DCB BANK

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May 08, 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,

Re: Transcript of Earnings Conference Call held on May 05, 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 May 05, 2023 with respect to the Financial Results of DCB Bank Limited ("the Bank") for the quarter and year ended March 31, 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-Q4-FY23-Earnings-Call-Transcript-May-5-2023.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For DCB Bank Limited

Rubi Chaturvedi
Digitally signed by Rubi Chaturvedi
Date: 2023.05.08 21:55:52 +05'30'

Rubi Chaturvedi
Company Secretary &
Compliance Officer

Encl: As stated above

"DCB Bank Limited Q4 FY23 Earnings Conference Call"

May 05, 2023

MANAGEMENT: **MR. MURALI M NATRAJAN – MANAGING DIRECTOR AND CEO**
MR. SATISH GUNDEWAR – CHIEF FINANCIAL OFFICER
MR. AJIT KUMAR SINGH – CHIEF INVESTOR RELATIONS OFFICER
MR. RAVI KUMAR – CFO IN-CHARGE & HEAD OPERATIONS & SPECIAL PROJECTS
MR. PRAVEEN KUTTY – HEAD RETAIL BANKING
MR. SRIDHAR SESHADRI – CHIEF RISK OFFICER
MS. MEGHANA RAO – HEAD BRANCH OPERATIONS
MR. VENKATTESH R – HEAD OPERATIONS, TECHNOLOGY , HUMAN RESOURCES & CIO

Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q4 FY23 Earnings Conference Call.

Joining us on the call today are Mr. Murali M Natrajan – Managing Director and CEO, Mr. Satish Gundewar – 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 '*' and then '0' on the touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Murali M Natrajan. Thank you and over to you, Sir.

Murali M Natrajan: Thank you very much for joining this call. I am talking to you from our boardroom in the corporate office. We have Satish Gundewar – our Chief Financial Officer then we have Praveen Kutty our Head of Retail Banking then we have Meenakshi who is our Relationship Head for FI and Investors, we have Meghana who is our Branch Operations Manager, we have Venky who is our Operations, HR, and Technology Head, we have Sridhar who is our Chief Risk officer, we have Ravi Kumar who is our CFO in charge and currently handling our operations and special projects then we have Ajit who is the Head of our Treasury and FI. Thank you very much for dialing in, we also have our support staff from finance.

So, this is a Q4 Results and Full Year 2022-23.

I believe that we have a very robust quarter. Our balance sheet has crossed Rs. 50,000 crores now it is about Rs. 52,000 odd crores. The total business has crossed Rs. 75,000 crores, deposits have crossed Rs. 41,000 crores, CASA is about Rs. 10,500 crores. So, we personally feel very happy and proud of achieving these numbers and we are putting the Bank on a trajectory to double the balance sheet in about 4 years. Our intention is to reach Rs. 100,000 crore of balance sheet in about four years' time.

The performance or net interest income has been good at 27.7%. What is very important to know about our income is that there are two big income streams which was present last year which was more or less nonexistent this year, for example, PSLC we made very decent amount of revenue in the year FY2021-22, but in 2022-23 because of market conditions and regulatory changes there has been a steep fall and despite that the overall fall in the other income category has been very limited primarily because of the good work that is happening in third party distribution fee, on processing fees and other items which are all the core items. So, that is really something we are very happy about.

Operating profit is pretty much flat to last year of course the year FY2021-22 had some one-off items, but nevertheless the operating profit for four quarter has been very good at 11% higher than previous year same quarter, but again important thing is that as we have made investments in the front line and in one of the chart in the investor presentation you can clearly see the quarterly disbursal without considering the co-lending and how smartly it has moved up and we are confident that given the frontline capacity and the productivity that we are working on and also some of the frontline investments we are doing in technology. We should be able to consistently improve this number further.

From a cost-to-income ratio point of view the fourth quarter was 59.9 usually the fourth quarter is far better than the previous quarter because of the momentum that we have and if you look at the same quarter previous year again you have seen that we have delivered 113 crores of profit which was all time high. This year we have done Rs. 142 crores which is again all time high. We believe that profitability in a steady manner will continue to improve. One of the other things that has gone off very well throughout the year for us is that our upgrade and recoveries have been consistently equal to or higher than our slippages and that is one of the reason why we have been able to substantially reduce our provisions for this year in fact compared to previous year.

The other point to note here is that pre-COVID our operating profit divided by provision used to be in the range of four to five times. We are back to that level which clearly demonstrates the robustness and the strength of the business model. The net NPA is pretty much close to 1%. Our intention is to bring it down further overtime. Initially our target was 1.5, but we have been able to surpass that target for the fourth quarter ROA is 1.1% and ROE is almost close to 14%, which has been our intention. Again, usually, as you know in the first quarter their cost comes in terms of salary increases. So, I expect some impact of that in the quarter in 2023-24.

