DCB BANK

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May 01, 2025

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

Scrip Code: 532772

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

NSE Symbol: DCBBANK

Dear Sirs,

Re: Transcript of the Earnings Conference Call held on April 25, 2025

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the Earnings Conference Call held on April 25, 2025 with respect to the Audited Financial Results of DCB Bank Limited ("the Bank") for the quarter and year ended March 31, 2025. The same has also been uploaded on website of the Bank and can be accessed at the link given below:

184. DCB Bank Q4FY25 Earnings Call Transcript April 25, 2025.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For DCB Bank Limited

RUBI CHATURVEDI
Digitally signed by RUBI CHATURVEDI
Date: 2025.05.01 20:56:22 +05'30'

Rubi Chaturvedi
Company Secretary &
Compliance Officer

Encl: As stated above

DCB Bank Limited

Q4 & FY25 Earnings Conference Call

April 25, 2025

MANAGEMENT: **MR. PRAVEEN KUTTY – MANAGING DIRECTOR AND 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

Moderator: Ladies and gentlemen, good day and welcome to the DCB Bank Limited Q4 and FY25 Earnings Conference Call. Today we have with us from Management, 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Praveen Kutty, Managing Director and CEO. Thank you and over to you, sir.

Praveen Kutty: Thank you. Good evening, everybody. I will give you a very quick brief on the Q4 financial performance of DCB Bank. In continuation of the trend of growth momentum, we have seen a balance sheet growth of 22% for the year. Deposit growth was a healthy 22% and the loans growth was 25%.

This growth was achieved with our savings account growth being 19% and our top 20 ratio declining over the quarter to 6.61%. But it is not all about growth alone. From a NIM perspective, the NIM is stabilizing at 3.28% from 3.29% in the previous quarter. The bank had a total fee income of Rs.751 crores for the year and the core fee income for the quarter was never before high of Rs.161 crores coming in on a previous high in the previous quarter.

The efforts the bank has put into technology and productivity enhancement, it started to show signs of results. Our cost to average assets for the quarter came in at 2.54%. For the first time in four years, the growth rate of operating income over operating cost, we saw that the jaws were widening. The growth rate of the operating income was higher than the operating expense. In an environment which is challenging, I am happy to share with all of you that the provision cost has come lower for the year.

We have seen that we have come at a full quarter provision cost of 0.33% on average assets and we have seen that the slippage ratios in Q4 have come down at the lowest in the last five quarters. Or the bank always has had a healthy recovery over fresh slippage. Q4 has 83% of the fresh slippage.

You have seen that the recovery to slippage ratio is at 83% for Q4. We closed the year with a gross NPA just under 3% at 2.99%, much lower than what we started the year with at 3.28%. There have been no write-offs during this particular quarter.

Net NPA comes at 1.12%, one basis point higher than what we started the year with, despite inclement weather with regard to unsecured lending which we do not do too much and microfinance loans where we do in as much as we need to do agri-PSL and small farmer, marginal farmer, PSL categorization.

The PCR is healthy at 74.48. All in all, we are reasonably happy with the growth momentum, the improvement in portfolio quality and also the path that we have set in terms of cost and operating leverage. It sets a platform for the next few quarters to come. That's my opening remark.

Happy to hear questions from you. Happy to hear thoughts from you. So operator, if you can open all the lines and in sequence, if you can have the queries and questions, we are happy to take them.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Akshat Agarwal from SMIFS Institutional Research. Please go ahead.

Akshat Agarwal: Good evening, sir. Thank you for the opportunity and congrats on a good set of numbers.

Praveen Kutty: Hi, Akshat. Good to hear from you.

Akshat Agarwal: Sir, my first question is on NIM. It's great that you have been able to achieve a stable NIM trajectory with just one bps decline. Can you help us understand how are we thinking about the margins from 4Q exit time of 3.29% to a possible path towards business model NIM of 3.5% to 3.65% next two years? And is the strategy of moving from retail loans to business loans still in place, which could offset the rate cuts impact at least to some extent?

And was this a driver of 10 bps yield on advances expansion this quarter? That was my first question. So I will ask a few more.

