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**Scrip Code: 532772**

**NSE Symbol: DCBBANK**

Dear Sirs / Madam,

**Re: Transcript of Earnings Conference Call held on October 24, 2024**

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 2<sup>nd</sup> quarter and half year ended September 30, 2024. 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-Q2FY25-Earnings-Call-Transcript-October-24-2024.pdf>

This is for your information and record.

Thanking you,

Yours faithfully,  
For DCB Bank Limited

Rubi Chaturvedi  
Company Secretary &  
Compliance Officer

Encl: As stated above



## “DCB Bank Limited Q2FY25 Earnings Conference Call”

**October 24, 2024**

**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 Q2FY25 Earnings Conference Call.

Joining us on the call today are Mr. Praveen Kutty – Managing Director & CEO; Mr. Sridhar Seshadri – Whole-Time Director; Mr. Ravi Kumar – Chief Financial Officer; Mr. Ajit Kumar Singh – Chief Investor Relations Officer.

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

I now hand the conference over to the management. Thank you and over to you.

**Praveen Kutty:** Thank you very much and good evening everybody in this call. I want to tell you that we have had a steady Quarter 2.

Our growth trajectory both on assets and on liabilities remain in the same curve. We have grown the balance sheet by 19.49%. Similar kind of percentage growth in advances and deposits. On the deposit front, the growth of 19.86% YoY has been recorded in reasonably tough times of liquidity, I should say. And what is heartening is this growth is in a scenario where our top 20 depositors remain at a very comfortable 6.89%, very similar to the 6.88% we had last year. The structure of the deposit franchise remains the same. We continue to look at small ticket, build it the hard way, small brick-by-brick, and then to get the kind of growth which we have achieved in the last one year augurs well for the future as well. Similarly on the advances side also, the ticket size is consistent. In fact, we will be happy to even increase the ticket size going forward. But it's a very steady growth on advances deposits and balance sheet.

One of the things I want to tell you is that our CASA ratio has marginally improved from 25.04 to about 25.61 in the year. But that may be unremarkable as it is, but what is remarkable is our savings growth. Savings has grown by 27% year-on-year clearly showing the effort leading to the desired result.

Another area where I want to highlight is our core fee. I've spoken about engagement as a big idea, even in the last quarter. We want to have engagement as the key differentiator from the way we were to where we want to be. And that translates to doing products which are less of fill it, shut it, forget it, and more of customer interaction, electronic, as well as normal, traditional face-to-face. And a big element of that is CASA, specifically savings account, and on the asset side, overdraft accounts.

Now, we made a good beginning and this good beginning has also seen the core fee increasing from Rs. 114 crores last quarter, which was a high in itself for Quarter 1, to Rs.139 crores in Quarter 2. This along with benign NPA numbers, Gross NPA coming down from 3.36% to

3.29% over the last one year and Net NPA shedding 11 bps, 1.28% to 1.17%, has resulted in an overall profit of the bank in excess of Rs. 155 crores.

I want to draw your attention to two things here:

- One is that it is on our area of focus, which is NIM. Our NIM is down to 3.27% and primarily because of 3-4 elements, some which are uncontrollable and some which are controllable, we have had an extension of some of the one-offs, which I said would happen in my Q1 call also, where we had to do some reverses that continued into July. So, those one-offs we have taken on the NIM. Going forward, those types of one-offs will not happen.
- Second is that we kind of foresaw the weakening microfinance environment and we have gone slow on it. And going slow on microfinance also means that the earnings that you would have got from that book also dropped, this is a high yield book. So, there has been a bit of drop on that count as well.
- Thirdly, on the NIM front, we have done some opportunistic co-lending activity during the quarter, which comes at a lower yield, albeit at a lower cost also, as compared to our organic business. So, some of these activities give us time to build the kind of structure that we want on a steady state go forward basis. And I am repeating what I told you earlier, to build a strong overdraft proposition, to build a higher ticket size mortgage proposition, marginally higher than what is currently today within the risk framework that we have.
- And the third point is improve the LAP to home loan ratio. We made some strides on it, but there's more way to go. So, these are three key areas that we are working on. All this gives us the time to build it as we go along.

Our cost to average asset is at 2.75%. So, we have put in the people, we have put in the technology, and I'll talk about both. And over the next six quarters, we should see the increased sweating of both the people and the technology that you have invested in. The bank has upgraded Finacle system, the transaction banking system, the lending system, FinOne, the treasury management system from TCS, the SIEM system for cyber security, a compass system for AML, behavioral biometrics. We have put in the hard yards on technology over the last 12 to 18 months, and we will see the benefit of that on a go-forward basis. Likewise, we have about 12,000 odd people in the bank currently. 11,901 to be precise, as of September 30<sup>th</sup> and we will see the benefit of that increased manpower resulting in a higher organic business.