However, we are confident that if you consistently improve our performance the way it has been seen now we should be able to deliver the kind of results that are coming through. So, those are some of the details I wanted to share with you and we have declared a dividend of 12.5% this year and we also raised the capital of about 300 crores Tier-2 in the fourth quarter which is also reflected in our capital adequacy. Our capital adequacy continues to be strong, and we believe that given the efficiency of usage of capital we should be able to grow our book without having to raise capital for at least another year maybe 15 months that is our current thinking. So, with those observation and with those commentary I would like to hand over for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: So, couple of questions first is on margins so you have mentioned that in the PPT that you are targeting margins of 365 to 375 basis point we are already at roughly around 420 basis point of approx. margins, so do we see that kind of sharp drop in 24 or this is just the long-term target which we are looking at?

Murali M Natrajan: See our business model and the product mix and the kind of slippages and upgrades that we expect and the kind of deposit profile that we are working on. We have built a business model which can deliver higher than 1% ROA and closer to 14% maybe higher than 14% ROE with 365-375 basis points of NIM. Now the methodology always there are so many moving parts in this NIM the methodology of passing on the increase of interest rate in EBLR is that as soon as the Reserve Bank of India changes the repo rate we pass on that to the customer. However, the deposit cost would be actually coming through. So, I do believe that the deposit cost that is coming through in fact fourth quarter deposit cost was high especially for retail term deposit, I believe that it will have an impact on margin and even for this current year at least from a business model point of view, we are not assuming margins of 4.18. Also, we have had some benefit, there has been an interest that we consider in the margin the 3 crore of tax no, so we did not consider that then it does not really matter. So, I think the upgrades and recoveries were very strong and that also results in some amount of reversal of that is the recognition of the income which was not previously recognized. So, that also impacts the margin in a positive way.

Darpin Shah: So, I was seeing this how much deposit reprise has already happened for our book and how much more it can happen and lead to increase in cost of deposit then?

Murali M Natrajan: See the cost of deposits last week it changed the cost of deposit must have been at least what a month ago somewhere in March we changed I think the deposit since then I do not think we have changed the deposit rate. It is published on our website and I do not believe that deposit rates are coming up, but what I am trying to say is that all the new deposits will come in the higher rate that has been when I say all the deposits most of the retail deposit and we are taking longer term deposit because of our mortgage book. We target 20 months, 24 months kind of bucket for our deposit. So, that will have an impact on the cost of funds and we would not be able to pass on further only in MCLR we can pass on, but not in EBLR portfolio. So, that that will impact NIM.

Darpin Shah: And Sir lastly on the on the asset quality front we have seen a sharp improvement in slippages during the quarter, what trend you see for FY24 as well?

Murali M Natrajan: We should be in similar trend, but there may be some month up, down and all, but if I remember right I had mentioned in the first quarter of last year itself that is about two to three quarters the slippages should go back to pre-COVID levels and I think without gold our slippages are about 2% which is what 2%, 2.5% was slippages there. If the way we have analyzed our portfolio if slippages do go up in any particular quarter we are pretty confident that our collections and our recoveries effort would bring it down. So, we do not see any issue with our portfolio only if you see an issue with the portfolio then consistently your credit slippages and all will increase. There may be some up and down in one or two months here and there, but other than that we do not see any challenge at the moment.

Darpin Shah: Just one data keeping question if I can get the breakup of provisions for the quarter and full year?

Satish Gundewar: I have the data for the quarter. I think for the earlier calls we had given the data for the respective quarters. NPA provision is about 39 crores, floating provision is about 4 crores and the provision relating to restructured standard assets and other things are the rest of it. The total provision for the quarter was 52 crores.

Murali M Natrajan: See Darpin I want to tell you something. I looked at IBA publishes all the private Bank and SFB results of course they are one year late. They have published that for 2021-22 and I looked at the floating provisions. We are the only Bank I repeat we are the only Bank for the last several years consistently have been making floating provision quarter-on-quarter and our floating provision apparently is about 137 crores which is considered in the calculation of provision coverage and touchwood we have never had to use the floating provision. Some of the Banks have used the floating provision, so that is a very important strength which is there in our Bank.

Moderator: Thank you. The next question is from Jai from ISEC. Please go ahead.

Jai: First, on asset quality, the slippages we have had high slippages on gross front because of the some daily recognition and some of the gold related products or OD related product has that now normalized with this quarter slippages coming down significantly, so can we say that the entire whatever technical reasons that has now ended?

Murali M Natrajan: See if a customer does not pay their interest and on principal like three installments or 90 days there is nothing technical about it that is an NPA then November 12 circular what we were impacted the gold loans were impacted by that is because we are giving an OD product many of those OD product customers have after what is that called closing their current loan have switched to installment loans. So, in installment loan that 90 day problem on November 12 circular does not happen because even if they service one interest they will still be alright as long as they do not slip to 90 days past due. So, to that extent I think a lot of that issue has been addressed, but I do believe that while addressing that issue we may have lost some target market who were only wanting to have OD kind of product, but we did a cost analysis the cost of chasing them and collecting workers losing the business, we took a call saying let us just do this because its impact productivity of bank's staff, they have to chase of these customers. Regarding mortgages and commercial vehicle and rest of the other kind of retail product like KCC tractors and all we very much believe that those portfolios seem to be intact barring any unforeseen situation the slippages should be pretty much close to if not better to pre-COVID levels.

Jai: And Sir in this quarter how much were the slippages from the restructured book?