Praveen Kutty: Thank you. So, on the NIM, what I want to tell you is that while there is NIMs compression and to some degree of NIM stabilization, this is not exactly where we want to be. But to get to where we want to get to, I don't think we will be moving away from our strategy of secured assets, granular deposits and granular loans.

So that's sacrosanct. So within that particular framework, there has been some work which has already happened on immunizing the impact of a rate cut through reduction of savings account rates. So to some degree that we have kind of absorbed the hit on account of repo rate cuts.

There is work happening on reducing the cost of deposits. The bulk rates have come down quite substantially since March 31st. On retail term deposit rate also, there is a reduction, not very high, but there is definitely a reduction which is being affected.

So on the cost of funds, there is some bit of action that has happened and I don't have to tell you. The impact of that will happen over a period of time. So that's what's happening on the cost of funds mode. On the yield, we have been consistently tweaking our fresh sourcing within the framework that we have towards high yielding product.

We are pretty much happy with the LAP to home loan ratio in mortgage now as compared to what we were a year back and also as to where we were about a quarter back. So there is a momentum shift that is happening.

I would tend to think that going forward, how we are going to address this is that the percentage growth of co-lending based products where the yield is slightly subdued will be actually on par with the balance sheet, whereas we could have the organic book growth contributing significantly more than what has been contributing till this time. So there is a product mix in terms of organic versus inorganic, and also within organic, higher yield products is where we are focusing upon. The journey which we have taken about at least 4-5 quarters back, that is continuing and that momentum is there.

Lastly, just to repeat, are we going to get into unsecured lending or higher yield product outside the framework of what we have? Very, very unlikely. Does that answer your question, Akshat? Hello.

Moderator: Mr. Akshat, we are unable to hear you.

Praveen Kutty: Can we go to the next caller then?

Moderator: As there is no response, we will move to the next question which is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: Hi, sir. Thanks for the opportunity and congratulations on a good set of results.

Praveen Kutty: Thank you, Aditya.

Aditya: So my first question is on Net Interest Income. So you answered it partly in the previous question, but if I could understand, so NII growth has been trailing advances growth for some quarters now. We saw 15% growth last quarter, but this has dropped to 10% this quarter. So when do you expect to see both of them converging considering the rate cuts also being undertaken by RBI?

Praveen Kutty: So in a way, we are happy with the trend line. The aberration or the impact that you see of 15% coming down to 10%, some part of it is definitely due to the rate cut which you alluded to. While we have tried to address that through lower cost of fund, obviously, the impact on cost of fund will trail the repo cut action on an ongoing basis.

So when would the Net Interest Income match with the top line growth? The effort that like I told you in the previous question, the effort that we have taken on the cost of fund will be a slow burn fuse, whereas the yield improvement within the framework that we are currently doing, you will be actually seeing the benefit of that happening. I just want to take you through a trend line, which will give you some indication of how the momentum is going.

If you were to look at the growth in terms of balance sheet growth at 22% and 15% is the increase in net interest income. This was 20% last quarter, but if you were to see the trend, and if you were to extend it to March'24, you are moving from single digits in March'24, June'24 and September'24 to 15% and 10% in the last two quarters. And the 10% impact is primarily brought in by the repo cut.

So from a trend perspective, underlying perspective, we are happy with the way the momentum growth is happening, and the yield and cost of fund activity that we are undertaking would help us get into a convergement mode more than where it is today.

Aditya: As per everyone's expectation, we are expecting one or two more rate cuts. So this convergence of loan growth and NII growth, this would have a lagging effect. So this would take a little bit more time to converge because of these rates cuts. Would that be a fair assessment?

Praveen Kutty: That would be a fair assessment, but I have to tell you, if more rate cuts were to happen, our ability to pass on that by reducing the savings account, etc will be limited. So as of now, its okay. But any future rate cuts, the ability to reduce instantaneously the cost of fund by reducing the savings account rates, that option would be limited for us.

Aditya: So consequently, I targeted ROA of 1%. So NIM was a big piece to help us get to that 1% ROA. So would it be fair to say that that ROA target would also get delayed? Or do we have any other levers in the P&L to offset that?

