DCB BANK

Ref. No.CO:CS:RC:2024-25:301 January 29, 2025

BSE Limited
P J Towers,
1st floor Dalal Street.
Mumbai 400 001

Scrip Code: 532772

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

NSE Symbol: DCBBANK

Dear Sirs / Madam,

Re: Transcript of Earnings Conference Call held on January 24, 2025

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 24, 2024 with respect to the Financial Results of DCB Bank Limited ("the Bank") for the 3rd quarter and nine months ended December 31, 2024. The same has also been uploaded on website of the Bank and can be accessed at the link given below:

DCB Bank Q3FY25 Earnings Call Transcript January 24, 2025.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For DCB Bank Limited

RUBI CHATURVEDI
Digitally signed by RUBI CHATURVEDI
Date: 2025.01.29 14:54:58 +05'30'

Rubi Chaturvedi
Company Secretary &
Compliance Officer

Encl: As stated above

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"DCB Bank Limited Q3FY25 Earnings Conference Call"

January 24, 2025

MANAGEMENT: **MR. PRAVEEN KUTTY - MANAGING DIRECTOR & CEO, DCB BANK LIMITED**
MR. SRIDHAR SESHADRI - WHOLE-TIME DIRECTOR, DCB BANK LIMITED
MR. RAVI KUMAR - CHIEF FINANCIAL OFFICER, DCB BANK LIMITED
MR. AJIT KUMAR SINGH - CHIEF INVESTOR RELATIONS OFFICER, DCB BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q3FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Praveen Kutty – MD & CEO, DCB Bank Limited. Thank you and over to you sir.

Praveen Kutty: Thank you very much. Good evening. Ladies and gentlemen, thank you logging in.

Let me take you through some of the "Key Highlights" of our Q3 Results:

To set a context, these are very challenging times. Demand is softening. There are headwinds on certain areas, specifically unsecured lending, MFI lending, etc.

Given this context, I am happy to note that the Bank has recorded a growth of 20% plus on customer deposits on a Y-o-Y basis. 22% on loans and advances, and 20% on balance sheet as well. We have been, over the last 4-5 quarters, consistently growing at anywhere between 18% to 20% range and this growth is something which we believe will continue in the key segments and products going forward as well.

Our yield on advances has shown an uptick. It is going in a descending mode till now, but in Q3 we have seen an uptick on the advances and while the cost of funds continues to inch up contrary to our expectation and what I told you earlier, the NIM has arrested its slide and has changed directions. Against the 20% top-line growth our NIM has grown by 15% Y-o-Y. And this is after quite a number of quarters that you have seen a double-digit growth in NIM.

We are reasonably satisfied with our fee momentum and more so with our core fee momentum, which is continuing its upward trend.

Like I mentioned earlier in the last quarter, the discipline on productivity and cost control is an area where we are focused on and while it is still early days we believe that we will be able to demonstrate this in the future as well.

I will take you to some "Key Highlights" and then keep the field open for questions:

- Our growth rate of 20% on deposits has been achieved while keeping the top 20 deposits at less than 7%. They are 6.97%.
- Our savings account growth has been upward to 17%.
- 141 crores of core fee income is the highest-ever so far.

- Our capital adequacy is now 16.29% with the advent of Tier-2 capital during the quarter.
- We have 457 branches. Six added in the last quarter.
- We have been very conscious on improving the productivity and that you can see in the reduction of manpower quarter-on-quarter as well.
- Our gross NPA is now 3.11% and the net NPA is flat 1.18%.

So, these are the main highlights. Now I will open up the call for any questions that you may have.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Hardik Shah from ICICI Securities. Please go ahead.

Jai: Congratulations on a steady and good set of numbers. A few questions Sir. First, it looks like the growth in this quarter from the pie chart that you gave on the loan breakup, it looks like that majority of the growth has come from co-lending and the share has now jumped to 11%. If you can share some more color and it looks like it is clubbed in retail. So, what are those products where we look co-lending and is the observation right that most of the growth has come from co-lending.

Praveen Kutty: Jai, so good to hear from you and you have been very generous. Thank you so much. On Co-lending, let me tell you, we have our growth excluding co-lending has been as good as the previous quarters. But what you said about growth is, the growth in co-lending is correct. One of our biggest partners have on co-lending has started originating business again after a brief respite and when our partner started the origination of their loans, it also helped us to co-lending. As far as your second question is concerned, we have a wide variety of partners in co-lending, various products that we do in no particular order are home loans, school finance, unsecured business loans, gold loan, SME, and commercial vehicles. These are the various types of co-lending products that we do with more than seven or eight co-lending partners.

