrowed money from NHB or SIDBI and they happen to fall due for some repricing and that quarter gets impacted. So, these are all so many nuances that go on. The other one that happens is we obviously meet all the PSL norms, for example, there is a shortage there and we have to subscribe to RIDF bond which come at a very low rate, that also has an impact on NIM. So, overall, I think we would like to go by saying that the Bank is targeting a NIM between 3.65% to 3.75%. So, the sales team may decide that "Look, we are spending a lot of money on acquiring these customers. So, therefore we need to offer a six-month fixed rate or a one-year fixed rate so that we have some more stability. Those kinds of decisions are taken in ALCO on a very ongoing dynamic basis. So, I don't think we are ready to present that number to you.

Rakesh Kumar: Just wanted to reconfirm that as per the RBI guideline on the EBLR, so all the floating MSME loans should be on EBLR. So, what part of MSME loan or maybe any other loan that you are offering at the fixed rate at the initial time and then converting it to the floating rate later?

Murali M. Natrajan: That is going back to the same your first previous question, no, which is what we are saying that we don't offer that information and that information may differ from month-to-month, quarter-to-quarter depending upon various meetings of ALCO, our balance sheet, our liquidity position, the way we are generating our deposit profile and so on. So, suffice to say that we have offered smaller customers the flexibility of taking fixed rate loan. Those fixed rate also might change, six month fixed rate, one year fixed rate, maximum two year fixed rate, those kind of things.

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

Dixit Doshi: My question is related to the cost-to-income and also the growth. So, you mentioned that we are on a course of doubling up our balance sheet over the next 3, 3.5-years. So, for that kind of growth, what kind of branch addition we are looking at or is it the branch addition will not be a significant and it will be more like sweating our existing branch network which can help our cost-to-income in a way?

Murali M. Natrajan: We are a pure retail SME bank. Our corporate loan book is about less than 10%. And when we started this journey 15-years ago, I remember the corporate book was about Rs.1,500 crores on a loan book of some 3,000-odd crores. If you have lot of big-ticket loans, your cost-to-income ratio will be lower. Please compare our cost-to-income ratio of 63%, 64% to more pureplay banks that you may be aware of who are into lot more retail on the loan side. So, the cost-to-income ratio will continue to be high in that model. What you should focus on in my opinion is look at cost-to-average assets. At one point in time when we were adding people. I think our cost-to-average assets was even 3.3% or something, which has now come down to 2.69%. As Praveen mentioned, we are working towards bringing it down to a steady 2.5%. If that results in results in reduction in cost-to-income ratio so that whatever would that be. We don't look at cost-to-income ratio, we look at cost-to-average assets, that is point one. Second thing is our model is such that there is so much opportunity. If we add headroom, we probably will add 10,000 more resources and still we will be able to generate business, but we are pacing it out. So, I think we have stated in the past that number of branch addition would be 15-to-20 per year and if the new management team finds more sooner success in implementing branches, they may even step it up to 30, 40 or whatever that number is, and I think we are fully capable of making those branches. And we are not some regional banks or something like that. We can put up a branch in Odisha, make it a success, we can put up a branch in Madhya Pradesh, we can make it a success, we can put up a branch in Bombay and yet not succeed where we are very good because we have not got it right on say for example, some people or something. So, we are pretty good, we have a lot of products, we can make it work. So, that's the way the model is.

Dixit Doshi: So, in terms of ROA, where do we target over the next say two or three years?

Murali M. Natrajan: The intention, as we have stated in our presentation also, we are moving towards greater than 1% ROA and greater than 14% ROE. You may see some banks which are having an ROA of 1.5%, but they have a 20% capital adequacy at Tier-1. We have 14.59% and we are giving 0.9%. You may want to normalize and see where that, because if you have lot of capital you can definitely get more far away. We are trying to be more capital efficient. This quarter ROE has been 13.48%. I think steady state we have clearly a 0.9% ROA and about 12% ROE. And I think the team will be working towards getting this up through improvement in productivity of the existing resources and growth which is what would be and not messing up any of the other parameters like credit costs and so on.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, Sir.

Murali M. Natrajan: So, thank you. That would be my last call and I'm happy to tell you this is my 61st quarter where I've been able to interact with you guys, I just realized. So, thank you very much for your support and encouragement and it's been a pleasure interacting with you all these years. And I wish the new management, Praveen, and his team all the very best and look forward to catching up with you at some other forum. Thank you very much.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of DCB Bank Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.