So, I believe that the cost to average asset is more of investment in nature, the benefit of which we will see over the next few quarters. Having said that, it is important to know that the cost income ratio quarter-on-quarter has reduced by almost 3%, from 67.8 to 64.3. Net-net, we have had 11 bps improvement in ROA. In our journey where the next stop is a yearly ROA of 1%. Our ROE has moved from 10.93% in Q1 to 12.65%. So, you are seeing some of the effort converting it to result, and you'll be able to see more of it in the not-too-distant future.

That's my brief summary, and I look forward to questions and clarifications from your side.  
Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.

**Dixit Doshi:** My first question is, you mentioned in the opening remark that there was some impact due to one-offs in the NIM. So, if you can broadly touch upon how much impact would that be and going forward do you feel that this is almost bottom of the NIM and we can see the improvement from here on. And my second question is regarding the OPEX. So, obviously we are doing investments on the people side and as well as technology side, but it has grown almost 26% year on year whereas our top line is growing at 20%. So, when do you see that our topline will grow faster than the cost or when do you see the cost going up slowly?

**Praveen Kutty:** On the first question, let me tell you this. The one-off we had to have was based on a particular RBI circular, and that has been taken into effect fully between Quarter 1 and Quarter 2. So, that is done and dusted. So, that impact is not going to happen in the future. There has also been some structural change which has happened where some part of the penal interest is now coming in as penal charges. That's the second component which also has resulted in a slightly higher core fee and a slightly lower NIM. The second part will continue the way it is. The first part is done and that's over. When would you see the OPEX coming down? You have seen some benefit of it coming through on the cost to income ratio decrease. What we are working on is to ensure that the incremental manpower that is put in we're sweating it out to ensure that there is better login and better conversion to disbursement happening on the ground. We're also working to ensure that this, the average ticket size which currently hovers around 28 lakhs to 30 lakhs is hitched up to between 40 lakhs to 50 lakhs. So, there is work happening on that ground. And third item is, if you see the stock of mortgage book that we have, it's almost divided half and half between home loans, which is low yield and LAP, which is higher yield. So, that engine is turned and you are seeing a higher business loan coming through the door. We want to increase that so that the percentage of throughput would see a higher LAP as compared to home loan. So, having put all these people in, we will see the benefit and we're very confident that we will see the benefit of it coming through in Q3 and Q4.

**Dixit Doshi:** And just a follow up. Historically we have always maintained that our business model is around 3.65 to 3.75 kind of NIM in the longer run. So, due to this change in the penal interest regulation, do you feel that structurally that range will come down?

**Praveen Kutty:** Like I told you, you can't charge penal interest anymore, so it will come as penal charges and as soon as you collect it, you will get it. So, you will have a single digit bps change happening between NIM and fees

**Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

- Rohan Mandora:** Just on the MFI piece, if you can just let us know, what is your total exposure there?
- Praveen Kutty:** If you have the investor presentation, then for the benefit of you and all other people on the call, you could go to page number 22. 16% of the AIB book is MFI plus BC and that book is 25% of the overall book. So, you can do the math yourself, 16% and 25%. And I'll tell you how to read this. You look at the previous investor presentation and see what the MFI and BC percentage was and I'll tell you what it was. It is actually 18%. That 18 has come down to 16 now. So, that gives you an idea of what the book was a quarter back and how we have reduced it over a period of time.
- Rohan Mandora:** And if you can share the asset quality trends in this portfolio for us?
- Praveen Kutty:** So, publicly what we share is what you see in page number 26. So, you could possibly see that, you know, the momentum changes on AIB. So, not so far 322 to 333, that's not a big movement yet.
- Rohan Mandora:** Sure, nothing much in the early delinquencies also. That would be a fair assumption.
- Praveen Kutty:** Look at it this way. We took the call on this pretty much early. Sure. And that's why you are seeing a drop in the pie chart, right, it is not a late movement happening and the environment is what it is. Right. So, we are also hopeful for this. The book size also you have seen how it is, so how material and significant it can be.
- Rohan Mandora:** And Sir, on the same slide 26, the mortgages GNPA's have been rising in the last two quarters. So, what is the reason for this uptick? Like, some customer behavior point of view?
- Praveen Kutty:** No, actually, our sourcing in '23 was not the quality that we aspire for. We have made some changes. And the new vintages are behaving better. But specifically, within home loans, the mortgage sourcing in 12 to 24 month bracket was not the kind of quality that we wanted it to be.
- Rohan Mandora:** But what were the kind of issues that we are trying to correct in that? Just to get an understanding. We had seen certain segments of portfolios like CV, gold loans earlier, where we had seen a spike up on NPAs and then normalizing.
- Praveen Kutty:** So, in mortgages, we have made some changes on our LTV and income assessment norms for certain segments. So, that change we made about four to five months back. But the errors that we made earlier will have an impact. And we will have to go through it. So, there will be a delay, but I don't think there'll be a denial.
- Rohan Mandora:** And lastly, Sir, on the CEB, Commission Exchange and Brokerage Revenue, the core fee income, what will the contribution from the penal fees?