Jai: So, but this quarter it looks like that or this time around it looks like it has majority it would have come from gold loan, right that is the understanding that is the delta.

Praveen Kutty: That is not a factually correct understanding. While the co-lending definitely has increased, that is the incremental that you see. Usually, we grow about 18% to 19% the last few quarters. The surge to 22.87% from normal growth has come from co-lending.

Jai: Secondly, you have two types of channels for microfinance, one is your own and then through BC. Is there any claw-back through BC and if you can share some more detail it is like industry practice of having the claw-back at around 5% or is there something different here in the MFI business.

Praveen Kutty: First of all, we don't have two channels. We have direct lending through certain MFI institutions, yes. And then we have lending through our business correspondent channel. So, these are two businesses that we have and what you said 5%, we don’t have such a condition.

Jai: But is both MFI lending is actually to institution or to individual borrowers?

Praveen Kutty: The business correspondent lending is to individuals. The microfinance loans are given to MFI institutions. So, there are two different things.

Jai: On asset quality, non-gold slippages seem to have risen as you mentioned in the PPT also. If you can share some more details here, it is mainly because of the unsecured, but that portion is very less for you. So, what is causing this kind of a slight increase?

Praveen Kutty: We still have over 4% book on microfinance and that is going through a similar kind of pain that the industry is going through. We are no different from industry, so there is hit on that. I don't know how long that will continue, but it is that small component which we have is giving higher NPA.

Jai: Lastly, if you can also elaborate a few banks have already said that for unsecured MFI which is relevant for you they provide maybe by formula either 25 or 50 or some banks actually provide 100% in the same quarter, if you can highlight what is your policy.

Praveen Kutty: Internal policy Jai is internal for that particular reason so will not be able to kind of reveal the internal policy. What you will know is that you can see the overall provisioning how we are vis-à-vis credit provision that we do. So, that's the only thing we can say.

Moderator: Thank you. Next question is from the line of MB Mahesh from Kotak Securities. Go ahead.

MB Mahesh: Just one question on this quarter recovery has been on a little bit on the lower side, credit cost has been a little bit on the higher side, just some clarity around that.

Praveen Kutty: Yes, that's right. The recovery is on the low and in absolute sense that is true, but we have had more than normal slippages happening because of the BC/MFI book and some small unsecured DA books that we had. So, while it's anticipated, it's higher than normal.

MB Mahesh: Praveen that is on the slippages side, but on the recovery and updates.

Praveen Kutty: Recovery has been similar to what has been in the previous quarters, whereas the incremental slippage that happened is on the microfinance book usually what happens is that when you have slippages happening on a normal book you get recoveries also within the first one or two months, so the pattern is like this. Either you recover it in the first 2-3 months, or you wait for the judicial order for any secured asset which you have to take possession. These are the two types when you get bulk of the recoveries through. Whereas in unsecured that first component is we are seeing a higher once MFI is slip into NPA, there is no immediate recovery happening from that book.

MB Mahesh: My second question is with respect to the segment that you are lending towards today is that business fully recovered, they are growing, what is happening on the ground?

Praveen Kutty: See the ticket size that we are in we are seeing that there is enough demand in the market. On gold loan, I don't how true this is, but our interpretation is because of the microfinance slowdown, there has been a surge in in gold loan and that's helping both the natural organic book as well as a co-lending book. For our kind of business with a relatively low base growing upwards of 20%, it's not that much of a problem in the chosen segment that we have. There is enough demand for that. So, that's the way I see it.

MB Mahesh: Praveen, just to step in, the question is more so in the sense that is there recovery in business for the people on the ground just trying to understand that part in credit demand?

Praveen Kutty: There is enough credit demand in the segment. Clearly there is no slowdown there and we are able to pick and choose.

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

Mona Khetan: My question is on if you look at the mortgage NPAs for the last two quarters, they continue to rise. So, if within the LAP book, can you give some color firstly, the reasons around that and secondly, some color around the average ticket size and LTV on the LAP book.

