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November 04, 2023

BSE Limited
Listing Department,
Phiroze Jeejeebhoy Towers,
1st floor Dalal Street.
Mumbai 400 001

Scrip Code: 532772

National Stock Exchange of India Limited
Listing Department,
Exchange Plaza, 5th floor, Plot No. C/1,
G Block Bandra – Kurla Complex,
Bandra (East), Mumbai 400 051

NSE Symbol: DCBBANK

Dear Sirs,

Sub: Transcript of Earnings Conference Call held on October 31, 2023

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the Earnings Conference Call held on October 31, 2023 with respect to the Financial Results of DCB Bank Limited ("the Bank") for the second quarter and half year ended September 30, 2023. The same has also been uploaded on website of the Bank and can be accessed at the link given below:

https://www.dcbbank.com/upload/pdf/DCB-Bank-Q2-FY-24-Earnings-Call-Transcript-Oct-31-2023.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For DCB Bank Limited

Rubi Chaturvedi

Digitally signed by Rubi Chaturvedi
Date: 2023.11.04 11:55:38 +05'30'

Rubi Chaturvedi
Company Secretary &
Compliance Officer

Encl: As stated above

"DCB Bank Limited Q2 FY24 Earnings Conference Call"

October 31, 2023

MANAGEMENT: **MR. MURALI M NATRAJAN – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER**
MR. RAVI KUMAR – CHIEF FINANCIAL OFFICER
MR. AJIT KUMAR SINGH – CHIEF INVESTOR RELATIONS OFFICER
MR. PRAVEEN KUTTY – HEAD RETAIL BANKING & AGRI BANKING
MR. SRIDHAR SESHADRI – CHIEF RISK OFFICER
MR. VENKATTESH R – HR, OPERATIONS, IT & CIO

Moderator: Ladies and gentlemen, good day, and welcome to the DCB Bank Limited Q2 FY '24 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan, Managing Director 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 call, please signal an operator by pressing star then zero on your touch-tone 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 Natrajan: Thank you very much for joining this call. We also have Sridhar Seshadri, our Chief Risk Officer, R. Venkattesh, our HR, Operations and IT Head; and then we have Praveen Kutty, who is our Head of Retail Banking and Agri Banking.

So let me just give you a few points, and then we will open up for questions. Our advances growth was about 19% and deposit growth was 23%. The market conditions were tough. So the cost of funds went up and were not easy to grow CASA balances. That had some impact on NIM, and we expect this to stabilize over the next two quarters. We will explain in detail a little bit more.

Collection efficiency continues to be strong. While there were slippages in mortgages, primarily coming from customers who have just now come out of moratorium, and there are no more moratorium left. Everything is billed as of now. Our collection upgrades and recoveries have started picking up. For example, if you see in Page 25, last quarter was INR 211 crores of upgrade and recoveries this year -- this quarter is INR 289 crores, which is 73% of the slippages. We expect this number to continue to build. And we think that we should be able to reach similar levels to what we were able to do last year in about maybe two quarters or so.

If I look at slippages without considering gold, it is at about 2.69%, which is lower than last quarter slippages. And we think that step-by-step as we intensify our collections on customers in the restructured pool, we should be able to contain the new slippages, essentially coming from mortgages, that is one.

In terms of disbursal, again disbursal has picked up and we expect this number to improve in the coming quarters. We started growing our headcount again. Last quarter, you may have seen a lower number on headcount. This quarter is an increase in headcount. And we are building this capacity, so that in the coming years, we can achieve higher than 20% growth rate on a year-on-year basis. And our intention is to double the balance sheet in 3-plus years, that still is how we are proceeding.

In terms of cost to average assets, that is declining with growth, and we expect that to keep coming down as we continue to grow our portfolio. So those are some of the things that I wanted to mention. Top 20 deposits is just about 7%. And we continue to be very granular in our loan portfolio. 85% of our loan book continues to be at INR 3 crores or below. Credit cost is at 28 basis points. And our capital adequacy remains strong to support our growth ambition.

I'll open up for the questions.

Moderator: Thank you very much. The first question is from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: So when you explain about the slippages being lower ex gold. But if I see the no NPAs segment-wise, there has been a rise most of the segments, whether it's corporate, which you mentioned -- sorry, whether it is for mortgages or even the SME segment. And even in the other segment, etc, excluding gold. So if you can just throw some light there as well? And second question is on other income. I'll ask that later.

Murali M. Natrajan Yes. So mortgages, all portfolio has come out of moratorium, all portfolio is billed. If you see our collection efficiency, including restructures, we are in pretty good shape in terms of restructures. What happens I think in customers who have come out of moratorium is that it takes about, like, I think, explained last quarter also, it takes about three, four months for them to come into the rhythm of paying on a regular basis.

As you know, even if they miss -- once they miss three payments, and then even if they are making one, one payment, it remains as NPA. And it takes time for them to kind of bring back to normalcy. You will see that usually, our upgrades are higher than recoveries, that suggests that we are able to get the customer back into regular-paying customers through upgrades more than we do on recoveries.

So from that point of view, I think we should expect the recoveries to pick up, and we have demonstrated that this quarter also because it's already at 73%. Last year, we were demonstrating about anywhere from 98% to 100%. And we expect that because we have adequate capacity in collections to achieve that. SME and all, even if some two accounts slips into NPA that might show as an uplift.

Again, these are cases where we have full security customers who have missed, for example, that November 12 circular of not servicing interest slip into it and then they come and repay and then come back to normalcy. On corporate, it's a very small slippage of some addition to some existing NPAs. So I don't think there has been on challenge on that. So that is how the things look.

Gold loans, it is at INR 42 crores. You don't worry about gold loan too much. Like I said, we have full security, and we have been able to demonstrate that we can reduce gold loan NPAs at any point in time as the customer comes and settles the loans with us.

