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July 30, 2024

BSE Limited

Phiroze Jeejeebhoy 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 July 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 July 24, 2024 with respect to the Financial Results of DCB Bank Limited ("the Bank") for the quarter ended June 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-Q1FY25-Earnings-Call-Transcript-July-24-2024.pdf

This is for your information and record.
Thanking you,

Yours faithfully,
For DCB Bank Limited

Rubi Chaturvedi

Digitally signed by Rubi Chaturvedi
Date: 2024.07.30 16:31:45 +05'30'

Rubi Chaturvedi
Company Secretary &
Compliance Officer

Encl: As stated above

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"DCB Bank Limited Q1 FY25 Earnings Conference Call"

July 24, 2024

MANAGEMENT: **MR. PRAVEEN KUTTY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, 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
MR. GAURAV MEHTA – HEAD MARKETING & PUBLIC RELATIONS, DCB BANK LIMITED
MR. PANKAJ SOOD – HEAD RETAIL & EMERGING BRANCH BANKING, DCB BANK LIMITED

Moderator: Ladies and Gentlemen, Good Day and welcome to DCB Bank Limited Q1 FY'25 Earnings Conference Call.

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

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

Praveen Kutty: Thank you very much and good evening, everybody. This is Praveen here.

I want to take you through the highlights of the last quarter, starting with deposits. Our deposit growth has been slightly above 20% YoY, and the CASA growth was about 18% YoY. Our focus on CASA is savings account and savings growth has been 21% YoY.

During the last quarter, we crossed the 50,000 crores total deposit mark. In a market which there is a tightening liquidity, we improved our CD ratio to 81.6%, and our LCR is well over 120% threshold that we kept for ourselves internally.

On the loans front, we have had a loan growth of 18.9%. Our restructured book now is 2.34% net, considerably less than what we started off with. Our credit cost is very comfortable, though there is a slight elevation in the NPA ratios, and our provision coverage ratio is 76%. These are top line numbers.

On the profitability front, our NIM has come down to 3.39% in this quarter and our fee has hit a high of 143 crores. The core fee income is robust at 114 crores. The cost-to-average assets in Q1'25 is 2.71%, slightly less than the 2.73% of the same quarter last year.

On the non-financial front, we had two very important technology upgrades during the quarter. One was that we upgraded our treasury system. We have a new TCS system which is there for our treasury, and also from a cyber security perspective, we have an upgraded SIEM system.

In the last quarter, we have made some basic rejig which I think is important for the Bank from a future growth perspective. This is mainly on the assets front.

Mortgage is undergoing a bit of a revamp. It's a bit of a rejig. We are reorienting ourselves to business loans. Mostly, if you look at our mortgage book, it is cut half in home loan and business loans. Increasingly, we would be pursuing business loans within the framework that we currently have.

The second element in the mortgage revamp is that we are reclaiming the 50 lakhs to 1 crore space, very well within the MSME, self-employed segment. Over a period of time from 2016 to now, there has been a steady decline in our ticket size. So, we have moved, there was a skew favoring affordable housing and small ticket LAP. Nothing wrong with that. The only thing is that from a productivity perspective, there is a market out there, specifically the 50 lakhs to 1 crore range which is a space that we are comfortable with. So, there is a greater thrust on getting that going in addition to the affordable housing and the small ticket business loan that the Bank anyway does.

The second area of modification is focus on engagement. Our SME book will be more focused on the overdraft product that we have. Currently, the SME that you see if you were to look at the investor presentation, it comes as a combination of TReDS and the traditional SME, MSME products that we have. In the future you would see the reliance on TReDS coming down and overdraft coming into play. It will help the yield, it will also help cross sell, it will also help increase the fees.

The second part of the engagement is on the CASA front. While we have grown savings account by 21% YoY and CASA also by 18%, whereas increased thrust on improving the CASA even further as we go along. And this would come from focusing on engagement at multiple levels both digitally as well as relationship manager-based engagement.

The third element is the greater use of data analytics to deepen and widen relationships within the Bank. So, we have a dedicated team solely focused on increasing product penetration within the Bank.

This, ladies and gentlemen, is some summary of the last 90-days and if you have any questions, feel free to ask. My leadership team also here is with me. Feel free to ask the questions and we will provide you with the answers.

Moderator: We will now begin the question-and-answer session. First question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Want to understand on NIMs and the compression that has happened this quarter especially on the yield 20 basis decline. So, is there any one-off here or how should we look at the yields trajectory going ahead?

