DCB BANK

DCB Bank Ltd. Q3FY2015 Earnings Conference Call

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Management Participants:

Mr. Murali M. Natrajan – MD & CEO, DCB Bank Ltd.

Mr. Bharat Sampat – CFO, DCB Bank Ltd.

Mr. Sridhar Seshadri – Financial Controller, DCB Bank Ltd.

Mr. Rajesh Verma – Head, Treasury, DCB Bank Ltd.

Mr. Atal Agarwal – Head, Corporate Banking – Financial Institutions, & Investment Banking, DCB Bank Ltd.

Mr. Gaurav Mehta – Head, Marketing, Investor Relations & PR, DCB Bank Ltd.

Ms. Meghana Rao – Head, Service Excellence, DCB Bank Ltd.

Moderator Ladies and gentlemen good day and welcome to the DCB Bank Limited's Q3 FY15 Earnings Conference call. Joining us on the call today are Mr. Murali M. Natrajan – MD & CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you, Sir.

Murali M. Natrajan: Thank you. Good afternoon every one and thanks for joining this call. I have Mr. Sridhar Seshadri who is our Financial Controller, Mr. Bharat Sampat who is the Chief Financial Officer, Mr. Rajesh Verma who is the Head of Treasury, Trade and Cash Management, then I am joined in with our new joinee Mr. Atal Agarwal who is Head of Corporate Banking, FI and Investment Banking and of course we have Mr. Gaurav Mehta who is our Relationship Manager for Investors and Marketing Head and also Ms. Meghana Rao.

So what I am going to do is, see we have already posted the Q&A in the website, I hope all of you had access to it; the investor presentation is also available. A lot of things on that is self-explanatory, so I would straight away instead of spending time on the commentary, I would straight away go to questions so please ask your question we have about 45 minutes and we will take as many questions as possible in the 45 minutes call. So operator you can open the line for questions.

Moderator Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Yash Mehta from Equirus Securities. Please go ahead.

Yash Mehta: Just wanted a couple of explanation one was on the treasury income and the income from sale of investments has jumped significantly this quarter.

Murali M. Natrajan: Okay. I will ask Rajesh to explain, he is our Head of Treasury. We have approximately Rs. 8 crores of treasury income which is over and above the usual run rate this quarter, so over to Rajesh.

Rajesh Verma: This year as you know the interest rate on the government borrowing have started softening, so as a result of which it has started throwing opportunity for Treasury Operations so in-anticipation of this rate correction, we have built up some position in our Trading portfolio and we have over a period of time we booked some profit on this in this portfolio. Any specific information you want then I will give you.

Yash Mehta: Simultaneously the Investment book has increased and as we built is fresh position which could give more built up?

Rajesh Verma: We have built up in fresh position because we clearly saw there is an opportunity coming up in the last quarter, so we built up some positions purely for the purpose of trading and when the opportunity came then we had realized our gains.

Yash Mehta: If I understand correctly we still have a sizeable book of such?

Murali M. Natrajan: I don't know if you want to call it sizeable book.

Rajesh Verma: It is a very small trading book and it is dynamic in character it is not like starting we are holding it and forever. So we keep on building a book as sensing opportunity and if we do not see opportunity in next couple of days then we liquidate also. So it is purely for the purpose of trading.

Yash Mehta: Right. Generally Sir on the tax rate so what is the guidance that we were earlier expecting 18% for the full year for the balance period?

Murali M. Natrajan: Bharat Sampat is the best person to comment on tax rates and we can only give you some estimates, as it's very difficult for us to give you too much of accurate number. So Bharat.

Bharat Sampat: The effective tax rate is at 15% for the year so marginal difference from 18% to 15% depending on the projection. 18% which we had mentioned was at the end of first quarter where nine more months were to go. Then as we have gone ahead down the road we have revised our estimate, it is at 15%.

Yash Mehta: So next year we will be paying full taxes or tax rate would be 33% or should be lower than that?

Bharat Sampat: Next year it would be full tax rate 33%, we may have minor tax breaks here or there but nothing significant.

Moderator Thank you. Our next question is from the line of Karthik from Espirito Santo. Please go ahead.

Karthik V: Couple of questions. The first one is clearly you seem to be investing in the franchise by building up the branch network and the employee force. One way in which that is reflect to is that the core underline cost to income ratio if you exclude treasury it is sort of showing an uptrend. Is that a right reading or should we just focus on the cost to income ratio in the way that you usually reported?