Darpin Shah: Okay. And just to -- if you can tell -- when do you see that slippages coming below 2% ex gold, like you were pre-COVID or slightly prior to that as well.

Murali Natrajan: I think we have to give ourselves another two quarters, at least, I feel. The reason for that is that all these small customers who had gone into restructure and moratorium, some part of them take time to come back to the rhythm of repaying their loans. So we are on top of it.

We have -- the good news is that we used to actually have a separate team reminding customers in the moratorium. Now that they are not in moratorium, we have kind of brought them into regular collections, which is also helping, I think because now we can be a lot more confident in asking the money to -- from the customer when there in moratorium for example. We have collected a lot of money while they were in the moratorium also to make sure that they don't get into a habit of losing touch with payment schedules and so on.

But some of them prefer to stay in moratorium. So -- but overall, I don't see any issues with the portfolio. And our recovery upgrade performance on some of these customers who have come out of moratorium, who are restructured also indicates that we have a pretty good handle on the situation.

Darpin Shah: Okay. And sir, my second question is related to margins. In your initial comment, you mentioned about cost of deposits stabilizing over the next two quarters. So if you can throw some light there, how much deposits have already been repriced? What's coming next or what will be coming in the next couple of quarters? How do you see that shaping up?

Murali Natrajan: So let me talk about margin and cost of deposits. We are tracking cost of deposit on a daily basis. And we have a good understanding on how the deposit pricing is moving. The deposit repricing of the existing term deposit and all should complete in about 2 quarters, Ravi?

Ravi Kumar: In another two quarters.

Murali Natrajan: In another two quarters, it should get completed. But while that is happening, Darpin, what is happening also is that -- you have -- we have different types of portfolio, right? For example, tractor and gold loan will be in the fixed category. So that will not see any improvement in yield except for new loans that we originate. The portfolio cannot be repriced there in some of those.

Like for example, CV is about INR 250 crores or INR 200-odd crores and some tractor, which is -- which can't be repriced. Then we have a portfolio where -- which is essentially mortgage, LAP and home loans where we give a small period of fixed and then we make it variable, to help us to kind of make sure that the customer retention is intact, at least in the initial period. Many of those portfolios are coming up for repricing in the coming months and start to pick up even more in the next year.

MCLR portfolio, which is a declining portfolio, also has a fixed schedule of every quarter passing on the increase. So net-net, what seems to be happening is that we just have to bear with the cost of fund increase for about two quarters. And then the entire benefit of volume starts to -- we start to gain that post, say, about 1.5 to 2 quarters. If I look at our month-on-month basis. So that's how our indications are. And we are pretty confident that unless there is some major issue in market in terms of liquidity and cost of ongoing haywire, we seem to be in that path at the moment.

Darpin Shah: Okay. Just related to it, how much was the margin impact because of slippages during the quarter, and that will be -- that's it from my end?

Murali Natrajan: We don't have that, but some recoveries happens, some slippage happens. So I don't think I have that stuff. But I don't think it is a very material number. Because a big story upgrades as well. And in recovery, I've seen the slippages, say, for example, in slippages I sacrificed 3 months interest, as an example, I'm just saying. But if I recover some old NPA, which is 6, 7 months, I might actually gain interest of 6, 7 months. So it's like a lot of plus and minus on that.

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

Jai Mundhra: I have a couple of questions. So first, on your savings rate, right? At the end -- at the fag end of the quarter, we had increased the SA rate from -- in INR 10 lakhs to INR 2 crores bucket to 8% versus I think slightly below 7%. So, a, of course, this is maybe at the top end of the industry offering. Other banks that offer such kind of rates, they have very high yielding micro finance portfolio or some other unsecured portfolio, whereas our blended yields are around 11.5%.

You had some landed cost on top of this 8% regulatory costs, etc. Then the incremental margins that would come out of this liability would be much margin dilutive, I mean, broad mathematics. So (a), what led to this kind of a pricing strategy? (b), what could be the proportion in this bucket, so because this is -- this has come at the fag end of the quarter, so ideally the full impact should come in third quarter. So a, why this change? Of course, other banks are -- also have such pricing, but they have very high proportion of -- or a significant proportion of MFI unsecured loan. So your thoughts there?

Murali Natrajan: Yes. So first of all, bulk for our savings account balances come at the lower end of the pricing band. To be able to -- let's say, for example, we have 100 RMs in the frontline. Not more than 15 RMs can actually be really phasing up to high-ticket HNI kind of customers. The rest of the guys all get ticket price of INR 1.5 lakhs, INR 2 lakhs, INR 2.5 lakhs, INR 3 lakhs, like that. So the pricing on the savings account for many of these customers are in the aspirational zone as opposed to actually them earning. But it is slightly better than, say, for example, a public sector bank, and also we are able to attract customers.

Besides that, we also offer some cash back kind of opportunities in some of the products, so that also attract customers. So even after pricing at an 8%, I don't believe that, that is our price that we pay in overall SA balances, that is point one.

Second point I want to mention is many times the customer retention strategy is that you have to offer a slightly higher rate in savings because the customer instead of giving it at the term deposit, wants to have the flexibility of keeping it at the savings account. So those are the customers that are attractive in that high ticket -- high pricing.

And frankly, the customer is paying us less than the term deposits in this particular case, because he will actually get all the band pricing, so it will probably come at less than 8%. So I would like to argue that for retention of those customers, we are actually paying less than term deposit rates. So that is our approach on those things.

Jai Mundhra: Okay. But this will be a very -- I mean, this could be a significantly margin dilutive strategy, right? Because even if...