Murali M Natrajan: We do not present those information the entire whether it is from slippages from restructured book or non-restructured book everything is the slippages and that is how it has been every quarter and the recoveries and upgrades are also from both restructured and normal thing. So, you know we are not presenting that information, do not worry about the restructured book if for one year it has performed so you should worry about that we do not, so you should not also.

Jai: And almost entirely has come out of moratorium?

Murali M Natrajan: Only a very small fraction is less which will come out by I think July, but it is almost very, very small portion is left everything else is out of the moratorium and when they come out of the moratorium we have to struggle with the customer for about two to three months and their muscles of repaying has atrophied. So, despite our pushing and whatever does not work. So, finally, when the collections team is constantly following up with them they start repaying and then it gets almost normalized in about two, three months. So, that part will be there even for the ones that come out in July, but overall portfolio includes slippages from restructurings and recoveries and upgrade also includes slippages from restructure.

Jai: And sir if you have the number for ECLGS as in I mean how much is the ECLGS?

Murali M Natrajan: You know ECLGS slippages also in this, ECLGS recoveries from government also in this thing, everything is all inside this and we did not give ECLGS to any unsecured customer and all very this thing even I do not look at it by the way.

Jai: And on the cost of deposit Sir would it be fair to assume that your card rate on TD would have peaked or you think you may still have to increase the card rate of TD, so while cost of deposit may keep going up because of as deposits reprise, but the fresh TD in your review in the card rates would have peaked or that is?

Praveen Kutty: So, currently the peak rate we have on term deposit has remained there all through Q4 and there is no reason to believe why we should increase the rate for getting the kind of term deposit, the kind of deposits that we got I mean Q4 by convention the particular quarter where the most highest amount of renewals and highest amount of acquisition happens. We have been through it and I do not see at least personally do not see that increasing any further for the kind of loan demand that we have going forward.

Murali M Natrajan: But in between buckets in between buckets based on our ALM profile and things like that we do keep doing that. For example, let us say we decide that we want to attract more deposit in say one year bucket or more deposit in three-year bucket that ALCO will keep doing some changes depending upon the profile. So, overall peak does not seem like an issue at the moment at least.

Jai: And last two questions Sir first is in the last one, two years we have added a lot of capacity in terms of branches and headcount, so if you can share if there is any qualitative improvement in the loan sourcing also I mean if one were to club connectors as let us say outside Bank channel, so is there any meaningful change in the way we would be sourcing business just because we have added lot of branches and employee in the last one year, two years?

Murali M Natrajan: In the metros like I mentioned in many of my previous calls almost 70 odd percent of the business come from connectors, but in AIB and non-metro business almost 70%, 80% will come from our own sourcing and that mix is how it is proceeding, but to give you some more sense if we look at the total dispersals without co-lending in Q4 of 2021-22 versus Q4 of the year that has just gone by there is a 50% improvement in the disbursals whereas our average headcount has gone up only by 27%, 28% that quality in terms of what we have put in and I am quite sure the more work that we do in terms of improving productivity, improving product, the process system and that is a continuous process we believe that we can improve it further, we put up a software called Cubes which is for processing current and savings account and a few other deposit products. We have been able to reduce 98% of the errors that were being committed by frontline, we invested say 1 in that software, we have been able to save 4 because of that software of various categories like printing, stationary, productivity, rework blah, blah, all that put together. Also the number of applications that being processed by Cube which started let us say at about 100 has gone to let us say about 10,000 that is the kind of volume that is being. So, frontline improvements that I keep talking about has power to improve the productivity and we are working on it.

Jai: And last question Sir maybe it is too early, but if you can share thoughts on the succession planning when do when do the Bank starts to do that, would the Bank have a parallel run and when does this entire process starts?

Murali M Natrajan: What is the parallel run?

Jai: I mean the new guy whoever it is either external, internal who does a parallel run with you, understanding Bank culture if it is more important if the person is outsider, but just to the handholding kind of thing the parallel run?

Murali M Natrajan: So, the nomination committee will decide the agency, the head-hunting agency that would be appointed and the search panel I believe all that should get completed soon. We believe that we need to put in the application for the new CEO talk by the end of November because our RBI needs about four, five months to process this thing. So, I believe that we are well on track both internal and external candidates will be evaluated and then NRC and Board will take a decision.

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

Akshay Gupta: Sir just two questions from my side Sir currently there is 33% year-on-year growth in OPEX, so what is the OPEX growth for the next year we are expecting?

Murali M Natrajan: It will be much less than 33% because we have already built the capacity. So, for example, we have added the average headcount of 27% year-on-year. I do not expect the increase to be I mean it would not be more than maybe 14 maybe 12%, 14% that is what the current trends are indicating. So, that would result in whatever because headcount is our biggest cost and the number of branches would continue to be about 25, 30 that is that is unlikely to change.

Akshay Gupta: And Sir second question on like what is your PSL income for FY23 versus FY22?

Murali M Natrajan: No, we are not disclosing that income, but.