- Praveen Kutty:** Like I said, the person who called earlier, the net structural change between NIM and fee would be single digit. So, what used to be penal interest earlier becoming penal charges now, which is an incremental change because of the norm, will be single digit basis points.
- Moderator:** Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.
- M.B. Mahesh:** Praveen, just a first question on the margin side or the NI line side. If you could tell us on a like-to-like basis, how much is the NI kind of growing at adjusting for these penal interest charges changes?
- Praveen Kutty:** Mahesh, there are four components to the difference between the NIM of September and NIM of say March. So, there is a penal interest to penal charges conversion, which is a single-digit basis point. You have a reduction in the MFI sourcing, which is you are getting a much higher yield, which has been compensated for by other products. The third is, there is an increase in co-lending disbursements, which comes at a lower yield albeit a lower cost. And the fourth element of the lower NIM was one-offs, which you had taken in Quarter 1 and in Quarter 2. So, these are four components which has resulted in the NIM reduction. The last item will not occur in the future going forward. The penal interest, penal charges will continue on an ongoing basis, that will be on a continuous basis. We don't expect the organic book to pick up at a faster pace than co-lending as we go forward.
- M.B. Mahesh:** Just to continue on this point, if I look at the interest expense line, that is still kind of growing at a pace much faster than the loan growth, suggesting that the cost of funds is still kind of inching up. Just trying to understand, how does this move from here onwards?
- Praveen Kutty:** Mahesh, I want you to look at a cost of deposit page and a cost of fund page. I can read it out. It's on page number 31. So, this is pretty much in line with the predictions that we made in the previous quarter and also in March that by September we should be able to see a stabilization. So, cost of fund is kind of flattened out at 7.19 coming down to 7.17 and cost of deposit is 7.10 coming to 7.09. I don't see this falling off. I mean even now if we have to look at the way the liabilities, the deposit market is, the reduction happening in the cost of deposit. So, probably we will see a longer play of similar lines. The good news you want to look at it is that it has flattened finally. There's no reason to believe that it will go up also because if you see the kind of growth that we have got in the quarter, it has been 19% based on whatever results I've seen is at the higher end of growth. So, that kind of growth trajectory, if you are able to get at the kind of stabilized kind of cost, which is here, you would possibly see the cost of deposit is pretty much at its peak. Now it's a question of improving the yield to get the NIM back to where it belongs.
- M.B. Mahesh:** Second question, Sir, on the asset quality line. There are a couple of banks and NBFCs, who are kind of starting to highlight, saying that there is stress now starting to emerge in the SME portfolio as well. Do you kind of concur with this view based on the data that you are seeing? Or you say that, look, it's still too early to say that?

**Praveen Kutty:** Not really, and I'll tell you why. Look at the collection efficiency chart, for bucket zero and for all buckets put together. That's a very revealing chart. Okay, that is page number 28. Yes, yes. Right, I'll tell you why it's so revealing. You look at bucket zero behavior. Bucket zero behavior across three big products, I am not including SME in it, but 54%, maybe 55% of the entire book is there in these three lines. This basically determines our overall performance. So, bucket-zero performance has been fairly steady. So, between 98.9 to 98.5, you had a deterioration of four bps. And in home loans, you have a deterioration of 3 bps. I would tend to take that as business as usual and not as a harbinger of a problem. So, we haven't seen that really coming through.

Having said that, if you look at the overall efficiency, we are seeing that some of the restructured, particularly restructured book has kind of had a problem in September. But I would tend to think of it as a one-off rather than as an indicator of things.

**M.B. Mahesh:** And this final question on the OPEX line, which is currently running at about slightly higher than 20%, it continues at these levels or you think you can extract a little bit here as well?

**Praveen Kutty:** Are you talking about OPEX?

**M.B. Mahesh:** OPEX, yes.

**Praveen Kutty:** You have seen the cost to income decreasing. The 275 is frankly unsustainable. And if you see most of our efforts are in, we are thinking it's investment. Time will tell if it's investment or cost. A lot of work is happening in the bank and bulk of our focus is going into ensuring that this money that has been put in is giving us outcomes. The easy thing to do will be to cut the cost. It's really simple to do. It's not very difficult. But that's not the whole idea. I mean, we want to continue growing at this kind of pace for the foreseeable future. We see a good enough market for it. And the question is how do you make these guys successful rather than how do we go by the fast route.

**Moderator:** Thank you. The next question is from the line of Aditya Khandelwal from Securities Investment Management. Please go ahead.