Murali Natrajan: You compare, Jai Mundhra, you compare what is the cost of fund increase on a marginal basis on the last quarter, that is a quarter that has come by for all the banks. I mean we have done the comparison. Our cost of fund has grown up by 15 basis points. You can check that and check with all other banks who may actually be showing different -- maybe lower rate in the car or something and how their cost of funds have gone up, then we can obviously have a discussion on that.

Jai Mundhra: No, no. So this quarter, the impact would have been only for 3 to 4 days, right? Other banks have seen cost of funds increased by 30 to 40 basis points, we are much better off...

Murali Natrajan: Even 80 basis points, even 80 basis points.

Jai Mundhra: Yes. So we are much better off. But I think the full impact will come only in third quarter, right?

Murali Natrajan: Not because of the savings rate. Like I said, savings rate at 8% is more of a retention strategy of customers who are getting cannibalized on the term deposits because some other bank is offering that kind of flexibility to them at the savings rate. So better that we actually retain them by this, where we actually end up paying less than 8% because of the various rates that appear in the band.

Jai Mundhra: Okay. And are you seeing very healthy inflows because of this and retention? I mean...

Murali Natrajan: So you don't want to lose some of the customers. So -- and like I said, the customers who are acquired by us are all in the smaller band -- all the branches. I mean, it's very difficult to get customers at INR 2 crores, INR 3 crores, INR 5 crores, it's not easy because there are a lot of opportunities for those customers. So bulk of our customers come in the smaller balances...

Jai Mundhra: Okay. That's good. Second question is, sir, on your disbursement trend and loan growth, right? So loan growth has been very healthy at 18%, 19% Y-o-Y. But if I look at our disbursement in the last 2 quarters, that has been negative Y-o-Y. The growth has been negative Y-o-Y.

Murali Natrajan: What is negative Y-o-Y?

Jai Mundhra: The disbursement growth is negative. I mean there is a Y-o-Y decline in the disbursement amount?

Murali Natrajan: So the answer to that is very simple. We had a product called TReDS, and we have toned down that product substantially because there is a huge amount of competition that we are facing in -- from public sector who are possibly offering far lower rate than us. So if you back off the TReDS out of it, Y-o-Y quarter-on-quarter, our growth will be quite impact on that. And that was a low yielding one. So we really don't worry about it. Part of it has got shifted to better yielding short-term corporate loans.

Jai Mundhra: Right. Okay. And then, sir, on your gold loan strategy as a product, right? So this has been a core -- I mean this has been a key focus product. But if I see the portfolio is reducing in percentage terms, and I think in absolute terms also. And at the same time, slippages, at least in the last few quarters have risen, right? Maybe the next slippages would be miniscule because you would end up recovering everything. But the proportion is reducing and the slippages are rising. So what is -- what wrong is happening in this product? Worth of this marketplace...

Murali Natrajan: Nothing wrong is happening in the product. Gold loan slippages are sometimes can also be seasonal. Sometimes it can be that some inefficiency in the branches in terms of following up on the gold can cause slippages. As long as we ensure that there is no fraud or any poor valuation kind of thing in the gold origination -- gold loan origination, we really don't worry. From a timing point of view, NPA is a problem.

But other than that, we don't worry. As of now, we are focusing a lot also on gold co-lending and other co-lending. And diverting some of our branch resources to getting deposits because you would appreciate that last quarter has been tough for the entire market on deposits, and we have grown deposits by 23%, and we want to keep a healthy growth of deposits.

So what we -- when we do gold loan co-lending with the different entities, we don't incur the operating costs and the margin is also very healthy. So part of the capacity has been diverted to getting more deposits. And gold loan is something that we will continue to push and -- as we improve our deposit momentum.

Jai Mundhra: But sir, the proportion in overall loans is reducing for gold loan, at least...

Murali Natrajan: Co-lending has been doing well.

Jai Mundhra: So co-lending gold does not come in the gold, right? Is that the understanding?

Murali Natrajan: No, no. There is co-lending gold and co-lending other products. Co-lending gold is not reflected in our gold loan, probably. Separately shown as co-lending.

Jai Mundhra: Okay. Okay. So -- but why -- I mean, our own sourcing of gold loan, why is it not growing? I mean, considering...

Murali Natrajan: We have put some of the capacity for deposits in many of our branches because we want to make sure that our deposit momentum -- retail deposit momentum is -- so that kind of balance we have done to make sure that without giving them additional capacity, make sure that they focus on gold. So we change the scorecard here and there to make sure that the deposit momentum is strong. And also you see the fee momentum because all the branches are performing quite well on core fee income, which you would have noticed in our presentation.

Jai Mundhra: Yes. Yes, noted, sir. And last question, sir, on your opex to assets, right? So in the last 2, 3, 4 quarters, that ratio is improving. And we are steadily making an improvement there towards our goal of 2.4%, 2.5%. There is no -- I mean, that trajectory should be maintained, right? I mean is a fair way to look at it? I mean there is no, let's say, I mean, this quarter, the starts have increased, but ideally that trajectory should sustain improvement that is a broader question.

Murali Natrajan: Yes. The way we have been looking at our projections for the next three years, making certain assumptions, we will continue to invest in frontline. As you know, in quarter 1, all the cost of salary increase and all comes in, whereas there is no balance sheet to support. So usually, our first quarter cost would be higher without the corresponding balance sheet, the growth.

At that time, you may see some here and there increase in cost to average assets. On a long-term trend basis, year-on-year, we expect cost to average assets to come down. While we are continuing to invest in frontline -- increase of frontline staff for us to continue to grow. And our intention is to increase the growth to above 20%.

Jai Mundhra: Right. And sir, if I may ask, I have one last question. So (a), the status or the -- any status update on the MD, CEO appointment. And secondly, there was an RBI notification which said that bank has to have more than one whole-time director. So your time line on the appointment of another whole-time director? Thank you.