Murali M. Natrajan: So the way we are measuring I will tell you, hope that helps you. The way we do that is we have taken approximately about 90 to 95 branches as the base level of branches and then we started measuring all the branches that we have put in the last 18 months or so, financial year by financial year as to how they are performing. The way we are looking at it is that we are expecting branches to breakeven in 18 to 22 months and reach a cost income ratio of 50-55% in 36 to 39 months. So we are tracking branch by branch the Balance Sheet, the P&L including any allocated cost, etc. So, what I have to comment on is, if I take out the new branches that we have added in the last 18 months or so which we are tracking separately the underline cost income ratio is definitely coming down. When you overlay the new branch cost on it the total cost income ratio seems to be going up. Of course there are other moving parts like one off treasury income that happened this quarter or some tax benefit that we got in the first quarter, etc. In summary the core cost income ratio is coming down but when you add the new branch cost to it, the cost income ratio seems to be slightly moving up.

Karthik V: Okay. Just an extension to this question while you have already mentioned in the Q&A document that as these branches stabilize the CASA would improve to about 25% usually one of the trends that we seem to observe banks that the overall CASA growth is in line with the branch growth. While it is reflective in your Retail Term Deposit growth which is again 30%. It is not really reflected on your CASA number.

Murali M. Natrajan: So what would be an example of a Bank like that?

Karthik V: Most banks.

Murali M. Natrajan: Give me an example because, I am just trying to understand your question.

Karthik V: Let's say Federal Bank.

Murali M. Natrajan: Federal Bank CASA ratio is going up in line with their…

Karthik V: Savings deposit growth is in line with the branch Deposit growth.

Murali M. Natrajan: Okay, so our savings rate growth is approximately 18% year-on-year. So if I look at that timing of the branch network because if I put three branches in the last quarter I do not think they have got that act together to be able to build their CASA so quickly. But if I look at branches which are 6 or 12 months old there is lot of momentum. So, I guess a lot of branches of Federal Bank if I am not mistaken were put two years ago, they made a substantial branch expansion about two years ago.

Karthik V: Let me rephrase this question Sir. Why is it that the Retail Term Deposit momentum is so strong while is not reflective on the CASA momentum?

Murali M. Natrajan: The Retail Deposits works on absolutely different key driver, the key driver for Retail Term Deposit is pricing. Whereas the key driver for CASA is you have to work on several products. So, you want to have a separate product for people who need more cash type of transaction, you need a separate product and it is a little bit of difficult sell. Especially if you are bank which is not so well known or if you are not a bank which has got very strong brand it is slightly difficult sell and we are concentrating on self-employed segments where it is more of a one to one selling unlike like a Corporate sale, Corporate salary account where you can a lot of accounts all together. So, I would say that in our CASA growth I do not see it as offline from the growth of branches but I do see that as the branches mature because when I look at the mature branches in some of the new or old cities, I find CASA growth to be much stronger in those branches.

Karthik V: And finally Sir the initiatives around the fee income especially, the non-funded income stream.

Murali M. Natrajan: Yes. So, what would you like to know?

Karthik V: What are the initiatives and how is the progress?

Murali M. Natrajan: The progress is quite good I think, the core fee income is going up steadily I think we have given a breakup of that in our investor presentation. The areas where we have seen some traction on fee is not in any particular order. One is we are now seeing some traction in FX income, we are seeing some traction in ATM fees, we are seeing traction in processing fees obviously in line with our growth of portfolio, and we are also seeing improvement in trade income of our SME book. We are re-energizing the whole Banc assurance and Mutual Fund channel, we are very clear that we would sell product which are safer for the customer in line with the customer profile that we have. So we are re-energizing the whole team in terms of certification, training, etc. So I should see some traction on that as well. So we are pretty confident but that is an area where we have not done if you compare with other banks, we have not done too well. But it is work in progress.

Karthik V: And Sir last question from my end. One of these, there has been couple of changes like credit value adjustment factors and couple of other regulatory changes which actually let to an increase in the risk weight assets for banks over the last few quarters. But for us that does not seem to be reflected in the numbers.

Murali M. Natrajan: I will ask Bharat to comment on this

Bharat Sampat: Ours is a retail-retail franchise and secondly off Balance Sheet is not so heavy a component which reflects in our lower fee income, whereas for others the off Balance Sheet component is very high and the major moment comes in Risk Weighted Assets from there.

Karthik V: Okay, so all the regulatory impact was more focused on the off balance sheet side is what you are saying?

Bharat Sampat: I am not saying regulatory impact was focused on off Balance Sheet sides but, off Balance Sheet has a greater impact.

Karthik V: All right, I will come back in the line.

Murali M. Natrajan: We are calculating the Risk Weighted Assets as per regulatory norms. So what Bharat is trying to say is that, if you do not have too much of off Balance Sheet item, then may be the regulatory impact is not that much. So as far as we are concerned we have calculated it as per regulatory guidelines.