Satish Gundewar: So, last year the overall PSL's income was close to 80 crores and this year the entire year full year PSL income is about 20 crore, so there has been a big fall and as MD mentioned in the initial comments I think despite severe fall in the passes income as well as we are not having the opportunity to have any treasury gain. The overall fall in the non-interest income has been really contained through a robust disbursements and a very good growth in our processing fee income as well as a very good trajectory that we have seen in insurance and investments income.

Akshay Gupta: And Sir last question on gross slippages like I missed your commentary on the gross slippages, so just I want to know like when we will they go below to the pre-COVID level or something?

Murali M Natrajan: At pre-COVID we were doing very well on slippages and going back to pre-COVID we are pretty much there at pre-COVID level if you just exclude the gold and gold I told you is not a problem at all, gold will slip and gold will get upgraded that is not a problem at all. So, I would say that our slippages are about 2% without gold pre-COVID it used to be about 2.25, 2.4 like that. So, I think we are there already.

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

MB Mahesh: Just couple of questions one in terms of the demand side for loans how is the situation today?

Murali M Natrajan: Well, we have not got any resistance from our sales side and we have not loosened our credit policy to accommodate more target or more customers or anything like that, that all has remained as it was. If any we probably may have kind of refined it further based on the learning and so and so forth. So, we are not getting any resistance from our front line. We still hold that we should be able to grow the core products do not include the corporate because corporate is a very opportunistic kind of business that we run. So, without that we are still pretty confident that we should be able to double the loan book in about 3 and half years line.

MB Mahesh: Second question on your outstanding stock of NPS on the mortgage book has the situation improved in terms of resolution timelines?

Praveen Kutty: Mahesh, so what we are seeing is that the 2020 first half 2020 NPA have got into a 24-month kind of cycle. So, by now judicial proceedings are really giving us results in terms of verdicts from the court and that is helping us kind of tempt the customer to make the adjustments and sell the assets on his own and then give us back the money. So, we are seeing incrementally what we can collect that we are collecting that early vintage NPS have been giving us a result and that is how the momentum had happened in the first t initial months. Now we are seeing that the older vintage where ability to pay over the problem where asset sale had to happen you are getting the resolutions of DRT and SARFAESI coming in as a influencer to help us convince the customer to sell the property and then move on. So, the early vintage clearly is behaving like pre-COVID and the later with that NPA you are getting the benefit of the court orders to help recover.

Murali M Natrajan: One important thing is some of the target margin that we have which is like a small ticket home loan like a 15 lakh, 20 lakh kind of customer or even those ticket size LAP customers. We do not have to do repo and all just a legal notice and all can actually result in recovery proceedings taking shape. So, we do not really have to go to court, repossess and all these things. So, those customers are I mean we do not have to push them to that extent.

MB Mahesh: Murali we have hit about 50 basis points credit cost for FY23 in terms of the outlook that you are looking for the next let us say one or two years does this number go below this or you think this is a bottom that we can reach?

Murali M Natrajan: The collection team and the analytics team believes that it can go below that, but there are so many things that happen in our country that does not give me the confidence there could be any event that can actually cause the issues. So, I believe our business model is back to the same what it was before COVID which is at 40, 45 basis point top-50 basis point type of credit cost. The intention is to do better because I think during the COVID one benefit that we have got is you got better at some of the collection process mechanism and we are also introducing some technology there to improve productivity those should come in hopefully in the next few months. We definitely got better in collection during COVID I mean capacity-wise, planning wise all that has happened quite well I must say.

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

Rakesh Kumar: So, firstly just one question to understand how much spread that we are making on cost of deposit in EBLR regime and in MCLR regime, so if you can share that what is the spread in each of the regime that we make?

Murali M Natrajan: No, all that is a composite number that has been reflected in our financials and it is very hard to calculate all that because there is a part of MCLR, there is part which is an EBLR book, there is a book which is semi fixed which over a period of one year and all will come into either EBLR MCLR depending upon what was the contract at the time of booking that customer that deposit profile itself keeps changing. So, I do not believe that I can even attempt to answer that question, but all we are saying is that our business model is somewhere around 370, 375 basis points and we believe that with the mix of products on both deposits and the loan side we should be able to achieve that.

Rakesh Kumar: Secondly Sir on the gold book side which is close to 8% of our loan portfolio, so did we have double digit gross delinquency rate in this quarter?

Murali M Natrajan: Means what?

Rakesh Kumar: In the gold loan book the gross delinquency rate was annualized number was double digit this quarter?

Murali M Natrajan: What worries you in gold if you can explain to me then you know.

Rakesh Kumar: No, Sir first thing is that like at the first place why should we have this kind of a gross delinquency rate, so recovery happens as you were telling that recovery happens in this book, but at the first instance what is the reason for such a high delinquency in the book?

Murali M Natrajan: Gold loan book will be high delinquency and I would not apologize for that. The reason is these are small customers 1 lakh, 2 lakh, 3 lakh, 5 lakh small customers who use gold loan for their business purposes and for emergency purposes sometimes even for putting money for their property margin, money or whatever all these things. These are small customers, they do not have great discipline. many of them are serviced by NBFC where they actually would have taken a bullet loan and they do not have to service on a monthly basis whereas when they take it with the Bank we have to kind of bring in the credit discipline of making them pay. As long as we have taken good quality loan and our LTV is intact we do not worry about the gold loan portfolio and we have very good safeguards to ensure that we are not taking either some syndicated fraud gold or some spurious gold in our branches and wherever we find any issues in terms of process and all we try to address it very quickly so that it does not become a problem for us. So, gold loan delinquency goes up I do not think any of us worry about it.