Murali Natrajan: Whatever RBI guidelines, we will comply with it. So we have to engage with the NRC and Board to make that happen. So I think the guideline has just come about 4, 5 days ago or a few days ago. So we are on top of it.

As far as the MD CEO appointment is concerned, the application has already been put into RBI, and we will wait for RBI to revert to us.

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

Mona Khetan: So firstly, you mentioned when you're opening -- in one of the comments about the mortgage book first coming at a fixed rate and then repricing at high level. So could you just explain what exactly happens in the product? And is the entire portfolio in the same format?

Murali Natrajan: I did not catch your question. What is same format?

Mona Khetan: So on the mortgage portfolio, you mentioned that you first give these loans at a fixed rate, mortgage loan...

Murali Natrajan: Small-ticket loans, see, we incur legal costs, we incur valuation costs. Some of the small-ticket customers, at least for a small period of time to prefer fixed EMI. And these small-ticket customers, our yield is higher than our average yield that you see in our portfolio, depending upon their credit risk profile. Because we have certain bands, depending upon the type of product and location, etc, we have a pricing grid, which we administer on that.

So when you originate these loans, they come up for -- they're all fixed for a small period of time, and then they come for repricing. So we see that whatever loans we have booked in the last year or so, all that is now coming up for repricing month-on-month. And that starts to build up further next year because our new originations have also started improving since the last many months. So all that all starts to come for repricing in the calendar year of next year itself. That is what I mentioned. And this happened only in small-ticket loans. For a slightly bigger-ticket loan and all, it is fully variable, right from day one.

Mona Khetan: Got it. So the fixed rate is typically for a year, and then it moves to the...

Murali Natrajan: It depends on customer preference, it can be six months, it can be one year. It depends on the customer's preference.

Mona Khetan: Got it. And if I have to understand of your mortgage book, how much of this is -- this kind of -- how much of the portfolio is...

Murali Natrajan: Because our mortgage book is very old now, it's INR 18,000 crores, we've been doing mortgage for -- I don't have that number readily. All we monitor is how much coming up for repricing and what is the impact of that on basis points on -- so in our projection, we keep adding those changes.

Mona Khetan: So in the next six months, for example, how much could be coming up for the repricing of the mortgage, sir?

Murali Natrajan: I don't have that. But I think it keeps building up because we started booking more loans, if you see in the last 12 months, right? So it starts to build-up much more by February, March of next year.

Mona Khetan: Okay. Got it. And secondly, on the restructured book. So I understand some of the flow-through is happening over the last two quarters. So two things here. One, do you expect this to continue? And secondly, when these loans become an NPA, is the interest reversion typically more than three months because they were restructured and were not paid? Or is it typically the similar three-month format?

Murali Natrajan: Usually, it is only three months. But when we upgrade some of these loans, so it could be more than three months because two things happen. If a customer goes into NPA, and we have to, let's say, initiate all the legal process and all, the legal process and everything takes about anywhere from three months to six months to kind of fructify, maybe even seven months to fructify. But in the meantime, if you are able to negotiate with the customer and get into upgraded accounts settle etc, then you actually gain a few more months, I mean, all the months, the interest that he has not paid.

Mona Khetan: Sure. Got it. And just finally, on your ROAs what would be the guidance? And what could be the drivers here on from the -- for the ROAs?

Murali Natrajan: I think two, three drivers are there, but not in any particular order. We are slightly, I would say, delayed on that because of the sudden cost of fund increase that we had to grapple with in the last three months. But we see that situation stabilizing in about two quarters or so. First of all, the growth would help us to improve the cost to average assets, for example, would improve and we get the balance sheet. In line with balance sheet, our fee income also is expected to grow, that is one.

Secondly, although it is difficult to grow CASA, what we have done is we have kind of put a lot of -- shifted some of the capacity, like I mentioned to Jai Mundhra, to CASA and term deposits because we want to make sure that we don't allow the cost of funds to get too much out of control despite the market conditions. We don't believe that our credit cost should go out of control. I used to give a guidance of 45 basis points, 50 basis points. But from the current portfolio, it looks like it can even be like 35 basis points, 38 basis points. That is how it looks from whatever reading that we have of our portfolio.

And lastly, we are also changing some of the product mix, and this is important for us to know is that prior to COVID, we used to do lot more business loans and our proportion of home loan was like maybe 20%, 25%. During COVID, we shifted our focus to home loans. Again, the same segment. Segment remains the same as self-employed. And slowly now, we are shifting it back because now we are pretty confident of the current market situation on our own portfolio. We are shifting this direction to more business loan. That also should help us to give us a few basis points on the NIM. These are the actions that we are taking to get to ROA of 1% and 14%.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just on the restructured portfolio, as you said that none of the current restructured accounts are under moratorium now. So how does one expect the upgrade trajectory here?

Murali Natrajan: If you look at our slippages, more slippages are coming out from the restructure and much less on the overall non-restructured book. However, from upgrade and recoveries, there is no challenge in any of the slippages. So recent slippages, which has happened because of customers coming out of moratorium in, say, for example, early calendar year this year and maybe April, June, etc whosoever has slipped out of it will take about six months at least to mature into either a settlement or an upgrade or a recovery action.

So we expect and we have demonstrated. Again, if you see our absolute recovery and upgrades this quarter, I think it is about INR 295 crores. And if you look at March quarter, we probably were at about INR 300-some crores. I think it is on Page 25, if I'm not mistaken. Yes, Page 25. So again, INR 306 crores, we are at INR 289 crores. So we have demonstrated ability to do upgrade and recovery of tool. So I expect this number to continue to improve. And we don't use any collection agency and all. All our collections are in-house. Even lot of lawyers we have in-house. So we feel that we have pretty decent handle of this.