**Aditya Khandelwal:** I have a question on our NIMs. So, this quarter we had an impact of that one-off reversal. But going forward with increasing share of LAP in our mortgage book and increasing the proportion of OD in place of spreads and with the cost of deposits and funds stabilizing for us, would it be fair to say that the NIMs have bottomed out in this quarter and should be in an improving trajectory going forward?

**Praveen Kutty:** Yes, you succinctly put it, yes. I would like to say what you said. So, the one-offs being gone and some of our executions starting to show results, I strongly believe that we are at the bottom end of the NIM and cost to deposits is continuing to hold at the current levels. We don't have any indication to believe it is going to go up or go down in the future. It's remaining where it is.



**Aditya Khandelwal:** And second question was on our fee income. So, year-on-year, I understand there has been a big jump because of classification from penal charge and penal interest. But even on a QoQ basis, the fee income has increased by more than 20%. So, if you could just understand what has led to this big jump?

**Praveen Kuttu:** See, I want you to look at the last five continuous quarters of core fee income growth. It is somewhere in this book. It is page number 34. Core fee income was 107 going up to 124 to 136 to 143 to 205. Such quarter-on-quarter for five continuous quarters, that kind of rise does not happen by coincidence. It is because of specific actions that we have implemented on the ground while you are seeing the growth happening on the overall fee line. On the core fee line also, you see 97 going to 98 going to 118. In Q1, which is traditionally a very difficult low performing quarter, 114 going to 139. So, effectively what has happened is since March and I can say even since Q4 of last year, we really worked on getting engagement going big time in both assets and liabilities. There was a tendency for the bank to be more, for want of a better phrase, fill it, shut it, forget it kind of mode with 55% of our book being mortgages, LAP and home loan where opportunity to interact with customers also is limited and also retail term deposits on the other hand, retail and bulk also for the matter where interaction with the customer is fairly on the lower side. But when you are seeing a savings account, YoY savings growth of 27%, we are seeing the beginnings of the overdraft strategy coming to light, there is far more engagement the bank has with its customer. And one area where it's really seeing the light of the day is in the core fee income. Our ability to cross-sell has improved. Is it where we want it to be? No. I think there is a further strong long play involved. But we, as in me and the management team, strongly believe that this focus on engagement resulting in products which demand engagement will result not only in the core fee income increasing, but also in terms of better retention and a stronger bond with the bank. TPD has got a big play in it. We have launched our wealth distribution vertical still early days. These things have held the bank, get a better grip on the fee income. And this is traditionally a weak, it still is an area of improvement for us honestly if I were to ask myself. And we are making some progress on it.

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

**Jai Mundhra:** First on this fee income only, the YoY growth looks very impressive on the core fee side. And it is clearly higher than the loan growth and assets growth. Is there any, there's no one-off here, right? I mean, there's no one-off and ideally one would expect that fee growth to be higher than asset growth. Is that the way to think about this?

**Praveen Kuttu:** The way to think about is look at the core fee income growth. That is where you need to focus upon on and that's where we are really focusing upon this that is much more repeatable, sustainable linked in. There is there are some core fee income here, which also has some leg on the cost side. The classic example is something like a processing fee. Your volume goes up, your processing fee goes up, but there's a sourcing cost that you are going to pay for it. But having said that, even after taking that into consideration, there has been improvement in the margin between the fee that we get and the cost that we may have to incur on those slides. But much

more importantly, the third-party distribution system is kicking in. I am repeating, the wealth distribution setup that we have put up is starting to work. The overdraft product that we are looking at, which brings in slightly higher ticket size by itself. The one we're looking at is slightly higher ticket size, but look 30 lakhs going to 50 lakhs is frankly a 66% improvement on productivity, whereas it is very well within the risk framework that we have. So, there are multiple things that's happening which is helping us improve our core fee income. And honestly, yes, you are seeing the result of it, but there is much more to come.

**Jai Mundhra:**

And Sir, the SA growth that we have seen at very impressive, defining the industry growth and even the previous trajectory at our bank, fair to say that, you know, part of this is driven by your differentiated SA rates or this is something else that you would like to say?

**Praveen Kutty:**

No, don't be fooled by it. See our customers are self-employed customers. They are your normal people, the normal retailer, merchants, you know those are the kind of customers that we have. We have some unique products whereby the money the proprietor puts in his current account is swept into savings account. So, while the customer is a self-employed customer, he's got a current account, he gets a benefit of moving money into a savings account and gaining whatever the savings account rate applicable for his account. So, even though we open current accounts, the customer gets some benefit out of it. For us, yes, it's not a zero percent current account, but it's definitely not a high interest TD account as well. So, large proportion of a savings account is coming from these kind of customers and proprietors don't keep the kind of money that you need to keep in a savings account to get 8%. Usually they don't. They use it normally for their transaction purpose rather than for "investment purpose." It's money on the flow. It is not money which is kept there to earn something. By the way, while I am keeping it there, we're earning something. That's the kind of product and that's the kind of customer base that we have on the savings book.