Rakesh Kumar: Sir, what is the LGD that you are mentioning in this book?

Murali M Natrajan: In Gold.

Praveen Kutty: See it is virtually nothing. There is actually gold loan business I mean look in this way 133 crore was NPA stock when we started the year that has come down to 19, so during the year gold NPA stock has come down from 133 to 19.

Moderator: Thank you. Next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Sir, my follow up is with regard to the uptake you just indicated that the next year OPEX growth would not be more than 14%, 15%?

Murali M Natrajan: No that is not what I said. I said that it will be much lower than 33 or whatever 32% that we have this year and I also said that we have added 27% average headcount year-on-year. I do not believe that it will be more than 10% to 14% or something else. So, I did not say that operating expenses will increase only by 14 so please correct that.

Rishikesh Oza: Basically, my question was regarding the cost structure, so basically at what OPEX level will our cost structure flatten and by when?

Murali M Natrajan: Cost structure will not flatten. We are running a retail and SME business and it is a very people-oriented business. The business is about continuously adding people to grab more and more business geographically our target or whatever I mean different target market and so on and in invest in frontline technology, process systems and all to make them productive, have good credit controls and collection mechanism so that your NPA that is our basic model. This is not a corporate bank model, this is a absolute retail model. Our average ticket size is about 30 lakh, for example, you take any of the small finance Bank their business for employee will become 2 crores, 3 crores and they probably will have about 25,000, 30,000 people for similar or slightly bigger balance sheet than us you can verify what I am paying here. So, we will continue to add people, but we lost out momentum in COVID years. So, we took the courage to invest in a huge amount of frontline like 2,000, 3,000 people we invested and that is showing in our disbursal volume Quarter 4, 2021-22 versus Quarter 4 2022-23. Hereon, we may not have to have such a step change in increasing our headcount. I hope that provides you with some clarity.

Rishikesh Oza: Just one last point on this in your PPT you have said that your target cost to income you want to maintain around 55%, can you attach a timeline to it?

Murali M Natrajan: We believe that we should be able to do it within one to one and half years and we are working towards that. We have said that we are targeting 1% ROA and 14% ROE. This quarter we have been pretty close to it, of course cost would cost would come out first and then business grows very slowly in Quarter 1. If you see our last year fourth quarter ROA and ROE we are better than that and last year we may add some one-off income, but this year even that is not there. So, we are moving in the right direction exact timeline and all is not so easy to give because there are many variables, but directionally it looks like in about a year and a half we should be consistently delivering it if not earlier.

Moderator: Thank you. The next question is from the line of Drashti from Thinqwise Wealth Managers. Please go ahead.

Drashti: My question is with regards to our cost to income ratio and more to do with the productivity of our branches, Sir you have mentioned in a lot of calls that it takes two years for a branch to breakeven after which we start seeing income coming in but when I map up total income per branch over last few years we have not seen a significant improvement in our total income per branch metrics despite most of our branches are already three to five years old, so if you could just help me understand this and how can we see this going forward?

Murali M Natrajan: So, if you see that last year we had last year means I am talking about 21-22 I think we added about 52 branches is something we added there and this year we have added 27 branches. A lot of the branches last year came towards the later part of the year. So, we review branches to say how they are performing, there are branches which are already broken even in about 8 to 9 months' time I mean I just visited a branch in Gujarat it is just remarkable that we have been able to build a very strong book in a matter of just 8 months, but there are branches one or two of them I can say remember in South that is in Tamil Nadu where even after about two and a half years they have still not crossed the line. So, there are variations in within these we have a very strong focus, we can actually pinpoint the revenue per branch and the cost per branch and track it productivity per person we are able to track it and we are pretty confident that on an average when you put a bunch of branches we can break even in about 22 to 24 months of course there will be some outliers on both sides, but generally that is the direction in which we are proceeding. On cost income ratio please look at any Bank which has got a retail portfolio. If you have cost price book definitely cost-to-income ratio can be much below 50%, but if you just look at only the retail kind of book and probably some of their small finance bank can give you a clue on what is pure retail. Our retail book is about 85% of our book there to manage cost-to-income ratio below 60 is a very tough ask, but still, we are targeting a 55% cost-to-income ratio over a period of time and we are confident.

Drashti: But if you leave aside the last two years where we have again started increasing our branch count if we leave aside these two years even before that since three, five years we have seen this total income per branch at a very stagnant level?

Murali M Natrajan: I would say revenue for branch and all because we have to put when we add 100 branches we have to put 25% of those branches in unbanked locations where the population will be 2000, 3000 so that is not a metric that we can look at, but I can tell you that we are looking at our business per employee which is about 8 something like what is the number in this 7.8 so it is close to 8 and we will be able to improve that. The second point that I want to tell you is that we have added substantial number of headcount last year and many of that headcount has not yet completely given the peak productivity for us. So, all that also has to kick in.