Praveen Kutty: The NIM compression primarily comes from two components. We are at the last leg of the term deposit renewals, the long-term deposit that we booked in the past has come up for renewal and now they are repricing themselves to the current rate, which is obviously higher than what it was got booked two to two and a half years back. So, we are in the last leg of it. Probably it will flatten out by middle of third quarter. What you also can see is that if you see the trend line of the cost of deposits, the rate of increase is coming down from 6.77, it has increased by 18 bps from Q2 to Q3 and then subsequently became 13 bps from Q3 to Q4, and from Q4 to the 1st Quarter of this year you're seeing a 2 bps increase. So, we will see a stabilization of that coming through. So, that's one element to it. The other element, Rohan, is that there has been some regulatory changes on the loans front, which has resulted in interest reversal, which we believe is a one-time thing. This also includes the change from penal interest to penal charges which the circular of the Bank has come with. We implemented that and we have also ensured that incremental disposals on loans, the interest charge is from the DD handover date. So, on an ongoing basis we can see the NIM rising up because we don't expect too much of one-offs to continue in the future.

Rohan Mandora: So, here so if you can quantify what was the total impact due to the regulatory changes on the yield?

Praveen Kutty: That's something which I don't think we can tell you right now. The only thing is that there are two components we can speak about. One is about being the penal interest component being replaced with penal charges and we see a slightly elevated fee income also coming through correlated to that. And the second part is for ensuring that the loan disbursal interest are accrued from the handover date and not necessarily from the disbursal date.

Rohan Mandora: Sir, with these changes like the NIM guidance that we typically give 365 to 370 basis points, does that change for a steady state?

Praveen Kutty: Not really. On an ongoing basis, we should. As you know, NIM has got multiple components, yield, cost of funds, the slippages, aging of provision, right, plus any one-offs that may happen. The June booking may have some bit of spill over into July. But beyond that, I don't think that will happen.

Rohan Mandora: But for the current financial year, would it be fair to assume that the NIMs would undershoot the guidance?

Praveen Kutty: Not because of any particular reason. We don't expect that.

Rohan Mandora: Then, so what will be the drivers for NIM expansion from the current levels like the cost of funds would go up, on the advances side like we had explained that certain part of the mortgages book is on the fixed or floating thing, so that may have some impact and

Praveen Kutty: Three elements. I repeat. The rejigging of the of the mortgage book which would result in higher quantum of business loan over home loan. So, the kind of onboarding rates on business loans are significantly higher than that of housing loan. The second thing is that we are focusing on SME overdraft at the expense of SME TReDS. TReDS obviously is a smaller tenor loan at a lower yield. So, we will compensate that with an overdraft facility. So, you will see that there is a difference in the yield that that one gets. And the third element, what you said is not a new element. As and when the hybrid loans come up from fixed to floating, the Bank gets the benefit of the increased EBLR which has not been passed on because of the benchmark changing post the customer coming into the fixed rate criteria.

Rohan Mandora: Secondly, on the other OPEX piece, what kind of a trajectory should we expect for FY'25?

Praveen Kutty: Our cost-to-average assets is 2.71%. We would expect that to come down steadily to 2.5%.

Rohan Mandora: And over what timeframe?

Praveen Kutty: In the very near future.

Rohan Mandora: Just if you can quantify the amount of construction finance book?

Praveen Kutty: About 4%.

Moderator: Next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Just a couple of questions. First is, as per our presentation we have a stated guidance for 1% ROA and 13%, 14% ROE. This would imply average of 13 to 14x. So, if I look at the last 14, 15 year history of our Bank, we are operating with such a high leverage and also we would have also to achieve this kind of ROE we have one of the highest leverage among private sector banks. So, if you can just help us understand if we and the board are comfortable operating at such a high level and what is the thought process to have such a high level?

Praveen Kutty: Sorry, can you repeat your question?

Viraj: What I am saying is that, if I look at our presentation, we have a stated guidance to achieve 1% ROA and 13% to 14% ROE. Now implied working would be that this would have a leverage of 13 to 14 times. And if I look at the 14, 15-year history of our Bank, we have been operating at such a high leverage. So, in fact to operate this kind of leverage, we are among the highest in private sector banks. So, if you can just help us understand if we and the board are comfortable operating at such a high leverage and what is the thought process to have such a high leverage?

Praveen Kutty: See, if you look at our net worth of 5,000 plus crores, we work on a RWA at 53%. So, what you're seeing is a very efficient use of capital so effectively and this has consistently been done from 2018 onwards, you would see that RWA's are primarily in the less than 55% category. So, there is considerably lower usage of capital and that has resulted in the ROE being close to 12.5 times the ROA.

Viraj: So, you will be talking about increasing it further from 12.5 to almost 14 times to achieve the kind of ROE, do you want to achieve over next few years?