**Jai Mundhra:**

And also on treasury gain, right? So, of course, this quarter is very, very strong. Is there any component which is not realized also because now RBI allows you to book a notional profit also. I mean, just because the amount is so huge, I just thought of asking.

**Praveen Kutty:**

I do not know whether that is publicly available news or not, publicly substantiated information or not. But the fact is, I wouldn't even look at that 205 as much as I would look at 139. Because you are looking at repeatable, sustainable kind of growth. And for us 114 to 139 is a good enough indicator of what the potentialities are and I believe that we could crack it. On a separate note, if it's not UPSI information, I am sure our Investor Relationship Unit can get back to you with relevant information. So, you can drop in a mail and they can give you further, if domain is publicly available.

**Jai Mundhra:**

And lastly Sir, is there any update on the promoter infusion of \$10 million?

**Praveen Kutty:**

Yes, fine. Good that you asked the question. So, we are kind of dotting the i's and crossing the t's on that. So, there is some documentation which is being asked for. So, we are providing all

that. So, getting that loop. We are almost at the tail end of it. While it's not substantial in itself, it is symbolic, so it'll be good to see that happening. If you ask me, it'll happen in Q3.

**Moderator:** Thank you. The next question is from the line of Gaurav Kochar from Mirae Assets. Please go ahead.

**Gaurav Kochar:** Just a couple of questions to persist on the NIM and fee because there is a very strong traction in this quarter. Just to understand a little more, the core fee income to asset is currently at 83 basis points. And you mentioned, I think, some bit of it is also some shift from the NIM line to fee income line. So, let's say now that it is structured. And you know, this 83-basis point, what is the potential maybe not immediately and given that second half is typically better for fee income and then the first half we have done 83. Is there scope to increase this in the second half? And let's say for FY26 given that all the structures are in place, can we expect something like 1% for fee income to asset going forward?

**Praveen Kutty:** So, on the fee front, what I would like to tell you is that the core fee income which we are seeing is primarily coming from repeatable sources. The only negative to that is that some of them are attached to the cost that we have. So, I would tend to think that this is on a sustainability scale this kind of trajectory is possible. We are looking at a full year ROA of 1% in the year 25-26. That is what we are gunning for. We have to fix a few things. One was the fee. I think on a steady state basis a 1% fee is very much possible. I am just discounting the 1.23% which we got now, not for any other reason, but on an overall basis, on a four quarterly average basis, the 1% I think is very much possible with the franchise that we have. We have some work to do on the OPEX and I've talked about it in the earlier calls as well, at 275 cost to average assets it's on the higher side, that definitely is a 10 to 15 bps improvement which we can see in the next 2-3 quarters which we can affect. The current provision is at 27 bps may not be the right indicator. We're still getting the benefit of the restructured assets having a higher provision either going away or staying with us and there's a provision write back as per the guidelines or becoming NPA and need not having to take the incremental provision or need to have taken only the lesser incremental provision as a case maybe. So, there's a bit of a tailwind on that. The 30 bps, 35 bps seems like the right thing for the particular model to come through. NIM at 329 is possibly at the lowest end. We probably would not have too many one offs coming in there. So, I think from the 0.93 which we have today of ROA there is a distinct possibility that we could steadily build up to a 1% ROA and that's not a milestone in itself, I mean that's not an end of journey by itself. I think that's a way to go and which will take us to our next phase of growth. So, that's the way the management team is thinking about the revenue cost and provisional dynamics.

**Gaurav Kochar:** And just specifically on the liquidity, if I look at the overall balance sheet growth was much higher than loans and deposit growth which essentially we have borrowed and kept at higher liquidity on the balance sheet. So, just wanted to understand, is it because of the revised LCR norms or is it more of an opportunistically some treasury option that you would have done, despite that the borrowings have gone up?

**Praveen Kutty:** There are few things you need to look at. I want you to look at the cost of funds. Your cost of funds went up from 7.14 to 7.19, not in the current period. I want to look at the previous period. Between Q4 24 and Q1 25, the cost of funds went up from 7.14 to 7.19, page number 31. Can you see that?

**Gaurav Kochar:** Yes.

**Praveen Kutty:** So, that's a 5-bps increase?

**Gaurav Kochar:** Yes.

**Praveen Kutty:** What is the cost to deposit increased by during the same period? 2 bps, 708 going to 710. Do you see that?