Praveen Kutty: Mona, have a look at our slide where we shown the incremental slippage and recovery for mortgages and just compare two numbers for me. One is Q2 slippages and Q3 slippages. One is 46 crores that is Q2 and then Q3 it is 37 crores. So, in absolute sense, the slippage is decreasing. Is it where we want to be? No, definitely not. But are we getting better than the previous quarter? Most likely, yes. I will tell you which page number to look at. Page number 26, just look at Page number 26 and you do the math 569-532 versus 532-486. So, you are talking about 37 crores versus 46 crore. So, it's getting better but having said that, we will never be happy. We really want to drive that down.

Mona Khetan: No, but if I look at the overall size, last quarter also there was a sharp increase and this quarter also the NPA has increased by 7%. So, and that's not something we are seeing for the industry as a whole so can we say that more it is pertinent to you that causing the higher slippages.

Praveen Kutty: Not really. Let me put it this way, we are not happy with the fresh slippage happening on the mortgage portfolio but quarter-on-quarter we are seeing progress happening on that. Our current bucket bounces are looking better. I will take you to the last one of collection efficiency pages. Have a look at it, they give you a good indication of how things are. Just kindly go to Page number 28 and look at bucket 0 collection that will give you a good indication of how the future is going to look like. So, 99% recovery on LAP, 98.9 on home loans so that is the way it's progressing. Specifically, when you spoke LAP, we touched 99 for the first time, while it's only a decimal place movement, but the current book bucket-zero book is a large book. So, how does that behave? I am sure I am preaching to the converted, but even a small decimal place movement there has got impact, either positive or negative on future flows. So, we are pretty much happy with the lower absolute slippage happening on a larger portfolio, not percentages, and we are reasonably comfortable with the direction in which our bucket-zero collection efficiency is moving.

Mona Khetan: And is it possible to get some color around the average ticket size and LTV in the LAP book in particular?

Praveen Kutty: See, we are always in the 25 lakh to 27 lakh loan range. So, that's where we are. LTV number is something which I don't know whether we publish, I don't think we publish LTV. It is very conservative.

Mona Khetan: Higher write-off during this quarter, were they mainly on account of MFI portfolio or CV as well?

Praveen Kutty: No, CV that that story is over. So, we had a lot of bad NPAs still remain. Whatever is left in the organic book remains there. The DA Book is much better, so we don't have too CV flows into NPA?

Mona Khetan: Mainly MFI that is got higher write-off this quarter.

Praveen Kutty: Yes, relatively speaking, but if you look at absolutes, mortgage is something which we are working on in curbing, reducing while going forward. Directionally, we are happy with slippage. If you ask, are you happy with the 37 crores slippage? No, not really so, but 37 is better than 46.

Mona Khetan: And I am just finally on the margin front, margins have been trending much lower than what you have been guiding for so what are the levers to margin here on?

Praveen Kutty: Theoretically, the levers are your yield in advances, yield on investment, and your cost of funds and your NPAs. Theoretically, there are only four elements to that. Again, I am talking about the direction. Directionally, I am reasonably happy that the NIM reduction, the descend has stopped, and we have an uptick, right. We have 3 bps better and this coming on the wake of yield on advances going to 11.44% as against 11.38% in the previous quarter. And three months back, I thought the cost of funds should stabilize, it hasn't. It's increased by 3 bps. But the net result of it is that we are we are better off by 3 bps on NIM, 11.44 of interest yield 11.38 previously, 7.20 of cost of fund 7.17 previously. And on NPA, you see net NPA still at 1.18 so it is like flat so I am taking it out of the equation currently.

Mona Khetan: I try to understand versus your earlier expectations a few quarters back to now, the 20 bps or 25 bps lower NIMs that you assume today that's driven by if I could understand maybe 5 bps by higher cost of fund and what are the other things that not panned out as per expectation which led to the….

Praveen Kutty: Broadly, the number 1 villain there is cost of funds and number 2 is that our interest yield was descending. If you were to see. Page number 31 let's have a look at that. The uptick yield on advance is a very important factor. It is more than the cost of funds increase. So, these are two critical factors. But Mona let us put it another way, look at this way, our top-line growth has been 20%, for the first time in three or four quarters NII is double-digits. It is actually 15%. For the NII growth to be representative of the top line growth, if you have to grow by 20%, when will the NII grow by 20% that story is something which we are targeting. So, if you do from single-digit you move to 15%. Going forward our ambition and the work that is happening in the Bank is to ensure that even though with a lag, your NII growth reflects the top line balance sheet growth.