Praveen Kutty: You would continue to see that the risk weighted assets would be in the region of 54%. So, the internal accrual capital at a 17% to 18% growth will come from within because our ambition is not to grow 17%, but we are looking at a 20% growth, then fresh infusion of capital would certainly happen.

Viraj: What will be the proportion of fixed rate and floating rate loan book for us and if rate cuts were to happen at the end of the year, how do you see the impact of rate cuts on our NIM?

Praveen Kutty: I can answer the second part. So, we have three types of loans, so one is a fixed rate loan, other is a hybrid loan and third is a floating rate loan. In case a rate drop happens, one of the things which we can do is to ensure that there is a simultaneous drop of a similar rate on a savings account book where the proportions would be similar, we got 11,000 crores book on savings account, and if that particular portion of 42,000 crores of asset book were to have a benchmark-related reduction, we would see a similar reduction and a similar timeframe happening on the savings account book also. Because savings account is more or less retail in nature, it is reasonably priced and elastic, maybe at the top end we could have a bit of a customer movement happening, but then the benchmark effects most players in the industry as well.

Viraj: In the budget, there's been an announcement of credit guarantee scheme for MSMEs. So, if you can just help us understand what this scheme is and if in any way it is beneficial for our Bank to underwrite a higher number of loans or underwrite better quality loans?

Praveen Kutty: So, there is a program called "Tarun" which has been extended to 20 lakhs. Our team is looking at the budget proposals and studying it and then we'll come back with an action plan on whether that makes long-term viable sense for us or otherwise.

Viraj: One is on the fee income growth. I think if you can just elaborate more, are we driving that to increase I think historically it used to be close to 1%, but it's been trending though for the last few quarters. So, how are we looking at driving that better in the coming quarters? And second is on the promoter preferential issuance. If you can give an update by when do we expect that to happen?

Praveen Kutty: So, on the first question which is the fee income, we had a 33% YoY growth on fee Q1'24 versus Q1'25. There was some bit of inorganic fee also there, but from a core income perspective, 114 crores of fee income have been enhanced primarily by some good performance from the third-party distribution, processing fee, etc., which is a repeatable fee income revenue. So, that's one part of it. The second part of it is that some amount of elevation is there because what would have otherwise come in NIM has come in fee on account of the penal charges being coming to play instead of penal interest. But on an ongoing basis, where will the fee come from, how would we go more towards 1%? The answer to that is that the whole engagement model which I spoke about in the beginning is to drive overdraft and CASA. And what is common between overdrafts and CASA on either side of the balance sheet is that these are high engagement products and when engagement happens there is an opportunity to cross-sell and as a Bank we have multiple avenues to cross-sell both physically as well as through the net. So, effectively this shift to CASA and you've seen some parts of it already with the savings account growth of 21%, some part of that is still bearing fruit. There's lots more one can see going forward and movement from TReDS, which is a fairly anonymous system-based lending to overdraft-based lending of SME would result in higher opportunities to come by both on the funding front as well as on the Bank guarantees and other fee revenues which we get from.

Viraj: On the promoter fund -

Praveen Kutty: Promoter capital, there are a few more documents that have been sought for. We are in the process submitting it and once that happens we would get the clearance and once the clearance comes in the capital inflow should happen in a few days, if not weeks.

Viraj: So, maybe by Q2 we expect the closure?

Praveen Kutty: We expect it by Q2 definitely. So, usually it's a iterative process, some documents are asked for and some more are asked. So, assuming that particular process is complete, then the infusion should happen practically immediately.

Moderator: Next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: The first question is on margins again. So, you mentioned of the impact on NIM partly being offset by higher fee lines that penal interest got converted to penal charges. So, to that extent, shouldn't the NIM going forward settle at lower level or simply because there'll be levers on yield from changing loan mix, you believe that the guidance will be maintained?

Praveen Kutty: Three things in this. One, what you said of penal interest coming back as penal charges. Second is about refund of interest for loan disbursals from the time of the demand draft being made to the time the demand draft is handed over. These are one-time events. A bit of spill off may happen into July as well, but beyond that I don't see that one-off coming into play as far as the NIM is concerned. From a slightly longish perspective, the repricing of long tenor term deposits would continue to middle of third quarter, after which you would see a stabilization of the rate of cost of deposits. I would draw your attention to the key ratio sheet page 30 if you have it with you. And if you were to look at the cost of deposit, it is on increasing curve, but the rate of increase is decreasing in every quarter. So, from 16 bps, 18 bps, 13 bps, it's now come to 2 bps and you probably will see it stabilizing before tapering. So, then in reality happen is that the percentage increase in the in the interest income would reflect the percentage increase in the top line growth.