Praveen Kutty: I have a look at two levers or maybe three other levers which are there. But we have a fee to average assets of 1.18 for the quarter and 1.09 for the full year, which is higher than the indications that were given on what our fee income will be. Within the fee income also, the core fee income is a never before high and consistently that has been on a higher level. In our mind, that's a lever which had remained stable at a very low level for a very long period of time. But let me take you through the last five quarters of core fee income growth, starting from March' 24. Rs.118 crores, Rs.114 crores, Rs.139 crores, Rs.141 crores, Rs.161 crores.

Last three quarters have been our highest ever and the next quarter has been kind of eclipsing the previous quarter. So I am not even talking about the total non-interest income. We are talking about the core fee income only. Similarly, on non-interest income, 136, 143, 205, 184, 219. To my mind, that is some level of consistency. So that lever is something which we believe we have lifted from the averages of the last two years or three years if you were to see.

And there is enough belief within the system that the momentum will continue. The second point which we need to consider is one of provisions. As a bank, we have always said that our model sustains 45 bps to 55 bps of provision cost. While I myself have said that, that is the way it would be. We are closing this year with close to 31 bps of credit cost and the quarter with about 33 bps of credit cost. So even in an environment where MFI loans that the bank has is going through its problems, we cannot deny that.

But the fact is, despite taking accelerated provisions, the overall provision number is healthy at 33 bps for the quarter. So that definitely is a second lever which is working. The third lever is obviously when NIM compression happens, what can you immediately do to curtail the impairment issues that we have? And that evidently is cost. There has been a consistent reduction in our cost to income as well as our cost to average assets. Cost to average assets for the quarter has come at about 2.54%.

The go-to which we have spoken about albeit in a yearly sense is about 2.5%. So these are within touching distance of where we want to be. Fee to average asset is higher than what we had predicted. Provision cost to average assets, we are lower than what we had projected ourselves to be to reach a 1% ROA. Cost to average assets, we are at 2.54% for the quarter. 2.5% is where we want to be. So in one area in the NIM, there is an impact. But on the other three, the bank has been punching above its normal averages, which has been demonstrating for the last few years.

Over the last five quarters, you can see there is a visible movement in a positive way in all the three lines across the last four quarters…

Aditya: Sir next question is – was on loan growth. So yes, our loan growth has been around 24%-25% this year, while our ROA is around 12%-13%. So, sir by when do you expect you will need to raise capital considering our current capital adequacy? And secondly sir, secondly our share price is currently below our book value. So if we raise capital at current valuations, it would be diluted to existing shareholders. How do you plan to address the same?

Praveen Kutty: I just want you to look at our CRAR. In a year where the bank has grown its advances by 24.7%, the capital utilization during the same time period, if you were to see our capital adequacy ratio has moved from, Tier 1 has moved from 14.53 to 14.30, 23 bps utilization for a 25% advances growth. And even now, obviously, if you were to look at 14.3, it is well above what we believe is a go to capital kind of mark.

On a total capital basis, you are at 16.77. So there is enough in the tank for the growth ambition and consistent growth of a similar nature. If we can continue to do it, we are very cautious about the capital consumption, which is why your RWA is well within 50%. I mean, well below 50% also for the last few quarters. So yes, would you want to raise capital? Yes, at some point in time, you have to raise capital. Would you want to raise it at this particular level?

Perhaps not. We have three consecutive good quarters under our belt. Maybe we will have a few more consistent good quarters under the belt when we go to the market. And we probably will go to the market at a rate which is more reflective of the intrinsic strength of the bank than what it currently is today.

Aditya: Understood, sir. Thank you, sir, for those many questions. I will come back in the queue.

Moderator: The next question is from the line of Apurv Parikh from Equirus Securities.

Apurv Parikh: Sir, I think you already touched upon and if I heard you correctly, you said on co-lending that the percentage growth of co-lending products would be subdued as compared to the balance sheet growth.

Praveen Kutty: Right. As compared to the current, like next year, the co-lending growth will not be at the same level as the previous year.

Apurv Parikh: Okay. So can it be considered that does it have some bearing of the current RBI guidelines on the co-lending where a weighted average rate should be applied? And how, and subsequent to the guidelines coming into place, how do we see the whole product dynamics for us or the profitability getting impacted? Is it because of that guideline that we are going slow on to the co-lending or it is just that we want to grow organically to organic capabilities?