Mona Khetan: Just finally, was the status on the capital infusion from promoters.

Praveen Kutty: I have been saying this repeatedly. There are some minor information that we have to provide to Reserve Bank of India on the capital infusion and once that happens, it could happen anytime. But that's what I said last time also, we are expecting it to happen frankly anytime. Hopefully, next review you probably will ask this question, we will not be answering this question.

Moderator: Thank you. Next question is from the line of Akshat from SMIFS Capital. Please go ahead.

Akshat: Congrats on a strong set of numbers. The first question is on cost, is it just due to headcount reduction or is it actually we are already seeing some productivity benefits coming? Further you changed the cost guidance target in the presentation from 60% CTI or below from 55% earlier and in terms of cost percentage asset at 2.5%-2.6% from 2.4%-2.5% earlier. Is there some change in strategy on that front?

Praveen Kutty: On the question. I will tell you how the cost has worked. It's a combination of two, three things. There has been a productivity increase, there has been a selection and deselection. We have ensured that the performers taken care of and the non-performers are groomed and all that work which happened over the nine months period is giving us some benefit. And somewhere where we failed, where we did all our effort, and it is still not working out that has resulted in a headcount reduction. Headcount is only one part of it. We are also assessing working on the on the other expenses as well. So, there has been a series of cost measures that have been undertaken by the management team, which hopefully should give continued discipline on the cost front. So, our effort on productivity will continue. And leaving productivity aside, on the other expenses there is a discipline that we have put in which should see a similar kind of trend line emerging in the future as well.

Akshat: Yes. So, change in cost guidance questions.

Praveen Kutty: On the changes what we thought of as we break up the milestone into smaller bite sized pieces so that we overachieve that rather than give a number which is far too distant which we really haven't done for the last few quarters. So, if you were to see cost increase for one from 64.8, we are now looking at about 62.4. We are trying to bring that down, even though the focus much more is on cost to average assets. So, getting it under 260 was key internal milestone for us. Now we are to get it on to 255 kind of mode. It is not going to be easy especially with the kind of growth momentum that we are targeting. But then again, it's not an easy job anyways. Right. But there is a lot of work going around towards that. On the NIM front also if you notice what you mentioned about cost is true, we have looked at slightly more revised numbers which we would like to get to. And to give you a bit of color on how DuPont would look like possibly I am kind of making your next question redundant. 350 kind of NIM and then a 1.1 kind of fee, we are currently at 1.04. We are 1.23 last quarter, but on core fee income you were to see, a good performance on core fee income this quarter. It's like 1.04, so it's a bit of an ask to get to 1.1. get to a 255 kind of number, we are 259. We are in a touching distance right? It is not a low-hanging fruit, but it is a touching distance is doable 255 and credit cost currently were 38 but for time slot number, every quarter we have been saying we are in the 45 to 50 kind of range, so that's how if you were to look at it 3.30+1.1-2.55-50x0.74. If you were to do the math, it probably would come at 1% ROA.

Akshat: Thanks for answering. Another question is on CD ratio it jumped roughly 3% and while it's still lower than many of the private banking peers, is there some change in strategy on level or like some deployment of extra liquidity like from CRR account or something else?

Praveen Kutty: No, simple answer we got some Tier-2 capital during the quarter and that came in and because that came in and we looked at cost of funds, we looked at a bit of borrowing even though customer deposit if you see has also grown handsomely. But we did a bit of a mix to get the cost also into play, which is resulted on the CD ratio going worst, but that's not a direction we want to take. We are not particularly happy with. We always want to grow deposit more than loans. We want to bring it back. So, there's no strategy change in that direction at all. In fact, if anything, it just reiterates of our strategy that we should get the CD ratio back to lower levels.

Akshat: If I could just squeeze in one small question, yield on advances uptick, is it related to co-lending growth or more of a function of increase in LAP versus retail mortgage loan? As in has it moved substantially from roughly 50:50 demarcation which you had guided like earlier. So, how fast are you planning to ramp up this proportion of business loan, which would probably help offset the impact of anticipated rate cuts at some point this year.