Mona Khetan: And secondly, again coming to the yield space, so what would be the share of hybrid? If I recollect last quarter there was a big gain from some of the fixed rate loans being converted to floating, etc., So, do these gains continue this quarter and in the ensuing quarters as well or the benefit has largely already played out?

Praveen Kutty: The benefit has not gone fully. There is some more pending. It is like we spoke about term deposits, right. The old term deposits are coming up for renewal right now. Similarly, there are hybrid rate loans which are continuing as fixed where in the future you would see them becoming floating and there will be a upside as and when the movement to floating happens. Story is not over yet.

Mona Khetan: But roughly how big would be that book on a steady state basis?

Praveen Kutty: That's not a publicly revealed information. One of the ways you can look at it is that we told you that in case we have to immunize ourselves against a rate cut, we said that we will look at the savings account book as a buffer for making similar kind of changes kind of gives you an indication as to how much will be floating.

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

Jai Mundhra: Wanted to check on the slippages, Sir. Excluding gold loan, the slippages are +2%, still looks on a bit higher side. What is driving this and how should one look at this number going ahead?

Praveen Kutty: Please have a look at the bottom table on the right-hand side of page 25. So, you can see that there is an increase in the mortgage book from 445 crores, the stock has increased to 486 crores. So, within that, home loan is one area where there is a elevated slippage happening, but then it's not something which keeps us awake in the night. I see that more as episodic rather than as a continuous problem to handle.

Jai Mundhra: And then secondly, sir, I you have partly integrated this, but if you can quantify the yield change in this quarter or how much of the yield decline was due to penal charges flowing from NII to fee income and maybe because of the higher slippages, just to understand the yield movement correctly?

Praveen Kutty: So, it is not those two items alone first of all, Jai. Those two items are there, but there is also a third item which is that refund of interest from the day of disbursal to the day of handover of the demand draft. So, there are three elements to it which contribute to about… if you were to compare with Q4, 11.71 was our yield and now it is 11.50. We don't give the individual break up. What I can say with confidence is that the penal interest to penal charges is a one-time that is done and dusted. The refund of interest on booking is something which is there for the June 30th booking also which would practically be for maybe two weeks or three weeks, but on an incremental basis, we don't have that problem. So, the day on which the disbursal happen is the day on which the handover happens in that sense. So, those two one-offs will not happen. And the rest of the yield is a question of the mix, and I told the group on a go-forward basis three items where we are increasing the yield. One is thrust movement from 50:50 home loan- business loan to a higher business loan. Second is reduction in the TReDS outstanding more than compensated by genuine SME overdrafts which happen. So, these two elements would result in higher yield and we don't expect any other "one-offs" to happen on a go-forward sense.

Moderator: Next question is from the line of Prakhar Agarwal from Elara Capital. Please proceed.

Prakhar Agarwal: Just wanted to get a sense on cost-to-OPEX that you probably said that is 2.7 to 2.5. What is the reason for this being elevated this time around and what will lead to the changes that you probably said that in the near-term, you'll probably see from 2.7 going to 2.5?

Praveen Kutty: So, I personally think that it is the reduction on the NIM which has resulted in the elevation, it's not necessarily from a cost-income perspective. On cost-average assets, we have increased the number of people and how well we squeeze the productivity from the team and how we build the book will also determine how the cost-to-average assets will decrease. The third element to that is a lot of investments have been made in technology. The impact of it is yet to come, is happening in the future, which involves reduction in multiple costs including courier charges, stationary charges. So, in fact we have a system called "My Docs" where more than 80-odd dispatches to customers have been replaced with electronic communication where customers can get information at will by going into the website, not necessarily through logging into the app. So, the three elements to this. The biggest element, of course, is productivity because we have invested in the people and we need to sweat the returns from some people that we invested. The second element is the focus on higher ticket size, which also will… because the same cost, you're getting a higher ticket size with similar kind of yield. And the third element like I told you is the operational cost reduction because of investments in technology.

Prakhar Agarwal: Just one more qualitative comment on how has been the behavior of your co-ending book on FLDG side, have you seen any deceleration in there or -

Praveen Kutty: First of all, FLDG and co-lending cannot coexist. You cannot have FLDG for co-lending. That's against the law. So, there is no FLDG. So, good that you asked the question. So, on March 4th, one of our big co-lending partners has had a embargo on sourcing a particular product and they were one of the biggest co-lending partners by a long chalk. We have had near perfect recovery from that in March, April, May, June and July so far. In addition to that, this also meant that no fresh sourcing for the originator, means no fresh co-lending for that originator's partner. But that has not impacted our book, because if you were to see the previous quarter end, our co-lending book was 7.5% of the total assets, now it is 7.2% or 7.1%. So, there is hardly any difference. So, the Bank has very nimbly worked out on our other co-lending partners to make up for the shortfall of co-lending. Otherwise, we would be sitting on a massively low asset growth, both for the quarter and for the YoY basis. So, net, net, short answer, quick compensatory action on other co-lending partners, impact on portfolio quality, negligible so far.