Moderator Thank you. Our next question is from the line of Jignesh Shial from IDBI Capital. Please go ahead.

Jignesh Shial: Many questions already asked. I just want to understand, your CV portfolio is gradually, I am not saying aggressively, gradually is growing up. So what kind of portfolio now we are building because we already had problems and previous, so now what kind of CV portfolio are you building in?

Murali M. Natrajan: If I look at problems in the past, the Bank has had problems in almost every portfolio, hopefully the portfolios that we are creating now should not have a problem. Commercial vehicle, our focus is, we used to rely on buying portfolios for getting priority sector lending, we used to buy portfolios from Magma, Shriram, etc. Those used to come at very low rate and were a bit of a damage to our NIM and P&L. Since we had some learning on Commercial Vehicles we said that why not we in a very systematic manner create our own Commercial Vehicle portfolio, we do not have to try and grow this portfolio in a very big way. But if we can fill up some gaps in the PSL requirement through Commercial Vehicles that would be quite useful, that is what we thought and we started it is almost now two years since we started. The portfolio is almost 80-90% PSL, it has better yields than what we would have had if we have bought this portfolio, and the portfolio quality also has been quite okay because we are not trying to push the envelope on this to try and grab some huge market share. Having said that, if the environment was to improve and commercial vehicle it seems like some results like Ashok Leyland and all seems to indicate that there may be some uptick. We may see some uptick on this portfolio as well but again we will be very controlled and very measured in this category.

Jignesh Shial: Perfect, thanks Sir. Secondly, your gold loan portfolio is also close to 1%. So what kind of traction are we seeing or what kind of business are we actually developing here on the gold loan side.

Murali M. Natrajan: Almost every branch gold loan, CASA, the Retail Deposits these are products that are almost ubiquitous to all the branches. And we do Retail loans that rarely any loan crosses Rs. 5 lakh or maybe Rs. 6 lakh kind of average ticket size. The yields are better than some of the gold loan companies so therefore customer kind of prefers Banks. Our LTVs are pretty much in control. Once in a while we will have to make some margin call in case there is any fluctuation in price but we have not seen any great NPA or losses in this category. Some loans become NPA in one month and next month it gets automatically corrected as we make our collection calls. So what we see it as we see it as an integral part of our offering from our branch network. And there is a separate sales force, when I say sales force means frontline force which focuses on servicing these customers.

Jignesh Shial: Will this be in Agri gold loans or personal gold loans?

Murali M. Natrajan: In metro this will not be agri, in some of the semi-urban or rural some of the loans will be Agri so of course in cities like Delhi, Mumbai and all it cannot be Agri.

Jignesh Shial: Okay. And lastly just quickly on this, although on margin you always generally remain very moderate but the numbers actually coming very decent. So how the margins are going to shapeup once probably the interest reversal starts happening and what kind of pressure you are seeing on the margin side if you can just clarify a little bit on that?

Murali M. Natrajan: I have given a very detail explanation on margin in the Q&A that we shared along with the result details and is been uploaded on our website. The problem with NIM is, there are so many moving parts. I wish we are in control of all the moving parts to exactly tell you as to how the NIM would be. Generally, our idea is to make sure that our cost of funds does not go out of control, our NPAs do not go out of control, and we make sure that PSL guidelines are met. But at the moment what it looks like is, first of all, A) it is going to be difficult for us to meet the direct agri in weaker section. Many banks miss it we also might miss out on that so that might actually attract RIDF and NABARD-type of bonds which will be low-yielding that will have some pressure on NIM, B) We have actually tried to reduce the gap through longer-term term deposit as we are funding Mortgage book. So which means that if interest rate were to drop suddenly or even mildly our loan gets reprice faster, our term deposit will get repriced later. So, I expect NIM pressure to continue for another six to nine months. So exactly what the NIM would be range I am not sure because each time I give a range we seem to be doing slightly better than that so I stopped giving any range, I just say that we will try to maintain the NIM but the pressure is very much there on NIMs.

Jignesh Shial: Next branch expansion phase, which areas and geographies actually DCB Bank wants to grow now if you can just give me some idea.