Drashti: And Sir second question is regarding competition, so there are a few NBFCs which have got very active in Tier-2, Tier-3 cities and specifically in the MSME segment, so do you face too much competitive pressure from these and how do you look about it?

Murali M Natrajan: One of the advantages that NBFC has is that they can open branches and they do not have to worry about unbanked and all the other constraints that Banks have like us because if I open a branch in a small location then some percentage of those branches have to be opened in non-bank location. So, they do not have that thing other than that from a cost of fund point of view we have a much better advantage. I do not believe that some small NBFCs have cost of fund like what we have because we lend to many of those NBFC. So, we know exactly what their cost of fund is, those kind of competition has not given us any dampener from expanding our business or achieving the kind of disbursal goals that we have been pursuing for the last four quarters.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: But is there any non-recurring expenses that we are incurring currently in other expense and because what will drive this cost income reduction we are also looking at?

Murali M Natrajan: No you guys have a framework saying that cost-to-income ratio should be 50% or 45% and then trying to fit all Banks into that. It does not work for us as I want to tell you right away because if you compare our business of 85% retail with 50% retail of another Bank obviously and we do those comparisons in our boardroom and see what the impact on that is. What I am saying is we have invested in frontline heavily last year and that is because for two years our average CAGR growth on ‘21 and ‘22 was only 7% or 8%. Now we lost the balance sheet of at least 5,000 crores because those two years of COVID because we pursue SME business. Now the option in front of us is okay, should we just go back to trying to grow the cost by only 10%, 12% and invest or put in the investment because we know the business model, we knew how to make it work and grow the business which is the option we have taken and it is already demonstrating results. So, this year our cost increase is unlikely to be in the 32% range it will be much lower than the 32% range and we hope that income growth is higher than our cost growth and that is how our cost income ratio will keep coming towards 55%.

Nitin Agarwal: Actually, I was just asking because we are building in some compression in margins also which may limit the improvement by FY25?

Murali M Natrajan: We have been running this model and we did it very successfully pre-COVID. You guys were worried about the operating cost increase. We have demonstrated that in our growth, look at our mortgage growth it is 27%, look at our AIB growth it is 30%, look at the co-lending growth it is I think about 50%-odd. So, everywhere we are growing very, very strongly with the investment it takes time and we are pretty confident and they are flexible cost in the sense they are not sticky cost. If a set of sales people or frontline do not perform there is a clear scorecard which helps us address those costs.

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

Krishnan ASV: My question is little more on just the MSME business and where they are at given the kind of rate cycle or the steep acceleration in rates that we have seen over the past few years I mean and given that you tend to be kind of banking predominantly with the MSME in India, could you just throw some light on where we are at, we tend to think that housing and autos are typically rate sensitive that has been proven to be the truth, are MSME reflecting any sense of rate sensitivity at all.

Praveen Kutty: I just tell you with the particular segment that we are looking at and that is the micro part of the MSME, our average ticket size hovers around the 30,00,000 mark. The products that we that we do either cater to the capital requirement of the customer or specific business loans for those installment loans for those particular customers that is what we are looking at. where this particular book is concerned we are seeing that there is an increasing demand coming in and the early delinquencies for this customers of a similar vintage is actually better than the pre-COVID levels so good demand reasonably good performance thus far. It is a pretty large market; lot of this particular segment is an assessment based on an ability where the people are still not having recorded verified income. Quite a lot of these customers are new to credit as well and it is a growing market. In India the MSME segment that we are speaking about is 63 million base and over a period of time they will get formalized and when they get formalized our ability to assess income will be better and we will be able to give a higher loan rate where you are very conservative you give a higher loan. So, there are built in modes for these customers, there is an ability that the Bank has we have gone through a couple of credit cycles of average of let us say 5 years, 6 years, two 6 years cycles we have pass through, we have gone through headwinds of pandemic and demonetization, what have you GST multiple headwinds and now you are seeing the results of that in terms of the NPS stock post pandemic decreasing the way it has been decreasing the absolute sense forgetting the percentage sense. So, it a very thriving market where there is expertise the Bank has.

Krishnan ASV: Because what I think I am trying to just make sense of reconcile the macro headwind with the micro tailwind because at an enterprise level it seems that companies have almost infinite capacity to absorb rate hikes, it is also reflecting in fairly superior recoveries and upgrades, organic upgrades that you yourself are seeing and the rest of the Banking system as well. So, what gives here is all I am trying to?