Moderator: Next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Sir, once you clarify with respect to notes-to-accounts detail, so we have acquired around 800-odd crores loans with a residual period of 4.6 years or something and out of that, close to 600 crores number is on the secured side. So, just wanted to get some detail? And also, what is the full year credit growth internal target that we have, Sir?

Praveen Kutty: So, last question first. Credit growth target, we intend to double the book in about 3.5 years. So, you can work backwards out on that. So, anywhere between 19%, 20% growth is a good number to target. More importantly, as far as the transfer of loan exposure is concerned, from our side the Bank has always been playing a key role in alliance and partnerships. In May 2021, when the co-lending circular first came out, we started evolving and we got almost 10-odd co-lending partners right now. And we built a co-lending book which is my guess is about 5% of the industry, whereas from an overall perspective, we are about anywhere between 0.25 to 0.3% of the total lending book from an overall banking sense. So, we are punching much above our weight in co-lending. The reason I am telling you this is, the Bank has always been partnership focus. So, we have had relationships with multiple financial institutions both on the pass-through certificate front as well as on the direct assignments. So, securitization and PTCs play an important role. The number of players that we deal with is vast, which has helped us migrate into co-lending also very, very quickly, but the ticket size are usually pretty much low bite sized units which we have. So, this is important for us. We will continue on the journey. It gives us insight into new products. We are non-predatory by nature which helps us also have multiple relationships within the same product, same segment or same geography. So, it is important for us, and we'll continue with it and that will be in a proportion sense, it will be the current proportion to that overall book the Bank has.

Rakesh Kumar: So, the total maturity of the book is around six years, correct, the book that have taken on our book.

Praveen Kutty: Door-to-door. About 4.74 years is the current weighted average residual maturity and the holding period at the originator is about 1.14, but that frankly you should look at 4.74 rather than 1.14.

Rakesh Kumar: Correct. And Sir, the originator is holding just around 10% of that book, correct me sir?

Praveen Kutty: There is a minimum, see it depends upon what product it is, there is a minimum holding period and an MMR, minimum retention. There's a portion which is retained by the originator as well.

Rakesh Kumar: So, just wanted to understand that 6 years spoke from door to door and unsecured. So, what are the characteristics of this loans or if you can like...?

Praveen Kutty: It's a combination. So, you have combination. It's not entirely is not unsecured. There are multiple loans within that where there are long-tenure loans and there are short-tenure loans. And unsecured typically are short-tenure loans. And the average which you see is the weighted average residual maturity.

Rakesh Kumar: And how much credit yield you mentioned on this book?

Praveen Kutty: See, we don't give individual yields for the TLEND book**.**

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

Shreyas Pimple: So, I wanted to ask about the recoveries. Recovery this quarter has been really good. What kind of pipeline that we are looking at, and how do we build the quantity of recovery for this full year? Can you give some sense on that?

Praveen Kutty: So, we have a fairly large book of NPA stock of Rs. 1400 odd crores. If you were to look at the page number 25, you will find that a substantial portion of that has matured. So, when an NPA happens, either you get the recovery fairly quickly or you get it after a period of, let's say, 2.5 to 3 years. Why I say that is because the judicial process in India usually takes that about a time for the position order to come in etc. And when the position order comes in, that's when people rummage and arrange for the loan repayment to happen or sale of asset to happen. Usually in our case, the borrower himself or herself ensures the sale of the property happens in cases where the position orders come through. So, we have a reasonably big pickled pool, vintage pool from which we are expecting recovery to happen. So, effectively, if you were to look at it, Rs. 486 crore is mortgages, Rs.176 crore is SME and MSME, which frankly, the collateral for both are practically the same. And then we have a small book of commercial vehicles where probably the recovery factor is not very high. But if you were to look at mortgage and SME, close to about Rs.700 crore of high recovery pool is there with us. In the passage of time, we are confident that we will be able to make significant recovery. The trend line should continue.

Shreyas Pimple: Understood. Thank you so much. And secondly, on the unsecured business, we have seen in the industry credit costs normalizing. How do you see the unsecured lending part, the credit costs going up or how's the book seasoning? Can you give some sense on that also?