Sameer Bhise: And of the balance pool of restructured loans, how much would be mortgages?

Murali Natrajan: I think much of the pool is either home loan or LAP and very small part will be commercial vehicle. Other than that, we don't have anything. So that's the other thing. We've never restructured any unsecured loan and all. We probably would have restructured maybe CV -- we never restructured BC loans. The only loan that we restructured was customers who have good track record with us and who are having temporary difficulties, which was mostly in mortgages, home loan and commercial vehicles.

Sameer Bhise: So 80-20 split across mortgage and CV would be a...

Murali Natrajan: No, no, no. CV will be much less than that, much, much less than that. Our CV portfolio itself is very small, as you can see.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Sir, first question is probably I missed the comment. The fee income looks a bit bumped up this quarter. Is it because of PSLC and if you could quantify this, sir?

Murali Natrajan: There are no PSLC, now a days. Two years ago, we earned INR 80 crores of PSLC, right? Last year, I think PSLC was some INR 20-odd crores, right? This year, I think, PSLC will be maybe INR3 crores, INR 4 crores. We have taken a hit of INR 80 crores on our chest on the PSLC. PSLC which looks like every year, it will improve for whatever -- I mean that's a separate decision for whatever reason, and we have been continue to generate good quality PSL and all, but the demand supply has been a challenge on this particular -- this thing.

So it's not PSLC income. A lot of work done on third-party fee income. If you recall, we have told you in the past, maybe few quarters ago that we have a separate team, which is training the front line in all the branches, giving them training, the analytics team giving them support on the kind of customers they should contact all that is happening, and we hope to continue to build the momentum on this.

Gaurav Jani: Appreciate this. Just want to clarify that there are no one-offs out, right? I mean, so could we assume, INR 90 crores, INR 95 crores sort of run rate to be in normal?

Murali Natrajan: There is no one-off on this at all, and we hope to grow fee income in line with our balance sheet growth year-on-year.

Gaurav Jani: Understood. Sir, secondly, coming to the funding profile, right? If you could just quantify the LCR, the reason I'm asking this is because over the last one year to 1.5 years, we increased our share of wholesale deposits. So a sub-question to that is would be the -- our NIMs are between…

Murali Natrajan: So from where are you getting the information that we have increased the sale of the wholesale deposits?

Gaurav Jani: Sir, the interbank deposits have gone up by from 9% to 13.3%. So that is the number?

Murali Natrajan: Yes. So we have the following -- all top 20 deposits you see, it has been below 7%. This quarter, it has just slightly increase to 7.06% or something like that, right? That is number one. We have a number of customers in the co-operative bank category, small co-operative bank categories, who give us non-callable deposits, okay? And that has been our core customer was, probably 10-odd years.

At the same time, you see, we have continued to grow our retail term deposits as well. So from a profile of liquidity, and LCR, I think, are in pretty good shape, except that market has not been very easy for us to grow our CASA balances and we are putting that effort by shifting some capacity -- more capacity into CASA.

Gaurav Jani: Sir, just a sub-question to that. I mean in terms of funding costs, right, the interbank deposits and retail term deposits, the cost of funds, funding would be similar?

Murali Natrajan: For what and what?

Gaurav Jani: For retail term deposits and interbank deposits?

Murali Natrajan: No, there are bulk deposits and retail deposits. That's the way the interest rate works. So -- and those are all items published in our website, and you can have a look at that. We probably are one of the banks which publishes all the rates, including bulk and everything in a very transparent manner. And I am looking at the deposit rates across this thing. Of course, each bank has to choose which is the bucket in which they want to have what is called, the peak rates versus the sweet spot. So we keep choosing that depending upon our asset profile.

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

Prabal: Sir, my first question is on the PCR provision coverage ratio. So that has come down from 68% in March to 64% now. So how are you thinking about this ratio because our net slippages continue to be greater than 1%?

Murali Natrajan: Our intention is to take it up to 70%, over time. But when I look at different categories of loans, where we see the recovery is taking time, first of all, okay let me just backtrack. Let us say, RBI has certain IRAC norms on what type of provision has to be done on secured, unsecured, etc. Our provision is ahead of the RBI norms and it has been like that for many, many years. So if they say x percent will be provided in a particular time, our provision would be higher than that. So our provision is always higher than what is required by RBI guidelines, and I'm very confident about that. That is point number one.

Point number two, we also have something called a specific provision for certain assets. So wherever we see in terms of some large ticket, especially, let's say, corporate NPA and all, we see that the recovery efforts are taking time. We have an overlay of provision on that to make sure that we appropriately kind of represent our risk on that to our Board and our Audit committee.

So as an example, corporate bank will have far higher coverage ratio for the NPA that is there up to INR 228 crores. Whereas in mortgages, we don't believe that we are going to lose money on mortgages or home loans. So even if our coverage is say, for example, 35% or 40%, we feel that it is far higher. It doesn't mean that we'll stop making provision of that. That aging provision will continue to happen in that.

Prabal Gandhi: So let's say, till the time net slippages normalize and parallelly, if we try to raise our coverage to 70%, there could be a possibility that credit cost might overshoot 50, 60 basis point guidance that we typically use to?

Murali Natrajan: I've never given 50, 60 basis points guideline. I don't know from where you are getting. Just now I gave a guideline where we think that it probably will be 35, 40 basis points. So I don't think, pre-COVID and post-COVID, my guidelines have been in the range of 40, 45 basis points only. So I don't think we have any 50, 60 basis points. Even pre-COVID barring maybe some aberration in commercial vehicle and all, I don't think we've had any issues on that. That is point one.