Praveen Kutty: It is basically NIM, right? Look at it this way. If you were to do a loan originated by somebody else, you necessarily have to give a sacrifice. And that sacrifice usually is net interest margin. So and we make our budgets pretty much early. And there is not a reaction to what RBI has come up with. Where the strength of the bank is in its origination in this portfolio quality, while co-lending helps.

The way we look at co-lending honestly is that you get into a segment that you do not otherwise get into, you get into a geography that you do not otherwise get into, or you get the product that you do not otherwise get into. It's a very good petri dish to do your experimentation and to figure out what works, what does not work. And it also helps boost up some revenue in that sense, specifically if your quality, the credit underwriting template is good.

So that's the reason why we do co-lending. It helps us understand things very well on a risk sharing basis. And it also helps the overall growth. But to depend upon it for your balance sheet growth may not be a great idea because while it is very cost accretive, it may not be great in terms of NIM. So philosophically, we had decided in a budget also that we would grow at the same rate as what we want to grow the balance sheet, not more.

Seasonal variations may happen. There will be some quarters will be growing higher, some quarters will be growing lower. But over a period of the year, the inorganic growth should be ideally in line with the organic growth.

As regards to the RBI guideline, I think we should wait for the final guideline to come in before commenting on it. Let us see what it comes through. If you are asking my personal opinion, I think anything which benefits the customer is beneficial for the lending institutions. So it will expand the market on the blended rate. It is a good thing to happen.

If that will allow lots more of customers to come into the organized fold, and maybe I am talking only from a gold loan odd perspective, it will help much more customers to come in on board and the customers also can take the benefit of a blended rate. That is the way I personally see it. But honestly, let us wait for the final guidelines to come in before we comment on what really would happen on the implementation of the final guidelines.

Apurv Parikh: Sure, sure, sir. And the second question is on the NIM. So obviously, we are into a trade cycle. And as earlier gentlemen kind of suggested that market is expecting one or two rate cuts to happen. So, we brought the, I just want to understand that how the ROAs and obviously you explained the levers to a certain extent.

But if you look at that you're already taking a 25 basis cut on your savings account. But still, obviously, you mentioned that retail term deposit rate cuts might be in place. But up till this date, I don't think that they have been announced. While all the other banks, they've already taken a retail TD cuts on to this and then all the larger banks.

And considering the fact that TD is an integral part of maybe our liabilities acquisition process, how do you see and as you already mentioned that there might be limited scope of reducing savings if the repo cuts are consistent. So how much -- so what is the strategy we be going for the year on the TD acquisition? If this rate were to absorb into the NIM protection -- what is the NIM protection will be the priority?

Praveen Kutty: So first of all, out of a 50,000 crore book, there is only a certain segment of the book, which is EBLR linked and floating. So the impact is there, of course, it is there, but it is limited to a sliver of the portfolio or not to the entire portfolio. That's point number one.

Point number two, we have already made rate cuts on our savings account. Otherwise, why would the NIM fall only by one basis point in quarter four? There's some immunization actions that we've already taken. Will we continue to drop the savings account rate just to accommodate any future repo rate cuts? Very unlikely.

But what has happened is that we have reduced our non-callable retail rates, the bulk term deposit rates have already been reduced, which has got immediate impact. Retail is a slow burning fuse. So any cuts that we do today, you will have a benefit of that coming through over a 12 to 15 month period.

So there is an action plan. There is a game plan on that, which has already been implemented from the time the previous rate cut happened when 650 went down to 625. Will the playbook remain the same for future rate cuts? Obviously not, because there is a limit to which it can bear. The rest will come in when the TD maturities happen.

You will see the, we hope to see the reduction happening structurally. And we are confident that similar growth to what we are seeing will happen. So I don't think growth will have a problem, because there is a conscious southward movements for the deposit rates going forward.

But the key is this, at which point in time will the next set of rate cuts happen? The later it happens, the more beneficial it will be for the bank. The earlier it will happen, the less beneficial it will be for the bank.

Apurv Parikh: Sure, sir. Can you help quantify your maybe floating rate book mix, if that's possible?