Praveen Kutty: So, on the unsecured book, what we are concerned about is our customers having an unsecured book, and how does that impact our secured customer behavior? So, we also do not have an organic book of unsecured lending, unless you include MFI. And we'll talk about MFI in some time. So, on a normal SME mortgage book, what we are clearly looking out for is that is our customers, our secured customers' behavior in the market from a, if you have taken unsecured lending. So, based on scrubs with the credit bureau, you understand which customers to proactively act upon. So, far we haven't had any issues on that particular account. The other unsecured book that we have is MFIs. Our repayments are as per plan, as per our expectations rather, and we haven't seen any worsening of the MFI book in the quarter.

Shreyas Pimple: Understood sir. And the last question Sir, on the business loan part, what is the delta in the yields that we are looking at as far as increasing proportion of business loans is concerned?

Praveen Kutty: Roughly if you were to look at it today, I can give you a general example. If you're a customer and you're taking a business loan, vis-à-vis your customer taking a housing loan, there is anywhere between 1.5% to 2% difference at the time of sourcing itself.

Moderator: Thank you. Next question is from the line of Ravi Purohit from Security Investments Management Private Limited. Please go ahead.

Ravi Purohit: So, this refers to our PPT and this one and the earlier guidance also that we have been mentioning lately about hitting 1% ROA and 14% ROE. So, just wanted to understand the mathematics as to if you hit 1% ROA, how does that translate into a 14% ROE? Because I think at one of the conferences, you were referring to the Deep Pond formula. And you said that if we look at the constituents of that and when I worked on that, I kind of struggle with the math right 1% ROA translating to 14% ROE. If you could just kind of help us give an insight into what's our paths to this 14% ROE. Is it higher leverage to net worth in terms of more loans, is there higher NIMs, what is the path towards hitting this 14% ROE because there's something over the last 15 years we have never done right. We have probably achieved within like a hairline distance, maybe about 8 years back or 7 years back, but apart from that, we have never hit like even 13% ROE or 12%. So, in that sense, like where does this confidence for 14% ROE, is it an aspiration or is it something that can happen over the next year, year and a half?

Praveen Kutty: Yes, good question. So, is it an aspiration? Of course it's an aspiration. Will it happen? We are very confident. Why will it happen? There are 2-3 components to it. We believe that the investments have been made, okay? And there is a product mix change that is required in some areas. So, I spoke about this earlier, BL more business loan-oriented growth, which may have a higher capital impact, but not a higher credit impact, the segment remains the same. So, that's one element to it. Second, I told you, TReDS currently you can guess what kind of returns you make on that, vis-à-vis a regular overdraft on the SME platform. So, without changing the growth numbers, you're talking about a higher yield coming from in there. There are two areas management is working upon, which will ensure that the aspirational number of 14% will be realized. One is on the fee front. We have a task ahead of us from our late 86 to 90 bps, we have to move towards a 1% of fee. Where will it come from? What is working for us currently? Is the third party distribution? Is the processing fee? Is the ATM charges. Some amount of tailwind will come from the penal charges which is coming to play. But be it as it may, we want to put our emphasis and thrust on the engagement model that we spoke about which would result in NFB non-fund based fee income coming through. That's a key area of change for us from the way we used to operate, nothing wrong with mortgage. I mean, we are very comfortable with that. But the opportunity to serve customers is fairly limited because the interaction is perhaps 2 to 3 times during the entire life term of the particular loan. The second area where work has to happen is what I told you from the beginning, the investment has been made, that is the people cost has been incurred. And now how well we squeeze the productivity out of that investment that has been made would help us bring down the cost to average assets down. Over the last 15 months, we brought it down from a high of 2.87 to current levels of 2.71. A similar kind of work would result in us getting closer to 2.5, which is the aspirational figure from a cost-to-average assets perspective. Lastly, on the credit costs, on a steady state, one would expect it to be around 35 bps, which is considerably higher than the 18 bps that we currently have. But the model would assume that we would be at around 35 bps on a steady state basis.

Ravi Purohit: Right, so this probably all of these initiatives will help us get a higher ROA, right? And ROA would probably hit one or maybe cross little above one, right? So, the other element of that is how much leverage we can do on our net worth, right, which will effectively be made up of deposits and borrowings, right? How much that come to be or how much does the balance sheet actually allow us to go because if you multiply one for one ROA to get a 14% ROE, you need a leverage of 14 times. Where would that, because again, if I go back in history, we have not seen that number ever. The max that we have hit is like 12, maybe once or twice. So, ROA piece is I think very well communicated. I think you had indicated earlier as well. This ROA translating into 14% ROE, if you could explain or just help us understand.