**Gaurav Kochar:** Yes.

**Praveen Kutty:** So, what does it indicate? It indicates that while the cost of deposit was increasing at a lower rate, the cost of fund was increasing at a higher rate. What is the difference between cost of funds and cost of deposit? It primarily is borrowing. So, what we did is we went back and reworked our borrowing strategy and ensured that the cost of funds is more or less in line with the direction the cost of deposit takes, which is why you are seeing a correlated movement of cost to funds and cost to deposit happening in this quarter, 719 coming to 717 and 710 coming to 709. So, that is, so we worked on the borrowings. We worked on the refinance. We have tried to ensure that the overall cost of funds of the bank decreases. So, we have done multiple things on this front. We also done some CDs, short-term CDs to match with the short-term assets that we have. So, we looked at it from an integrated perspective to bring the overall cost down. And more of it will be coming in the future anyways.

**Gaurav Kochar:** Just last question if I can squeeze in. In the current portal value indicated that these are probably bottom margins at 327. And you have mentioned in the presentation that the business model is designed for a 365-375 basis point kind of steady state margin. I know the situation is a little more challenging on the macro front. You have to slow down on MFI, etc., which is leading to some compression. But by when do you expect to see the normalized NIM traction, is it like, I mean, expectation, not a guidance for sure, but expectation, is it like 4Q when you start to see that margin to move towards that 365, 375?

**Praveen Kutty:** See, there are two things which is very important for you to know. One is that for the foreseeable future, the structural movement from NIM to fee of penal charges is given and it's not going to come back. It is very unlikely it will come back. That is one. Number two, the MFI environment I would tend to presume will take a year at least to get back to normal. I could be wrong. Okay, but that's just an educated, rather uneducated guess. So, there are two elements. So, that being the way it is, I don't see ourselves rushing headlong into high yield MFI assets which would have otherwise done. So, that would be a no-go area and whatever microfinance or similar kind of loans that we will be doing will be to meet our small farmer, marginal farmer target or the agri

PSL target if we so desire. At the current moment we have met all these subsegmental PSL numbers. So, there will be an impact on yield because of these two particular reasons, but it's better to take a yield hit than take an NPA hit, obviously. It goes without saying. Right? So, but on the other side, what you are really asking us is how quickly can you ramp up the LAP as compared to home loan? How quickly can we get the overdraft over TReDS engine working? Believe me, we are working as hard as possible, as quickly as possible to make those changes happen. That's a very integral part of our action plan to make the next full financial year an average 1% ROA year.

**Moderator:** Thank you. We will move to the next question, which is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

**Rakesh Kumar:** One question was pertaining to the slide number 11. The margin guidance that we have is around 40 bps higher and if you look at the ROA numbers, it's increasing by around 7 bps as we are guiding. So, what is happening in between? So, are we expecting that, because cost to asset number also if you look at, it is kind of falling by around 25 bps approximately. So, if you can just briefly if you can take us through this margin movement to this ROA movement.

**Praveen Kutty:** So, you talk about the journey towards 1% ROA?

**Rakesh Kumar:** Yes. So, basically the increase in margin that we are looking at is around 40 bps from the current quarter. And the ROA movement is that we are looking at around 7 bps. So, in between like, what is changing so much?

**Praveen Kutty:** So, there are two ways of looking at that ok. I will explain to you in two ways. So, one is the ROA for this quarter is 93 bps correct? So, that is 7 bps short of 1% ROA. That if you convert it into a PBT is 9.46 bps before tax. Right so far?

**Rakesh Kumar:** Correct.

**Praveen Kutty:** So, as a management unit, we have to find somewhere close to 10 bps across 4 different lines. I still want to say that the 27 bps of credit cost, we would go to 30 because that's what the model is about. Between 30 and 35 is where the model is about. On the cost side, 275, it's only a matter of time before we see it coming down. There is a bit of slack there. It's an investment for the future. If it doesn't happen, we have the liberty to cut the cost. It's not like a sunk cost which kind of hangs around on the neck. So, there is an ability for us to move it. That will be a last ever option. I mean, I really wish we wouldn't come to that pass at all. Our idea is the investments that you have made in people succeed, and we make it happen. And that's a way to build the business. And we are reasonably confident about that. These kind of one-off windfalls plus the momentum that we had in this quarter, that gives us the time to rebuild the proposition, like I told others also before, of our OD proposition, of our LAP to HL proposition, of the higher ticket size proposition within the framework. These are time to build that up. That's the cost that we're incurring. So, once we get that moving, you will see the 10 bps can come practically entirely from the cost to income, cost to average assets reduction. The second way of looking at it is we

look at a 3.4% NIM to total assets, not average assets, consistent fee income of 1.1%, you would reach possibly somewhere around 4.5%. Cost to average assets of about 260. You would land up with something like 1.9%. Take a slightly exaggerated provision of 45 bps. You come to 1.45. And if you reduce a tax, you'll be somewhere between 105 to 108, somewhere around that. And these are in my mind achievable. The NIM movement, just by passage of time, and some of the actions that come into execution mode will help us reach there. The key to achieving all this is in my mind getting the OPEX as a percentage of average assets to close to 2.6%. And that's what the Management Team is focused upon, really, really working upon it to improve the efficiency and output with the same number of people. And if that works, then we would probably require very, very little investments of manpower in the time leading up to the next year.