Murali M. Natrajan: I will refer back to our Q&A which are the states we are focusing on branch expansion. So if you look at the section growth plan, the areas that we are focusing on are not in any particular order but just in alphabetically we have put this here. We are focusing on Andhra Pradesh, Chhattisgarh, and Delhi, Karnataka – we have very few branches in Bangalore we are starting to test there to see whether we can be successful. Gujarat – we have lot of branches and we recently opened a branch in a place called VV Nagar just outside Anand. It is a branch focused only on NRI deposits. Our NRI deposits have crossed Rs. 1,000 crores, we are quite encouraged by the opportunity. We are opening branches in Haryana. In Madhya Pradesh we have quite a few branches and we have spotted some more opportunities there. So except for North East and Jammu & Kashmir which we may go to at a later date we are focused on all these states for opportunities. And we are trying to be in locations where the competition is not stiff, where not more than one private bank is operating in that area.

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

MB Mahesh: Just a couple of questions. One you had indicated on the margin side the pressure coming on the cost side. See you have a deposit rates which is very skewed on the higher sider, as in you are giving interest rates on the Term Deposit close to about 9%-odd even for less than 12 months. Just trying to understand if a wholesale rate was anyway cheaper at this point in time why there has not been any shift on that side of the book.

Murali M. Natrajan: So what I am saying Mahesh is that A) We are aware that there are opportunities for taking Wholesale Deposit and may be lowering the rate. However, as a Bank we have chosen that 70% of our Deposit minimum should be in Retail. B) Plus these are the Deposit composition is something that is closely watched by Reserve Bank of India especially for a bank of our size. So we had been really watching the top 20 depositors, their Bulk Deposits, etc. C) We found that when we do Retail Deposits say 2 crore Deposit, 1 crore Deposit, 50 lakh Deposit there are cross-sell opportunities that comes later whether in the form of CASA or something else which does not happen at all in Bulk Deposits. Having said that, what we do is whenever we see an opportunity to increase loans and the loans are going faster than Deposit, we resort to either CDs or Bulk Deposit and then replace it later with a more stable Retail deposit. That is the way we have been functioning almost last three to four years.

MB Mahesh: Sure. Second question is on the Mortgages book – at least the growth has started to accelerate in this book again so if you can just broadly give some few colors specifically what is the kind of disbursements that we are doing today, and if you can give some mix from a geographical standpoint where is this portfolio and a little bit on yields and LTV that would be great? And finally also along with this if you look at the NPAs, this NPAs in the Mortgage book is growing at almost at a similar pace while from ratio perspective it is not high just trying to understand how are you looking at the growth in the NPAs as well.

Murali M. Natrajan: At the moment we have no concern on the NPAs on Mortgagees. In all these years usually Mortgage one should worry only if you are making any mistake on valuation of the property or your papers that you have taken is a fraud paper like color photocopy of the document and all. Usually you do not lose money in Mortgages because customer respects their self-occupied property and settle with us. The loan growth and NPA I do see some one or two loans become NPA and then they become regular later so there has been some movement. The portfolio has grown quite well in the last three to four years, so you should expect some uptick in NPAs because that is the nature of any portfolio growth in Retail, but I have at the moment no alarm or concern on that portfolio. Regarding LTVs, our LTVs are usually around average of 70-75%. We do not do big ticket loans I have explained that in the call previously also. We restrict loans which are greater than 3 crores. Our average ticket size is about 45-50 lakhs and we try to keep it as Retail as possible. The reason why you see some amount of uptick of the Mortgage book is because we have added people, we have added branches so there is a contribution coming from even some of the new branches. So I am expecting that the productivity that we are wanting from these resources come in, we should see further momentum in this business.

MB Mahesh: And from a geographical standpoint which are your critical markets in your Mortgage book?

Murali M. Natrajan: I would say that Mumbai when we started three years ago was a very critical market. Now almost seven to eight markets are giving big amount of contribution but even in Agri Inclusive Banking, small locations have started to contribute. So, I would say about 15 odd locations contribute 80-85% of our loans.

MB Mahesh: On the LTV front. LTV at portfolio level how much you will be adjusting for the repayments or do you calculate that number?

Murali M. Natrajan: It will be probably even less than 75%.

MB Mahesh: Correct. Any rough indicative number that we have?

Murali M. Natrajan: I don't have that readily Mahesh. I can check with our credit and come back to you, but it is pretty good, in fact the higher the ticket size lower the LTV would be because we cap the LTV for higher ticket loans, so I will find out the average. Smaller ticket size will have slightly higher LTV, more closer to 75%.

Moderator Thank you. Our next question is from the line of Saurabh Dhole from Emkay Global. Please go ahead.

Saurabh Dhole: I have this one question on the investments. I think earlier Sir had said something about liquidating some of these investments after this fall in the G-Sec rates. So, I would like to know since in the last one quarter your investment book has still grown by about 700 crores I just wanted to know what kind of new investments have been picked up?

Murali M. Natrajan: Rajesh Verma would comment on this.