Praveen Kutty: I will give you a construct on this. So, the construct is this, the model that we are working upon is that when you utilize the capital fully, we would be operating closer to 15 and when fresh supply of capital comes in, we will be operating close towards 13. So, that's the aspirational model that we have built in where the range of ROE will be in 13 and 15 depending upon how well the utilization of capital happens. But from a risk weighted asset modeling perspective, we will continue to be in the future also, continue to be in the 53%-54% range unless some dramatic regulatory change happens on the risk weightages that we currently operate which we cannot foresee.

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

Nitin Agarwal: Like one is on the fee growth, like, which has been very strong. So, how structural is this because it's a very sharp improvement that we are looking at. If you can like provide more color on this number that we have reported this quarter.

Praveen Kutty: So, we have had Rs.114 crores of core fee growth which kind of resonates with the Rs.117 crore of core fee growth which we had in quarter four. So, from a Q1 perspective, we are reasonably happy with the fee income growth that has come through. There has been a couple of one-offs, one is of investment sales that's happened. And also opportunistic income coming in from IPO has also helped the cost. But on a clear-cut go-forward basis, I expect the core fee to continue on its momentum towards getting to the 1% mark, which is an important landmark for us to get to the ROA and ROE which we have spoken about in multiple questions earlier Nitin.

Nitin Agarwal: Right. And the other question is on the network expansion. While we have been adding employees at a very aggressive rate, so if I look at last one year, our employee count has gone up by more than 20%. But the branch increases like very measured, like 9 branches in last one year, 3 branches this quarter. So, how do you correlate the two and how will this fit in your medium-term cost income, cost to asset guidance?

Praveen Kutty: Effectively, one of the ways we are looking at it is that where is the growth of 20% of liabilities coming in from or 19% asset coming in from? Partly it is fueled by the increase in manpower. Most of the deployment of people has been on the front line. One of the reasons why it is about cost to average assets has climbed up is because of the increased expansion of people. Now, there are two things in this. One is that our strategy of hiring is a lever to us to sort out the good from the bad in the environment that we currently work. So, it is a process of ensuring that the productive people stay and we fail faster on people who are not cutting it. So, to some degree that is happening because there's a constant churn. So, some bit of attrition in that sense is welcome because you don't want to carry freeloaders on the book. So, this is not the most effective way of hiring, but we are getting increased emphasis on getting people on board. And then there is this productivity focused movement of people who are not making the cut. And that will continue to happen, Nitin, in the future also. So, I am not saying the growth, but this process because getting the right sort of people on the front line is a bit of a cumbersome process.

Nitin Agarwal: Right. And lastly, on the CD ratio, like while the Bank has condition in control, we have reported a decent deposit growth. So, but what is the optimal number that you are looking at in terms of CD ratio and what is the SLR ratio for the Bank?

Praveen Kutty: So, look, see, my belief is our CD ratio is one of the better ones in the market today and getting into a sub 80 level may not be a bad idea. We are at 81.6 currently, declining from the previous quarter also. So, there is sufficient cushion that we have, but under 80 would be a good number for the shorter term.

Nitin Agarwal: Under 80, but why so conservative like under 80 because most private banks are above 80 only?

Praveen Kutty: Yes, essentially it's good to have the liquidity, it gives you the raw materials to go ahead and get the right, I mean, today's market, having a strong liquidity backup is pretty much useful. We saw that in quarter four, we saw that in Q1 also. We don't want to be scrambling for deposits at any point in time. Being solvent, being liquid is absolutely critical. It's good to be a bit conservative. Having said that, we are also very conscious about the LCR. We keep an internal LCR benchmark higher than what the regulatory mandatory minimum is. One more thing, one more quick one on that, is that we are also looking at improving our liability profile by focusing more on the individuals than on entities and institutions.

Nitin Agarwal: And so this like under 80 CD ratio guidance, are we breaking it in when we look at like 19% sort of advances, 19%-20% advances growth and like overall deposit attrition that we will need to deliver on that while improving CD ratio? So, are we looking at that sort of deposit inflow?

Praveen Kutty: We should be able to. There is no reason to believe otherwise. We should be able to do that.

Moderator: Thank you. Next question is from the line of Rishikesh from RoboCapital, please proceed.

Rishikesh: So, first question is with respect to the NII growth. If I got it correct, we are indicating that our NII growth will be similar to loan book growth Y-on-Y around Q3 or Q4. Is that a fair understanding?

Praveen Kutty: We expect the one-offs to get completely eliminated in the next quarter and then the term deposit rates to stabilize thereafter. So, effectively what we mean is that beyond from middle of quarter 3, you probably see the volume growth reflecting in the NII growth.

Rishikesh: So, by Q4 we should maybe see the numbers reflecting in our P&L. Is that correct understanding?