Praveen Kutty: Essentially you are right, it is because of the change in the mix. Co-lending cannot give you that benefit to that degree, right? So, that that's not it. We have moved HL to BL. I want to tell you this that may not be the way it will be continuing in the future and the reason why we are relooking at it and revamping that the thought process is because of the advent of PMAY. The current PMAY is hitting the sweet spot of the home loan which DCB Bank does, 25 lakhs, there is 5 year the book stays with you, upper cap of 11.5% interest rate. If the customer becomes delinquent, then the customer ceases to get the subsidy. The subsidy is spread over 5 years. So, these are wonderful principles which just make it so much of the kind of loans that we want to do, and obviously it comes in a low risk weighted asset. So, we may once the final PMAY guidelines come up, relook at this ratio business. We may even ramp up the home loans because at 11.5% max, which meets all this criteria, there is an onus for the customer to make the home loan the last loan, he or she will default. So, probably we will give that home loan once PMAY may come in or affordable home loan the impetus that it deserves, but till then the BL will continue to dominate over HL.

Moderator: Thank you. Next question is from the line of Aditya from SIMPL. Please go ahead.

Aditya: Sir, my question is on co-lending. So, we have stated in the past that we would like to keep this at 8%-9% of total advances. So, this quarter, this constitutes now around 11% of advances, so is it just a one-off or there is some change in the strategy of the Bank?

Praveen Kutty: So, see, I am not too sure whether we have said that the co-lending will be explicit percentage, at least in public. I don't think we have said that, but having said that as a Bank, there are reasonable caps that we have at our product segment location level, which we don't want to burst because of inherent risk reasons. But as far as co-lending is concerned, we are pretty much comfortable with the kind of book growth that we are getting. We are comfortable with the yield that we are getting, the book growth that we are getting. I will tell you some of the philosophy on co-lending is very important that we should articulate that. We want to do co-lending with partners who are either not in the product that we have or not in the segment that we have or not in the location that we have. So, we are very clear who we want to do co-lending with and for what, right. Tomorrow, after getting a experience of this unknown product, unknown segment, unknown location will we go into it, that probability exist, but the fact is we want to keep extremely clear Chinese walls to ensure that the partners are in a way we were non-territory in that level. This comes with low or very little operation cost. It is a cost income ratio. At the right yield and at the right risk framework, it is a good partnership to get into as long as you have chosen the partners right.

Aditya: And sir, as you mentioned that co-lending would give you lower yields, but should have a lower OPEX as well, so on the return perspective, does this product give us a targeted ROA of 1% or is it lower a bit higher, any perspective you can share on the same?

Praveen Kutty: Unfortunately, I wish I could, but I can't. We don't do product-wise ROA, but obviously the kind of business that we do has to be accretive in nature. Otherwise, why will you do business? It has to make sense for both sort of parties if you are going to do a scale up business.

Aditya: And sir, next question is on your cost of funds, so a deposit growth has been pretty good as compared to the industry because of it, the cost of fund has seen some increase because of liquidity concerns in the system. So, do you think the cost of funds has peaked now or they could increase further?

Praveen Kutty: Look, last quarter also, I said I expect this to be stabilizing in the next quarter and that has not proven true. And it is not because we took a Tier-2 capital, which usually is a slightly higher cost than normal deposit. That contributed, but that is not the only reason. There is a tightening which is there. Maybe, who knows, Q1 could tell us a real story, but I have been proved wrong last quarter. So, frankly, I don't know whether that opinion really matters, right. So, what we are looking for is to ensure that we get the right components, get retail deposit, small ticket size as far as possible, and small businesses, get the conscious rights that are LCR norms are well and truly and very comfortably met, but on cost of deposits, one really can't tell. All we can say is that the deposit that we used to book 3 years back when it gets repriced, it is fairly a similar kind of rate. So, it is not a question of repricing the stock which is creating an increase in the cost of fund. It is undeniable that there is a tightness of deposit of the margin. You know that from the industry published figures as well.

Aditya: And sir, our targeted ROA 1%, so there are three levers, so one was cost to income and other income. So, on both of these aspects, we are even touching these things of a targeted range, but on the NIMs part, that is one area where we are pretty far from a targeted range. So, going from around 3.2%-3.3% NIMs to around 3.5%-3.6% NIMs, how long do you think it will take us to reach that level to achieve the targeted ROA of 1%?