Point two is please also look at Page number 29, okay? So for restructured advances, we have a separate provision of about INR 194 crores. There is another contingency provision of another INR43 crores, right. So that INR 43 crores, for example, is not counted in net NPA. It's a contingency provision that is there, while floating provision is counted in. So I think our provision coverage, obviously can be better, but I think we are very strongly provided at this point in time. And Prabal your question is, why it may not exceed this because our recoveries and upgrade also, we expect it to improve. If you don't recover an upgrade, then obviously, the credit costs will go up.

Prabal Gandhi: Understood. Sir, my second question is that our agri and inclusive banking seems to be growing at a faster clip, 30%, 31% Y-o-Y growth. So is this going to be the focus area going forward as well?

Murali Natrajan: Agri inclusive banking has been a focus area for us. If you look at our strategy document and what we have been mentioning, retail, SME, MSME and agri inclusive banking has been our focus area for past many years. Corporate has not been something that we wanted to grow, but we keep it only for liquidity reasons. And there are multiple products in agri inclusive banking, like KCC, tractors, mortgages, MFI and so on. We have separate teams working on each of this. And given that we have almost 190-odd branches in AIB, we believe that we should do very well in AIB.

Prabal Gandhi: And the yields on the AIB portfolio is it better compared to, let's say, overall edge of...

Murali Natrajan: It depends on product to product. In certain cases, the yields are also higher and even credit cost could be higher.

Prabal Gandhi: Understood. Sir, you mentioned that to improve our yields, or we might start focusing more on business loans. So is this the lap,, loan against property that you were speaking about?

Murali Natrajan: Yes. So we started this journey with the loan against the property, which we call as business loan, many, many years ago. We used to be at -- almost 85% of our business used to be in the LAP 10%, 15%. Towards end of 2019 and early 2020, given the market conditions, we changed some mix. And what we are seeing is now that we have much more, what is it called, data points and the thing post-COVID, we want to kind of focus a little bit more on BL, which will add a few more basis points to over yield and NIM, that's our intention. And we know this business backward. So shifting some of the capacities or adding some of the capacities into business loans is not something that we would have difficulty in doing.

Prabal Gandhi: Okay. So let's say within mortgages, the share of LAP could increase compared to home loans because now we are more comfortable on this businesses?

Murali Natrajan: Yes, in a step-by-step manner. Like over a period of next one year or so, we will keep increasing the share of it, so that we get better yield. Nothing wrong with the home loan and it also comes at a lower risk weight. But we would -- now that we have a stronger understanding of post-COVID issues and all, so we are kind of shifting some focus into loan against property.

Moderator: Thank you. The next question is from the line of Manish Agarwalla from PhillipCapital. Please go ahead.

Manish Agarwalla: I have a question about the quarterly repayment rate. So if I do a back-of-the-envelope calculations, your quarterly the repayment rates have been coming down despite the fact that a lot of loans have come out of the moratorium. What can be the reason around this?

Murali Natrajan: What is quarterly repayment rate?

Manish Agarwalla: So if I give you the disbursement number and give the loan number, so if I just turn to a reverse calculation to see what is the quarterly repayments, so it to be, say, 10%, 11% every quarter. And right now, that number has come down to 7.5%?

Murali Natrajan: No. First of all, I'm not sure what that number indicates or something because we have a full handle on the repayment of each and everything. And you can see our collection efficiency has been pretty good. So I don't think we have any quarterly repayment issues. But let me put it this way. If you are building a portfolio of installment loans, which is what most of our loans are in mortgages, which is what it is.

What happens then is when the new loan proportion keeps increasing, you should expect smaller repayment in the early stage for term of loans, because that is how it would be. So I don't see any major issue with our quarterly repayment and we are confident that the kind of capacities and the disbursal target that we are pursuing, which we able to pursue 20% kind of growth rate.

Manish Agarwalla: Sir, I got your point. The point I was trying to understand that is as a strategy, are we renegotiating the rate in order to stop balance transfers?

Murali Natrajan: There is a separate team and I haven't seen any major problems in our monthly pre-closures. The pre-closures are in similar range as it was in last quarter or previous quarter. Usually, pre-closure rate increase in a declining-rate environment. We have not seen pre-closure out of our ordinary kind of whatever modelling that we have done. So we don't have any concern on that.

But having said that, the mortgage team has a separate team which discusses with the customer. And it's actually been done without causing any pain to the customer because we don't want them to complain to ombudsmen and think that we are trying to hold back their loan and so on and so forth. They very trained kind of frontline people who try to understand what are the reasons that they are going. And we have some model by which they decide what kind of price break that has to be given to the customer for retaining the customer. That activity has been going on for quite some time, and it's a separate team that works on it. In our call center, and I don't know, Praveen, where else they have -- the call center -- call centers, yes.

Manish Agarwalla: Okay. So there was one more related to this. As we pass the rates in, are we increasing just a tenure significantly or how it is working?

Murali Natrajan: Up to a point, it's always a tenure increase. In some rare outliers and all, we may increase the installment. But generally, in mortgage business, since I've been part of for the last several,

several years, you just simply increase that tenure. And where the interest rate comes down, the tenure comes down, simple.

Manish Agarwalla: Got it. And finally, sir, your thoughts on CV and microfinance. So when do we expect the CV business start growing again? And there has been some you know?

Murali Natrajan: Microfinance, we have signed up a couple of more BC partners. And unfortunately, some of our BC partners got acquired by some banks and so on. So therefore, we suddenly were without some BC partner, but we have kind of rebuilt that BC partner. And we are looking for more high-quality BC business associates.

So that is all in process. So I think in the coming months, we should do better than how we have done in the last few months on this thing. And as far as CV is concerned, we feel that we'll count just to cross sell to our existing customers on CV and concentrate more on business loan and home loan, which we seem to be having a pretty decent understanding and handle. And we expect that to contribute almost 60% in the coming years.