Praveen Kutty: Yes. Currently what's happening is that we are growing 19% on the assets. We are growing 20% on the yield. And however, the NII is growing only by 5%.

Rishikesh: I was asking about the LAP book, what is it as a percentage of our mortgages, mortgage book?

Praveen Kutty: If your question is what is the business loan as a percentage of a total mortgage book, it is about 50-50 currently.

Rishikesh: It is 50-50 and what is the target going ahead?

Praveen Kutty: We want to increase it. Not that we have a problem with the home loans, but we will keep that. See what you are currently seeing is a reorientation of the team and we are doing some verticalizations within the organization to ensure that there is greater focus on the 50 lakh to 1 crore segment and also on business loan segment. So, there is a bit of a rejigging of the asset structure as we speak and we should see the benefit of that coming in from maybe quarter two or definitely from quarter three onwards.

Rishikesh: And one last question with respect to the OPEX. Our OPEX has been high for this quarter. So, is there any one-off or any particular exposure that we have taken? And we have a cost to income target of 55%. So, by when are we going to achieve it and how would that take place?

Praveen Kutty: The single largest component of our cost is the people cost. And like I explained earlier, we have invested heavily in the people. And not all of them will be productive, but we are really working hard on making them productive. Those who are productive, so be it, we would ensure that the cost does not continue in the future. Getting the productivity up is a number one challenge in getting the cost to income ratios down. In addition to that, you have some changes which are technology driven. So, effectively, some components of OPEX including couriering, stationary cost, storage cost, all these are coming down dramatically because of digitization that we have done on both the liability systems as well as the asset system. So, that will continue. Those benefits we will get plus we are working on rejigging the sourcing model by giving more emphasis and more weightages to organic sourcing as compared to DSA based sourcing. So, these are the elements which will ensure that the OPEX is in control, but the single largest element, what will really move the needle is about the productivity. If the number of people who are being paid salary and what is the disbursal output from them. We could also include the liabilities which is the CASA and term deposit output from them.

Moderator: Thank you. Next question is from the line of Shrinjana from RatnaTraya Capital. Please proceed.

Shrinjana: I have two broad questions. So, one is on the OPEX side. Currently, the OPEX in this quarter is a little bit on the higher side. So, can you just throw some light on what items and what headers have led to that? And the second is that, is this more of a run rate OPEX for the full year? Should we think of it like that?

Praveen Kutty: So, what you should look at is that in Q1 is where the salary increases happen. We also have the full impact of the source, the incremental frontline workforce that we have hired. So, the number of people that we have is now closer to 12,000. So, I would like to think of it like an investment, which would result in both better quality loan book growth and better retail small ticket deposit growth to come in. So, effectively, the OPEX that you currently see elevated on account of incremental people and also in Q1 where the increases of emoluments are being given.

Shrinjana: Sorry, I didn't get the second part, the increase in..

Praveen Kutty: The increments that typically happens in quarter one.

Shrinjana: And on the other expenses side, I understand employee costs. This other expenses side?

Praveen Kutty: Other expenses side is fairly static in nature except for costs which are being replaced by technology. So, there is, most of the costs are frontline costs. You see that the improved use of digitization has helped us in reduction of multiple costs like stationary costs, postage costs, courier costs, storage costs. So, there is a clear-cut improvement coming in there. The third element we are looking at is in terms of sourcing, where there is greater emphasis on organic sourcing, self-sourcing, than by relying on connectors and DSAs.

Shrinjana: Yes, I understood. And this expense is also more of a run rate number. We will continue to do such technology investments.

Praveen Kutty: We would tend to think that this 2.71% cost to average assets would steadily drop as we move forward, both from the numerator sense as well as the denominator sense.

Shrinjana: Understood, thank you. Just one more question. So, you mentioned that like some portion of the fixed rate loan book which will come out that will also help in the yield expansion because those loans would get repriced. So, can you just give some sense of like what proportion would that be or how much impact would that have on the yield and the NIMs?

Praveen Kutty: So, look even in this quarter one where the NIMs are subdued that what you said happened okay because every month there are loans which you book 3 years back, 2.5 years back, 2 years back which is hybrid in nature coming up for movement from fixed to floating. So, that is a monthly accrual sort of change in rates that happens on a steady state basis. What I can tell you is that, that is not done and dusted yet. In the future also, there are loans, hybrid loans, which are currently fixed, which will in the future turn to floating unless closed earlier.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Praveen Kutty: Thank you so very much for your patience and for your questions. If you have any further questions at any given point in time, you can reach our Investor Relations team. Thank you very much and look forward to hearing from you in any of your conferences or in the next quarterly update meeting. Thank you so very much.

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