Praveen Kutty: The parallel you can draw is this, So, these are customers primarily in the service industry. So, you take an example of something like a marriage hall the business has been virtually nil from March 2020 to a good part of 2021. They have definitely become NPA because there is no revenue coming in, but what you see happening currently and that is the proof of the puddings in the stock numbers not only are many of them, most of them servicing their EMIs, but also have had a benefit of increased business which is allowing them to pay back their entire over dues otherwise they will continue to be in NPA. So, if you were take mortgages 342 crores NPA stock is now 270 crores that movement you see is because there is a resilience and robustness of the business. Some people have gone completely out of their business, started new businesses which are income generating and that income generating resilience is what is key to this MSME SME segment which is allowing them to come back into the regular installment paying capability plus knocking off the overdues in most cases. Another point which I want to tell you Krishnan is that if you see our recoveries it has got two components in it. There is an upgrade component and there is a recovery component in it. Recovery is when the customer throws up his hands and says look there is no way. I cannot repay this particular loan my business is not working. Upgrade is where the customer finds an alternative revenue stream or an increased revenue stream where he clears overdues and becomes a normal customer. One of the reasons why you are seeing this improvement in NIM is because the NPA customer continues to be a revenue generating, revenue accruing customer and is giving us a flow. So, you are getting the overdue flow minimum of three months maximum could be as high as about 12 months. So, there is a very big resilience in this particular segment. So, we talk about the demand, we talked about the size of the particular market across geographies and we talked about the ability of the customer to find to come back normal. So, I am not 100% sure of the micro tailwind that you are speaking, we do not see that, we see the clear resilience in the kind of customer selections that we had of this particular segment to not only to service installments, but to service installments and clear overdues so far.

Krishnan ASV: So, just one other question which is more about the target segment that you have been going after very consistently for the last 15 years and I am asking this to you only because you have kind of reengineered the Bank from the time that it was in trouble and we have seen all the difficulty years and now it seems the kind of engineers ahead and so all credit to you and the rest of the team that has been through with basically all these years, but I just wanted to understand has that addressable market that DCB wants to go after how much has India stack helped you to kind of expand your own target universe we just kind of index it for us just to understand the addressable market just for DCB Bank looking at it inside out?

Murali M Natrajan: I think a lot of the items has helped us, Aadhaar has helped us no question about that because it makes life so easy in terms of doing KYC and all the items that are linked with Aadhaar. the GST has helped us immensely many of the customers at least our partly in the GST bracket our own ability to kind of all the digitization that has happened whether in electricity bill or supplier bill and all those things all that has given us the confidence of looking at things lot more carefully and be confident of what we are doing and then we also have learned a lot about the target market. Some of the target market which we did not understand by doing little bit small experiment and all we have been able to go into those target markets as well I mean when we started this journey I do not think our ticket price was 20 lakh, 30 lakh we probably we would have been 50 lakh, 60 lakh, but overtime we have been able to kind of successfully enter these target market and create at an individual level very profitable kind of loans.

Praveen Kutty: Geolocation, digital collection the ecosystem in the country has significantly changed it is really helping us in big time. We know where the customers are, we know the customers have an ease of payment 40 kilometers away to the nearest branch to payback the money there is a change.

Moderator: Thank you. The next question is on the line is Sohail Halai from Antique Stock broking. Please go ahead.

Sohail Halai: Sir my question actually relates to from the provision coverage issue, so we have reached on books PCR of around 68% and closer to 80% including technical write off, so from a book perspective which has around 25% in terms of the mortgage here, is it relatively fair to assume that all the legacy NPL provision in other books have been basically taken care of and probably in terms of this was a question asked in the past also that can you actually undershoot the credit cost probably because of the increase in the provision that you have made so far?

Murali M Natrajan: So, I do not know what you mean by legacy we are the legacy right now whatever we have created we own it that is what it is. So, I do not know how to respond to you on that legacy part of it. All I want to say is that 85% odd of our book is secured, 50%-odd of our book is mortgages even the entire SME book is most of the SME book is secured except what TReDS, TReDS is not secured. If I look at our tractor KCC all that has security and each of that we understand the loss given default and probability of default all these also have improved post COVID also because of our collection efficiency as well as various other kind of analytics that we put into improve our performance on that. So, I believe our coverage ratio is pretty strong. We do not have any target coverage ratio we wanted to be above 70% and we are about 70%. We keep making provision as per RBI norms or more like in mortgage and all our provision norms are higher than what is expected by RBI. So, we will continue to build on that provision while trying to do the best that we can in terms of recoveries and upgrades on these slippages. So, I do think that our credit cost should be in the range of 45 to 50 basis points, which was our pre-COVID level number.

Sohail Halai: So, another question pertaining to this only in terms of write offs is something that we are doing it for the last three quarters around Rs. 40 crore to Rs. 60 crore range and is it fair to assume that some of these write offs has also started flowing through the P&L from the income level. So, recoveries from written-off has actually improved over the last two, three quarters?

Satish Gundewar: Sohail I am not able to relate to the question exactly, what exactly you want.

Sohail Halai: Probably in terms of one that you are actually writing of around 40 to 50 crores per quarter now and historically also in terms of last two, three years you have written-off some amount of these loans If I just back calculate in terms of write off and the cumulative write off book that we have, so is recoveries from written off account also started picking up in the last two, three quarters?

Satish Gundewar: So, you are seeing the recovery from the written-off account?

Murali M Natrajan: So, the recoveries that are coming from written-off account also come in the provision line not in the income line.

Sohail Halai: Sir, is the trend improving there as well?

Murali M Natrajan: See the collection team does not have any idea what we have written-off at the head office. They do not have any idea about it. They are collecting on the account as though it is an NPA. I mean like collection team will have no clue which item which account we have written-off and which account we have not written-off.