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

M.B. Mahesh: Just one clarification on the Slide 35, other income line. You can see one line of -- line item on the fee income line, which has gone up on the commission exchange. There is a corresponding drop in others?

Murali Natrajan: Page 35?

M.B. Mahesh: Yes, this is not -- the breakup of the noninterest income. Can see commission exchange and brokerages have gone up?

Murali Natrajan: So it is 97 versus 77.

M.B. Mahesh: Great. But the overall non interest income is unchanged?

Murali Natrajan: Just hold on for a second. Okay. We have to come back to you on that. There is some reclass, but nothing -- you are looking at this 75 versus 97, you are saying, no?

M.B. Mahesh: Correct. The total noninterest income is 107. Commission has done exceptionally well, but others has not done. So just trying to explain what explains that?

Murali Natrajan: Okay. Mahesh, I'll come back to you. I think it has got to do with the changes in the IRDA regulations, right? Yes. In terms of how they...

M.B. Mahesh: Usually, that line item will have recovery from written off?

Murali Natrajan: No, we don't have any -- written off recoveries have been miniscule for us. I don't think this quarter, they have had any major recoveries on that. I don't think that is an item. But I think some IRDA regulation change is what is reflecting some part of it here.

M.B. Mahesh: Okay. That explains a big drop in the, I mean the Q-o-Q change that seems to be on a line item, which is of an aberration here in this quarter?

Murali Natrajan: Yes. So that is basically something to do with the IRDA regulation. I don't think there is anything else on that. The actual amount of business that we are doing on third party also has gathered steam and we are hoping that we will build further momentum on this because we are really putting in a lot of effort from the corporate office to train and get everyone to focus on the products that we are distributing for two or three of these companies.

Moderator: Thank you. The next question is from the line of Darshil from Crown Capital. Please go ahead.

Darshil: Yes. So just I think most of my questions have been answered. Just wanted to know that our outlook that you mentioned in the presentation of ROA 1%, that we would target to move it by what time period?

Murali Natrajan: Okay. So what we know from whatever we have been able to achieve post-COVID is 85 basis point, 90 basis points and 11.5% to 11.75% is consistently possible in that. Now unfortunately, last quarter and the year has started, we have had some cost of fund increase and some of it is still to be passed on to the customer based on the portfolio profile, which I explained, right? So that all should -- hopefully, in the next couple of quarters, we should be able to do that.

The way we are thinking about it is that keep growing at, at least, 20% per annum, and we know that the kind of capacity that we have built, we should be able to achieve that perhaps more, but at least 20% is something in the core products that we are concentrating on without messing around with any of the liquidity profile and so on.

The other focus is, I know difficult times on CASA, but we are thinking that, this is a time when we have to put more effort on CASA to help not let the cost of fund go out of control. So that is the second point. Third is, we believe that our credit cost is actually improving from whatever previous projection that we have said based on our understanding of the portfolio.

And we think that recoveries upgrade should continue to pick up pace. So all in all, most of the parameters and cost to average assets also steadily come down. All in all, all the parameters are moving in the right direction. And we want to target at least in the next three quarters to four quarters of consistently delivering 1% and 14%. And this is a plan that we have. And I also mentioned to you about some of the product mix change that we are hoping to do, which is already started.

Darshil: Okay, sir. And, sir, clarification for 20% growth, you mean in our loans, right, sir?

Murali Natrajan: We believe the capacity that we have created, we should be able to achieve it. Our intention is to double it in the three years to 3.5 years, and we seem to be on track so far.

Darshil: Okay. Perfect. Thank you so much. All the best.

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

Rakesh Kumar: Yes. Thank you, sir. So just one question with respect to the provisions that we are holding on the NPA and non-NPA book, that number as a proportion has been coming down. So just to understand that is it that like sort of comfort that we are deriving from the nature of the characteristics of the loans? Or there is any other reason that we are...

Murali Natrajan: Main reason is when an account moves from restructured to NPA, the provision also moves with that. And we have recovery and upgrades, you don't need to keep that provision. We have to make provision only for the newer NPAs, right?

From a coverage point of view, I also mentioned that over time, we're going to take it up to 70%. And in that -- at the moment, even that INR 43 crores that we have separate as a contingency provision is not considered. So -- and I also mentioned to you that from a provision point of view, we are -- our provision policy is ahead of the minimum IRAC norm that's prescribed by RBI. So from a provision point of view, I don't have any concern on our portfolio.

Rakesh Kumar: Understood, sir. But just from a modelling perspective, just to see that what provision that we hold at the end of, say, '24 or '25. So this provision, is it like for non-NPA provision for the performing advances, which is 140 bps now. So where should this number go to?

Murali Natrajan: I can't predict that for you. These are all the provisions that created, if you remember during COVID times. And during those times, the whole focus was on strengthening your provision because it was not very easy to predict how things are going to be moving.

Now we have a lot more -- I know, there are still uncertainties and all. But COVID type of big challenges is not there. So therefore, these provisions will continue to come down. And -- but we'll continue to make provision on the NPA portfolio or any other portfolio which we think could be in stress.

Rakesh Kumar: Understood. Thank you, sir. All the best.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi, who is an Individual Investor. Please go ahead.

Saikiran Pulavarthi: Hi, sir. Just one question. Sir, just one question from my side. I think, you will be completing 15 years pretty soon. If you have to look back in the journey, how do you -- what I can say, evaluate what has gone right? What has gone wrong? Or probably where you are leading this bank, how do you look at this in terms of the platform for someone to come and take it over. Just your thoughts that will be really helpful, sir? Thank you

Murali Natrajan: Why don't you call me separately and we can discuss, because I'm not sure this is a forum where we can. And if I share my personal views, and I don't believe that it will be appropriate for this audience...