Praveen Kutty: So, this is what I was telling Mona who asked a question earlier. If you were to look at the last 3 quarters, the topline was leading, we were around 18%-19% consistently, but the NII was lagging and therefore the bottom line also was lagging, single digit growth. Now, you are seeing NII growth at 15% Y-o-Y right, there is a 15% Y-o-Y increase on a 20% growth in the topline. You will see the NIM benefit actually coming through when the volume benefit translates in entirety to the NII growth. I am not saying it is 20%, but let us say, it is a 20% topline. And when the topline grow at 20%, the NII also grows by similar 20% Y-on-Y. So, that is where you would see us inching closer to the 3.3 kind of NIM that we are targeting, but having said that every second decimal point improvement, whether it is cost to average assets or fee is a fight. So, there is a lot of work happening on that count to get that moving. And also remember, our credit cost is 0.38 whereas the guidance is around 0.45. So, we have to cover for that also because the steady state scenario is around 0.45-0.5 kind of number. So, you have to cover it for that also. So, the management team is aware of it, they are working on it. How well we execute and how fast we execute will tell the story. I think directionally we are going right and what we are watching is how are we moving directionally is every quarter directionally better than the previous quarter.

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

Nitin Agarwal: One question I have is on margins which are the key metric for us to achieve 1% or higher ROA and so how confident are we to improve NIMs to 3.6-3.65 especially as the deposit markets remain tight, liquidity remains in a deficit and going ahead with potential rate cuts, yields may get further impacted. So, how do you look to drive this? And any color that you can provide around the incremental disbursement yields and the book composition in respect to the repo and MCLR linkages, so covering this entire piece, if you can provide some color because this is very key to for us to reach 1% ROA?

Praveen Kutty: I will tell you first what we are not doing because that is very important. In the chase for higher NIM, we are not going to move out of the risk framework or the business strategy framework that we have put for ourselves. And the reason for that is we have seen the bloodletting that the market does. The market, frankly, is red in its tooth and the claw. It bites you back very badly during tough times, so that is something which we will not be kind of exploring. So, within the risk framework and the business strategy framework, we are reassessing our portfolio because if you were to look at the portfolio, you have all kinds of level, at low level, we are working out strategies to improve the ROA and ROE for the loan. How do we improve that? First diagnosis is very easy, right? Rs. 47,000 crore of loans, which are the ones you are cutting it, which are the ones you are not cutting it, we know that. That is the easy part. The difficult part which we have embarked upon is where those loans are not cutting it. How do we ensure that we get additional revenue through a variety of products the Bank has, and mostly it will lead to increase in fees, specifically core fee income. You can't negotiate and get a higher rate of interest, but what you can do is you can get higher revenue. And we have started doing that already and you are seeing some benefit of that in the improvement in the core fee income over the last 3-4 quarters, right. I am not saying all of it is because of the good work that you have done. It is really arduous task, it is not easy to go back and cross-sell various products that we have. We have more than 50% of our Rs. 47,000 crore book is mortgages. Mortgage for us, it has always been a low engagement product. Now, we are unashamedly, shamelessly going back to the customer, finding out ways in which we can offer something he or she wants in the financial market, which would help him or her, and also would help us get revenues from the second or third product that we are offering. Tough task, not easy, difficult, but that is how we are planning to improve the ROE at the loan level. It may not increase your NIM, but it definitely will improve your overall revenue from the customer. At the end of the day, frankly, it doesn't matter to us because stickiness increases the second product. There are so many other benefits that come through. A lower cost of fund provider will not be able to take that customer away from us. So, theoretically, there are a lot of benefits, but practically how well the team and I implement this will mean how fast we get to the desired ROA. Sorry, long answer, but it is very important that we share with you what our thought process is.

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

Gaurav Jani: Just one question, on the MFI front, what kind of a timeline you envisage in terms of the pain that could be recognized in the upcoming quarters, any color on that?

Praveen Kutty: I wish I could tell you an answer. I wish I knew myself, but what we are seeing in the industry when you go to credit bureaus, etc., is that every subsequent month looks like worse than the previous month. So, that is a very pessimistic answer. But I wish we see an improvement happening, but right now the honest answer is we don't know.

Gaurav Jani: And sir, if you could just sort of also give out as to what kind of steps already been recognized of the overall MFI portfolio, if you could just show out the numbers, please?

Praveen Kutty: I think it is all mixed up in the others, so you probably get a sense of how that is moving. See, because it is a small portfolio, so it is getting kind of submerged in that others column. So, it is not big enough for us to show you separately.