**Rakesh Kumar:** Just one last question. This was pertaining to credit yield thing, credit yield number that has come down to 11.4%. So, I don't know if I have missed it. Had you given the reason, what was the reason for the fall in the same?

**Praveen Kutty:** So, the NIM reduction is primarily because of the yield advance reduction, is entirely that. So, you see the cost of funds is stabilized. It's actually not just flattened, it has come down slightly, but leave it as it is. The yield and advance reduction is primarily on account of the one-off, primarily on account of the movement from penal interest to penal charge, primarily on account of us being conservative on the MFI portfolio much before the smoke started turning out into fire, in certain areas at least, if not all. So, that's the impact on the yield and advances. So, the way forward, and I was telling some other caller also, is that the improvement in NIM will come from improvement in the yield and advances.

**Rakesh Kumar:** And that one-off number is contributing how much to that?

**Praveen Kutty:** The individual case, reason why split, I don't think we will be able to give. But these are four items. We are aware of it and we are working on it. So, that's where it is. But what we are working on is to ensure that the yellow bar next time around is at a higher level.

**Moderator:** Thank you. The next question is from the line of Kartik Solanki from Elara Capital. Please go ahead.

**Kartik Solanki:** My question was on the lines of net interest margin. You had earlier stated to one of the questions that it is due to a one-off in Quarter 1 and Quarter 2. Sir, can you just throw some light on the same?

**Praveen Kutty:** So, Reserve Bank of India had sent a communication to banks, I think banks and NBFCs, I could be wrong, but definitely to banks, where interest charged to customers, to customers who had taken loans should start from the time the demand draft was handed over to customers. So, there are many cases where customers, the demand drafts are made and customer for whatever reason, the home loan agreement not coming into play, the seller travelling, a variety of avoidable and unavoidable reasons did not take handover of the demand drafts. And I understand completely

where the Central Bank is coming from, because the draft is with the bank, the funds are with the bank, even though the capital is allocated to it. The funds are with the bank, and therefore the directive was, you can start charging the customer only from the time the demand draft has been handed over. So, that we fixed it in middle of Q2. So, from April 29 to the middle of Q2, the bank took a hit, and rightfully so, because it's more customer friendly in that perspective, and I understand that, and I also advocate the same. So, that's the right thing to do. But the fact is that it did take a P&L hit. I think it's impacting NBFCs also, but banks definitely I can tell you.

- Kartik Solanki:** And if possible, can you please quantify the bps impact? Can we have that number handy?
- Praveen Kutty:** Whatever did not quantify, we did not communicate that, so it is not publicly available. But what is publicly available is that, that issue is a non-starter now. It doesn't exist now.
- Kartik Solanki:** And this ROA target of 1% which you gave a clear ROA tree as well.
- Praveen Kutty:** Milestone, rather than a target, Kartik. It's a pit stop before we start up our next journey.
- Kartik Solanki:** So, this 1% ROA is like with factoring any rate cuts or without factoring?
- Praveen Kutty:** I am seeing it the way it is because if you were to factor it with multiple things then what's the point in committing, right? So, effectively, you have to manage it. There will be environmentally there will be some tailwinds, headwinds coming in. Some are unavoidable, some are avoidable. But I think we will have to, however, manage that.
- Moderator:** Thank you. The next question is from the line of Rishikesh from RoboCapital. Please go ahead.
- Rishikesh:** My first question is the QoQ Rs. 60 crores growth in the fee income. Can you provide a broad break up? Where is it coming from?
- Praveen Kutty:** It's coming from two separate items. One is a core fee income and others. So, if you look at commission exchange and brokerage in page number 37, it's a steady kind of growth. Have a look at the commission exchange and brokerage. 97 going to 98 going to 118 going to 114 going to 139. Do you see that?
- Rishikesh:** Yes
- Praveen Kutty:** So, that's the kind of quarter-on-quarter growth that we have managed. This is the core fee income that you see there. The profit of sale of investment was a Rs. 52 crores benefit that we got which is in the second line and there are some exchange transactions and others. So, the big mover here is the commission exchange and brokerage of Rs. 139 crores and that's what we're looking at from a repeatability and sustainability perspective. Profit and sale of investment happens when opportunities arise. So, does exchange transactions.