Rajesh Verma: If you look at last December our investment book was Rs. 3,340 crores. And in December it has become Rs. 4,033 crores. So if you look at our trading portfolio is available for sale and the HFT portfolio both we have increased slightly because we saw the opportunity over there and we build up our book there. And these are the trading portfolio and we have taken position and liquidated also at the same time. So it is not like long-term portfolio we have built up and then we had liquidated both. And if you also see that some non-SLR book has come in the form of investment for the PTCs. And it has gone up from Rs. 58 crores to Rs. 203 crores. So around Rs. 150 crores increase in value has come in PTCs and rest has come in the investment in these trading portfolios and some of the SLR has gone into HFT portfolio as well.

Murali M. Natarajan: So this PTCs are usually done for priority sector lending so these are all some mosaic structure where we usually are short of direct agri and weaker section so if we get an opportunity to do some PTCs for completing our direct agri and weaker section we do that. Even last year we would see this in our book. These are all short-tenure items usually runs out in about seven to eight months time.

Moderator Thank you. We have the next follow-up question from the line of Yash Mehta from Equirus Securities. Please go ahead.

Yash Mehta: Sir if you could provide us with the breakup of provisions and why the number has gone up?

Murali M. Natrajan: Okay. So let me explain and Bharat will give you the details. Provisions if you see from last year to this year it has gone from Rs. 10 to Rs. 18 crores. Out of that Rs. 4 crores is because of the provision made for restructured advances and Rs. 4 crores we have made for specific standard asset. So even for standard asset we have taken another Rs. 4 crores of provision. So that difference is the Rs. 8 crores, the provision that we have made for NPA – last year it was about Rs. 5.7 crores and this year it is about Rs. 6.7 crores so there has not been any difference in that. Rs. 8 crores is explained by these two items – provision for specific standard assets and provision for restructured loans.

Yash Mehta: Alright. So of the Rs. 18 crores the Rs. 8 crores would be explained by these two items and then you have another Rs. 7 crores that is your NPA provision and the balance?

Bharat Sampat: Rs. 10 crores to Rs. 18 crores, over and above the base what was there last year, the increase is Rs. 4 crores specific provision for standard asset and Rs. 4 crores is due to assets which got restructured during the quarter. Over and above these Rs. 8 crores around Rs. 7 crores is provision for advance sales and rest is floating provision, unhedged foreign currency, and provision for standard assets.

Moderator Thank you. Our next question is from the line of Giriraj Daga from In SKS Capital. Please go ahead.

Giriraj Daga: My question is related to like you said margin pressure will be there for six to nine months, will you be able to quantify that may be ballpark number like 10 bps, 15 bps or 20 bps kind of a number?

Murali M. Natrajan: Difficult to quantify obviously we do not want the margin to drop. Obviously that makes our life more difficult, but I am just saying that I am seeing pressure on loan pricing. Competition has become very tough and you can see that our yield on loan have come down a bit and term deposits usually get repriced over a period of six to nine months depending up on the tenure that we have whereas loan repricing especially in SME and all will start to impact as soon as there is little bit of drop in the price. So we would try not to have a major drop in the NIM but we see the pressure.

Giriraj Daga: And my second question is actually related to like what amount of the book is related to working capital?

Murali M. Natrajan: Working capital, almost 80% of our SME is working capital and almost 50-55% of our Corporate loan book will be working capital.

Giriraj Daga: Are you seeing some amount of less withdrawal from the available room window because since as the commodity prices are corrected so there is a lesser need for the working capital?

Murali M. Natrajan: We see less momentum in new demand for expansion and all both in Corporate and SME, but both books are very small for us so I am not sure that it is actually an indicative because our risk appetite may also dictate whether we want to participate in those opportunities or not. So, I am not so sure I fully understand your question but, as far as I know I have not seen any unusual activity in both Corporate or SME.

Giriraj Daga: And on the industry side would you like to comment or something in terms of working capital book reducing for the entire industry. Even let's say top oil companies also even their working capital deployment will become almost half.

Murali M. Natrajan: I am not so sure, you may need to talk to someone else for that answer.

Moderator Thank you. As there are no further questions from the participants. I now hand the floor back to Mr. Murali M. Natrajan for closing comments. Thank you and over to you sir.

Murali M. Natrajan: Thanks a lot. Please accept my sincere apology for the line getting disconnected twice. If anyone has not been able to ask their questions, please feel free to write to us and we will be more than happy to respond to you. We look forward to talking to you in April or May whenever we finish our full-year result. Thank you very much for your support.

Moderator Thank you sir. Ladies and gentlemen, on behalf of DCB Bank Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.