Saikiran Pulavarthi: It's nothing personal, sir, but just as a CEO of the bank because you would have certain thoughts and everything, right? So this thought of checking on that, if you're comfortable, that's it?

Murali Natrajan: No, I'm comfortable, but on a one-on-one basis as opposed to be in a group.

Saikiran Pulavarthi: Got it, sir. And one more question, sir, if I have to see since last two years, you had significantly added capacity in terms of the number of employees and the branches. How do you evaluate the productivity of these employees? And how -- whether some more productivity is expected going forward, sir?

Murali Natrajan: Praveen, would you like to answer it? Praveen is a person who adds a lot of capacity, so he is the best person to answer this.

Praveen Kutty: Hi, Sai, good to hear from you. So let me tell you what we're doing is two, three things. At a very broad level, there is the feet-on-street led productivity increase that we're doing. At a partnership level, we are increasing the footprint, which allows us to get the desired assets at the rate required through affiliates and partnerships, both on the deposit front as well as on the loans front. And the third leg, slow but emerging is the digital do-it-yourself leg. So three levels to which we are adding on to our top line and also the income.

On the feet-on-street, we have mentorship program where we ensure that early success is got by our employees because that's a very, very good indicator which will arrest attrition. The single biggest problem that we have with new hires, feet-on-street, etc, they are extremely mobile and they get job at a drop of a hat and they keep hopping around all the time.

So the best way to arrest that is to ensure that they become successful early in their career. Otherwise, it becomes a revolving door. Are we successful at it? We can be better at that, but we are much better than what we were before.

So there is progress happening on that front. We are -- while on the productivity front, we are also seeing improvement in terms of partnerships. I'll give you two examples very quickly. One is on co-lending, which we do on the asset side. And the other is where we do partnerships with, let's say, Niyo, for example, it's basically use your card abroad proposition through which we -- thought partnership which we get underlying savings account. So that's how we are looking at productivity clearly.

To sum it up, feet-on-street improvement, more partnerships, more judicious partnerships and thereby digital proportion.

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

Chintan Shah: Yes. Thank you for the opportunity. Most of my questions are answered. Sir, just one data-keeping question on the provisions breakup for the current quarter, if you could just help with that?

Murali Natrajan: He asked about provision breakup wise? Hold on a second...

Ravi Kumar: Hi Chintan, the provision breakdown is -- the NPA provision is about INR 25 crores. The standard provision is INR 7 crores. We have floating of INR 4 crores and the other is about INR 3.7 crores. So that totals up to about INR 39.7 crores for the quarter.

Chintan Shah: Sure. And sir, just one on the opex same quarter, we have been saying that on the branch, we have significantly added our maintained -- build the capacity and now with the time for expansion. So going ahead, any ballpark number on what kind of expansion would be seeing in the -- so kind of the branch expansion in the branch and headcount would be relatively quite slower as compared to the loan growth, is that a fair assumption to make?

Murali Natrajan: I've said this even in the past. For the market opportunity that we see and for the kind of understanding that we have of this segment and also the fact that we have so many years of experience on this, if we had more headroom in our cost to income ratio, we would add a lot more people because that is the kind of expansion we have.

But we have to pace it out because on a near-term basis, also, you can't sacrifice too much of operating profit and so on. So this opportunity is there to add a lot of frontline employees. And like Praveen mentioned, because of attrition, we also have to be -- make sure that we don't lose capacity and keep adding resources.

So I don't think we are going to slow down adding our number of employees on a year-on-year basis. Of course, as we have cross play, for example, 10,000, if we add 1,000 that will look like at 10%. But when if we add 6,000, we had 10,000, it will be like a 16,000. So from a percentage point of view, it will keep coming down. But we'll keep steadily adding frontline in order for us to continue this growth momentum.

However, cost to average asset, we expect step-by-step to come down because of growth and productivity. In terms of branches, I don't think we will add more than 25, 30 branches per year. I think we are quite happy with that addition.

Chintan Shah: Yes. Sure. Thank you for that. And sir, just one last thing on the margins part again. So sir, as we have -- as you told most of the SA, which comes is in the lower pricing band and the rates which we have increased beside that there won't be much rise in the SA cost. So if you could just share the number of blended cost of SA. If possible, if you would just share say that number for this quarter and the past -- previous quarter as well, if you could help with that?

Murali Natrajan: Which number are you talking about? I'm not getting it.

Praveen Kutty: Savings account blended cost...

Chintan Shah: Overall cost of saving account, blended cost of saving account?

Murali Natrajan: We don't present that number. We are giving you the cost of deposit, which all includes. But the reason why we pursue savings accounts, so although success have been a little low because of the market condition is because it is much more beneficial for us to pursue savings account than term deposits, despite the various bands of cost because most of it comes from the lower band of deposits, lower band of average balance.

Chintan Shah: Sure, sir. And sir, just one last thing to your follow-up on this. So if you could just help with any broad margin guidance on this and so where should we expect the margins to settle and...

Murali Natrajan: Our business model is at 365 to 375 basis points. But there are near-term challenges, which I mentioned at the start. And then, there is a balance of portfolio that needs to get re-priced over a period of time in the contracted time frame, which is starting to build up, which will help improve the margin, but some of it will get taken over by cost of fund. What we believe is that over the next quarters, we still have to deal with this cost of fund, which is coming through re-pricing, renewals and so on. But post which volume growth should give us the full benefit of interest income growth is what our thought process is.

Chintan Shah: Sure, sir. This is very helpful. Thank you for answering all my question. Yes, thanks.

Murali Natrajan: Okay. Thanks very much.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Murali Natrajan: Thank you very much for dialing-in. I look forward to talking to you next quarter. Thank you.

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