- Rishikesh:** So, most of the incremental is coming from sale of investment, right?
- Praveen Kutty:** You can say that. We used to get somewhere in the teens, 14, 11, 17. That's gone up to 52 last quarter. What we are, what we are happy with is the sustainable first line. Now that we are unhappy with the second, but definitely the kind of growth that we achieved on the earlier line is what we are trying to sustain going forward.
- Rishikesh:** Also on the cost to income part, could you guide for coming quarters Q3, Q4, what cost to income do we foresee?
- Praveen Kutty:** Actually, not for Quarter 3 and Quarter 4, but for the next full year, what we want to be is around 2.6%. Right, and I think it's achievable. 15 bps reduction from today on cost to average assets, I think it is well within our grasp. And I was not going to dodge Q3, Q4. The reason I was talking about the four quarters of next year, next financial year, is because whether this is a cost or investment, all of us will get to know soon. We are very confident that this is an investment. That this investment is mainly in people and also in technology, not to forget the fact that we have upgraded three out of the four core banking systems. We have upgraded our AML system, we have upgraded our behavioral biometric fraud detection system, we have upgraded our SIEM system. Right, leaving all of this aside, I think on the people front the investment that we made, we're beginning to see the benefit of that. Hopefully Q3 and Q4 will enhance that and that will result in us getting to the 2.6% average on a full year basis, April to March next year.
- Rishikesh:** Also, if you could share what is our home loan and LAP mix currently?
- Praveen Kutty:** On the stock 50-50, on the incremental, we are trying to ensure that the BL is more than the HL and that has turned around.
- Rishikesh:** Could you share any targets that we have for the target mix?
- Praveen Kutty:** We don't have a target mix as such. Like I told you, the NIM is where it is currently. In our view, it can only go up and we are working hard on that by multiplicity of ways. One of which is by focusing on higher yielding product. Having said that, at the same breadth, let me tell you, the management team here took a collective call, not to do high yield microfinance business pretty much early in Quarter 2, pretty much early. And you can see that from an 18% contribution that has come down to 16%. So, we're not averse to taking a hit on growth if we believe that that's not the right way to grow the topline.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.
- Nitin Agarwal:** One question on the loan growth. We have been now consistently delivering healthy loan growth. 20% is what we are looking at sustainably. Certain segments which were declining earlier there has been a sharp like pickup in the disbursement in those products like especially if



you look at the CV, the corporate there is a sequentially there is a strong pickup on disbursement. And so how are we looking at this contours of overall loan mix going into the next year?

**Praveen Kuttu:** First of all, I want to tell you, Nitin, that our corporate book has declined and has not grown. If I remember right, Rs. 100 crore less than what we started the year with.

**Nitin Agarwal:** So, I'll just quote the disbursement number was like Rs. 475 crores in the previous quarter, which is now Rs. 634 crores this quarter, like 30% plus jump on a sequential basis.

**Praveen Kuttu:** But what I would suggest is look at the overall pie chart on Page number 21 and compare it with the pie chart of last quarter, you would see that the corporate banking book in Q1 is less, Q2 is definitely less than March, if I am not mistaken. In absolute terms, I know the number. It's about 100 or less than what we started off the year with. Maybe more disbursal happened, must be short-term loans. Must be short-term loans that have been given. But otherwise, no change in strategy. In fact, we're less than March is.

**Nitin Agarwal:** And likewise in CV also, that was like more of a defocused product. And this quarter that has shown some pickup. So, how are we looking at this segment now?

**Praveen Kuttu:** So, these are more of opportunistic lending given to certain existing CV customers, because one of the things that we found out, which should have been apparent earlier, is that the performance of the book improves significantly if you were to keep it going. So, it's a small book, we just keep it going. I don't see that rapidly increasing. It's not like a target segment in itself. But the real movement is getting your mortgage and OD. That SME book which you see there. frankly, we are trying to convert it into a full overdraft product, a full engagement product, which will, similar to what we spoke about earlier also, converting that to a complete branch-led, digital-led engagement process.

**Nitin Agarwal:** And secondly on margins now, as the rate cycle turns in the coming quarters, how do you see the trajectory moving into the 1H? What sort of pricing power are we looking at in this sort of risk-averse environment? And how much downside risk do you see further to the NIMs?

**Praveen Kuttu:** See, I don't see a downward risk happening because cost of funds is, the deposit market continues to be challenging, like it has been for the last six months. So, when it's challenging that way, it is very unlikely that you will have a yield drop happening on any of these products, very, very unlikely. But like MFI, for example, we budgeted for something much more. That's not going to happen because for obvious reasons, right? So, that will get compensated by some other secured products which will not give you a similar kind of yield. So, that kind of dampening will happen. But much more importantly, the productivity that we will have of secured lending products like SME and LAP and even Home Loan will more than compensate for the rate drop in specific portfolios which we will not be really going after hard. So, to sum in substance, I think NIM is at one of the lowest which we can foresee.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Praveen Kutty:** Thank you for your patience. It's been late in the evening. Good thought provoking questions. I hope you got answers for that. If you haven't, please send an email to our Investor Relationships team. They'll be more than happy to respond to your queries and look forward to meeting you again or speaking to you again in Q3. Thank you very much.

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