Gaurav Jani: And sir, just wanted your sense on the normalized credit cost, right? Before COVID, if I had to look at your historical numbers, we were at somewhere between 60-80 basis points. Now with credit cost normalizing for the system and other banks, what sort of levels could we envisage after this MFI PMAY is entirely recognized?

Praveen Kutty: Having said that MFI is a small, in the overall context of things, for us it is a very small percentage of the pie, the 16%-18% credit cost is actually unreal, and I will tell you why it is unreal. Because we had a large restructured book and the restructured provision was taken for these customers.

Gaurav Jani: 60-80 basis points pre-COVID?

Praveen Kutty: I am not too sure whether it is right, but somebody can check this out. My understanding was that I will have a look at March 2020 or even March'19 that will be a good number. Let me see whether you are right. If you are right, then I probably don't have an answer, but I think you are not totally correct. We will check out, because 2019 is a good time to check, right, because March 24th, 2020, we already had declared COVID, and we had taken incremental provisions. Most banks had; we also did. So, 2020, March may not be the right year to look at. We will have a look at 19 and see where we were.

Gaurav Jani: Yes, I am looking at the numbers. So, 19 was about 64 basis points. That is, provisions divide by average loans and it was 77 basis points in 18, so?

Praveen Kutty: I will tell you in a moment, but let me answer the second part of the question. Where do we see this? We see normalized credit cost somewhere between 45-55 bps. That is what the model usually supports and the reason why we have been consistently lower and even in Q3, we are lower is that we are getting a diminished return benefit on the restructured book being there. So, I will have a look at March '19 and get back to you. Somebody is furiously searching for it. We are just checking. Let me see if I can provide you an answer right now. Otherwise, I can send you by e-mail after checking whether this credit. What I will do is we will get to send you a trend line of the annual credit cost for the Bank for '18, '19, '23, '24 and now. Let us have a look at it. Based on that, we can revisit this question if that is okay with you.

Gaurav Jani: I am done from my end.

Praveen Kutty: But if you don't hear from us, please call. I am not sure you will hear it, but happy to take this question. I am happy to come online with you and talk to you, giving you the answer for this as well.

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

Amit: Sir, my first question is on the profit and sale of investment. So, if I look at the last year for FY24, the number was I think Rs. 33 crores and the first 9 months, you booked about Rs. 100 crores plus and this quarter is also healthy, I think around Rs. 35-Rs. 40 crores. So, what should we forecast that number for FY26 and FY27? Broadly, what is the run rate there, annual run rate?

Praveen Kutty: I won't be able to comment on that because what we do is we forecast the core fee income, internally also we look at the core fee income and have a clear plan, a clear goal on whatever is core. And then we look at one-off which can happen both at the opportunity front and the risk front. So, that is how we plan our budget for 3 years go forward, but to answer your specific question, it depends upon how the interest rate movement happens. In fact, what I will do is I would request Ajit Singh, who heads Treasury, to kind of give his views also.

Ajit Singh: Amit, actually it is easier to predict at least for 12-month horizon for rate of interest. But please note that for sale of investment, a decent portion would come from equities by way of IPO. For that it is very difficult to make a projection for coming one year. We don't know how equity market will evolve and what kind of IPO will be there, what kind of premiums will be there on that. It is very difficult to, but generally for a rate of interest, we understand that going ahead, like interest rate should decline. This is a fair projection. It is a question of time, like somebody may be predicting for one quarter, it may take two quarter or so, but it is very difficult to predict for equity, actually how IPO market behaves. So, we are not able to give you the precise number for that. It will be a little unfair on our part to give guidance to the market on that.

Amit: Sir, but my understanding or my interpretation from outside was that whenever there is a one-off on the cost side, maybe, some treasury profits can be booked to set up that one-off, so that some run rate can continue. Is that a fair assessment or it is not like that?

Ajit Singh: Your assessment in the sense that please note that we are typically NIM centric Bank and although we do book one-off income, we have a calculation on how our yield on existing assets will behave going ahead. Part of the income, we may be booking but it is not that everything that is available on the plate, we finish it off. This is the way, but interest rate, we believe that there could be decline and Bank may be booking say trading income and in the present regulatory environment, only 5% of HTM book is there. One-off, like during the first quarter it is not available. So, that is what we can, if we decide to book, we can book, but it will be unfair to give a projection for the coming financial year because we don't know how equity will be.