Sohail Halai: And Sir final question in terms of from the yield on loans and understand that some amount would be because of the upgrades and recovery as well, but post three or four quarters yield on loans actually moved up, so is the pricing environment better as compared to what we have seen in the last year any qualitative comments on this?

Murali M Natrajan: No, the competition is as tough as big. We keep doing analytics and making sure that we are pricing as much as possible from a credit risk point of view. So, that we do not lose the margin and the margins for both making money as well as absorbing the credit losses. The mix of portfolios that we have on the deposit and the loan side we are targeting a NIM of about 370, 375 basis point. If will do very well on collections recoveries and all you may see some improvement in our NIM, which is what you have seen here in this particular quarter. Also the EBLR it works like this that you actually make the change in EBR as the RBI announces its repo rate changes and the deposit cost follows. So, we do expect some compression in our name in the coming quarters.

Sohail Halai: And Sir this basically in terms of if you could just quantify how much of the yield benefit would be because of upgrades and recovery, any ballpark number?

Murali M Natrajan: We do not have that information; everything is comprised in the NIM so we do not have that information.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Just wanted to understand what would be our term deposit cost right now currently and what would be the share of the deposits which get a special rate above the card rate in the deposit mix?

Murali M Natrajan: Why would we give a special rate over the card rate, but bulk rate is also published for us. See some of the Banks are not publishing bulk rate. We published all the rates, what do you see in our website is all the rates that you see and I think our bulk rates have been brought down probably in April or something like that some date I do not remember we brought it down. So, there are no rates that are not published all the rates are what you see.

Pallavi Deshpande: And second on the co-lending side which is you are seeing very good growth the take rates, what is the kind of take rates you have to offer to the Fintech partners?

Murali M Natrajan: What rate?

Pallavi Deshpande: The take rate for the Fintech partner?

Murali M Natrajan: What is rate split between us, you are saying?

Pallavi Deshpande: I understand 80-20 is that right?

Murali M Natrajan: 80% of the loan is with us and 20% of the loan, you want to explain that Praveen will explain hold on.

Praveen Kutty: So, Pallavi what we do is we have co-lending partnerships where there is minimum skin in the game of 20% for the originator and depending upon what kind of product it is it can go higher. So, the reward and the risk are shared equally sorry with 20% everything is shared 80% of book comes to us at our agreed pricing and the customer pays whatever the origination pricing is to the originator.

Pallavi Deshpande: In case your partner cannot have the book like somebody like a Paytm or something they can't keep the book on that this thing, so you would not have those kind of partnerships I am assuming?

Praveen Kutty: I am not too sure whether I got the question, can you say that again.

Pallavi Deshpande: Some players in the market the Fintech players cannot keep those things on their books and so 80-20 may not work with those players, so would that prevent you being with those players talking of the likes of Paytm?

Praveen Kutty: So, Pallavi there are two things. One is co-lending what I explained to you was the concept of co-lending, we have a sizable book on co-lending, what you are talking about is a referral arrangement with Fintech. Most of the Fintech referrals are coming under the buy now pay later or personal loans mostly in the unsecured segment that is how the industry currently or check out financing etc. that is an area which we are not invested in. where there are Fintech which are providing you with mortgage or SME lead, we take that, but that follows a similar to the connector model. So, it is more a lead referral thing than there is no identification etc. of the customer Aadhaar identification of the customer at the Fintech end. We take it full on and then do the appraisal entirely ourselves reject or accept as per our criteria and move on.

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

Akshay Gupta: My question is like you received lower PSL income compared to the last year, so why the PSL rate fallen, and do we expect it to recover?

Praveen Kutty: So, on PSLC the Banks priority sector lending book as a percentage of the total advances that we have remained as healthy as it is. So, there is no supply problem, but the rate at which the PSLC is being purchased in the year 22-23 has plummeted as compared to 21-22 and the reason for this is not a demand issue, it is a supply issue. Earlier for the customer to become to be eligible for private digital lending you had to necessarily get a Udyam certificate which had to meet certain norms of what kind of activity the customer is doing and it is a stringent way of ensuring that that particular customer is meeting the particular norms and getting a certificate call Udyam, that has been significantly relaxed in last year which has resulted in an increased supply. The moment supply has increased two things have happened many institutions which were deficient in PSL has by virtue of easier norms fulfill the PSL criteria or near fulfill the criteria. Secondly, the need for purchase also has become significantly less which has resulted in a drop in the price. What will happen in the future depends upon how much PSL is required by whom in the market and that will drive the price. So, right now there is no clear visibility of what the price is going to be.

Akshay Gupta: And my second question is related to our new CFO appointment like when we are expecting a new CFO in our system and it will be from internal or external some comments on this?

Murali M Natrajan: So, as of now Ravi Kumar is going to be taking charge from Satish. Satish is here with us until June third and the NRC and Board will work with the management team and we will finalize the candidate in about a few weeks which is what we have represented in the stock exchange.

Thanks very much for dialing in to this call. It has been a pleasure interacting with all of you and look forward to talking to you again next quarter. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of DCB Bank Limited concludes today's call. Thank you all for joining us and you may now disconnect your lines.