Amit: I have second question on, I think I joined the call a little late, so apologies in case this was discussed earlier, there is a write-off about, I think Rs. 80 crores odd, so can you share some details on that?

Praveen Kutty: So, last year, write-off, if I remember right, was about Rs. 69.3 odd crores, maybe slightly shorter, Rs. 70 crores. And this year, the write-off was about Rs. 71 crores is in line with the normal write-off or way which we take. So, that continues as normal and so it is a mix of various products which we have kind of gone through and the residue which remains is written-off, but for the frontline it is business as usual. They continue to collect, and we continue to get recognized income on collection of these on a go forward basis

Amit: Was there a one-off there because in December quarter there was a bump there, right? But on an annual basis, you are saying there is no one-off if you let it down? Is my understanding correct?

Praveen Kutty: No, it is a normal one. Ravi, you want to comment on that?

Amit: If I look at December, the Q3 numbers, I see Rs. 84 crores there on Slide number 26.

Praveen Kutty: So, that includes write-off, haircut, sacrifices, OTS, all put together. So, we give up a complete download on all kind of sacrifices that we have taken during that particular quarter.

Amit: So, again, out of that, if microfinance contributing large portion out of that 84, is there some color available of that 84?

Praveen Kutty: No, it is a combination of accumulated, Microfinance problem and NPA is a new phenomenon. We don't want to give it up this early. We will continue our multiple levels of collection strategy, including legal, including feet on street, including calling, all the works before we write-off anything. So, these are not necessarily MFI, at least not currently. Maybe two years down the line, possibly some of microfinance also could come in.

Moderator: Thank you. Next question is from the line of Raghvesh from JM Financial. Please go ahead.

Raghvesh: What I wanted to understand is how the average ticket size expansion works in terms of that one mix, our understanding is maybe yields were too lower, there is the cross-sell income higher than lower cost initially does it compensate our sacrifices on and how does that?

Praveen Kutty: First of all, the higher ticket size thing hasn't shown any appreciable material movement, at least not enough material movement to create a dent in the cost or improve the productivity. That has not happened yet. And also the yield will have a slight impact had it gone higher. So, we still are trying, but that really hasn't caught fire so to speak. So, why we want to get in the segment is that overdraft product 50 lakhs is something which we have an inherent advantage over the type of competition that we deal with, which is mostly NBFCs. So, that is why we are going slightly higher ticket size within the same framework, but to say is it working, no it is still very much WIP. We are not particularly happy with the kind of movement that has had. And so therefore, it is definitely not the reason why the cost income is improving or the reason why cross-sell income is improving. The cross-sell increment is improving primarily because we are going after the old customers who have not been gone after. We have been reaching out to asset customers. In the branch business, there is much more of transaction, digital as well as physical to enable cross-sell. On the asset side, primarily on the mortgage side, we have been kind of pretty dormant about it. There is one or two interaction during the tenor and then whenever the customer closes the account, closes the home loan that is the interaction. So, we are trying to change that reaching out these customers and they have the same financial requirements as just about anybody else. So, there we are seeing a slight uptake happening on the cross-sell-related fee income.

Raghvesh: But that is what we are seeing now. So, if we are able to double the ticket size, so in that segment, will the yield be low?

Praveen Kutty: So, obviously that is an opportunity for us from a 27, if you were to go to even 45, that is at least a 60%-70% improvement in productivity. So, we still are at it and theoretically will it result in a reduction of yield, maybe, but the net revenue will definitely be positive for the Bank rather than negative because the price differential between 45 lakh and 27 lakh or 26 lakh is hardly anything.

Raghvesh: And sir, how is the total mix in our mortgage business, entirely in-house or are we dependent on the DSA for large portion?

Praveen Kutty: We continue to be partly dependent in the big cities. There is dependence in the smaller towns, we are fairly doing things on our own. So, the ratios have not changed too much.

Moderator: Thank you. Ladies & Gentlemen, that was the last question.

Praveen Kutty: Neerav, thank you very much.

Moderator: Sir, would you like to give any closing comments?

Praveen Kutty: We are back to the drawing board, back to putting our nose to the wheel. It is a challenging market out there. It is not easy. But we have a task on hand and we are just taking fresh guard and facing the next ball. That is where we are.

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