Praveen Kutty: I'm not too sure that's public information. So it's not just floating rate book alone. You have MCLR, EBLR, even old BP base rate. So there is a multiplicity, albeit in small quantities. And you also have within that floating and fixed. So there's a whole variety of benchmarks, which are still continuing in the system. But suffice to say that, it is something which the bank monitors is very conscious about but it's not publicly announced.

Apurv Parikh: All right. Thanks. Thank you, sir.

Moderator: Thank you. The next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: Thanks for the opportunity. I joined a bit late. Just to re-come from the first question, did I hear it correctly that you were saying that your margins have more or less peaked in this cycle? And hence, probably, I mean, with the rate cut, next year margins and year after the margins could moderate from the current levels?

Praveen Kutty: Hi, Suraj. So good to hear from you. Let me just tell you what we articulated earlier. The NIM for this quarter comes in at 3.29 as compared to 3.3 for the previous quarter. And during Q4, repo rate cut of 25 bps happened from 6.50, we lowered it down to 6.25. Despite that, we have had the impact. It's not a full impact, but the impact on the book has been about one basis point so far.

Why is it only one basis point? It's only one basis point because it has impacted part of the portfolio and not the whole portfolio. And the second bit is that there are some affirmative actions the bank has taken to ensure that margins are protected.

What were the actions taken? We had proactively reduced some of the savings account rate around the time the rate cut happened so that simultaneously there is a save on the margin. In the future when there are rate cuts, can you continue to do this?

Perhaps not. Or perhaps not to the same degree as what we did earlier. So the stabilization, what we talked about is that if you were to see the trend line of NIM, it was on a downward trend. Now what you are seeing is that it is kind of.

Let me tell you what the NIMs were looking like in the last five quarters. 362, 339, 327, all down. Then 330 and 329. So that's why I said there is a stabilization happening. As far as the future is concerned, the bank is doing two things. We have already spoken to you about what has happened with savings account rates, which got an instant benefit on the cost of funds. And secondly, on bulk rates, bulk deposits mostly are 12-month in nature.

So there has been a fairly cut to the bone on the bulk deposit rates. And on retail rates, on specific retail rates, we have seen a downward movement. But the last part, which is our largest book is a retail book. And we are happy to have a retail book which is that large.

But the impact of any interest rate cuts that we have done and we are going to continue doing in the future will have a slow burning fuse. You will not get the immediate margin benefit of that right away. You will get it as the book matures and rebooking happens. So that's on the liability side.

On the asset side, there is focus on two things. There's a product mix change. If you were to see the last year, we've got almost a Rs.7,000 crores co-lending book. We built up a Rs.7,000 crores co-lending book, roughly about 100% growth in co-lending for the matter. That's not going to happen in the future. We will have a more in line with the balance sheet growth happening on co-lending also.

That's about in line with a doubling of the balance sheet in about three and a half years' time. So that will be the kind of growth rate that we'll be seeing on the balance sheet as well as on the co-lending book.

Where will the incremental growth come from if there is, if a similar kind of co-lending is not going to come? It is going to come from organic products. Organic products by definition have a higher yield than the co-lending book and we believe it will not come with higher incremental costs because those results, those incremental organic loans will come from the existing set of people that we have. That will come from enhanced technology deployment that we have done and also improved productivity.

So it will have a marginal cost impact but not major cost impact. So that's one product exchange. The second product exchange is that there is a needle movement from home loan to LAP. Mortgage is the largest book. Incremental sourcing of home loans is less and of business loans is higher.

Business loans will give you anywhere between 150 to 250 basis points higher yield. So that's a journey we started about five quarters back. We're seeing the results of it now. We're happy with the way things have moved not only over the last one year but also over the last one quarter. So these are the various fixes that we are doing which will help us improve our NIM. Not just maintain but improve our NIM. And how well we execute, you'll get to know over the next two three quarters.

Suraj Das: Sure sir. Thank you so much for the elaborate answer. Sir, on that mortgage home loan to LAP, that journey is still on, right? There is still room. I mean in the sense that probably on the outstanding book your home loan share would be higher versus the incremental disbursement your home loan share is lower, right? So that journey will still give us some benefit in terms of margin. Is that a fair estimate?

Praveen Kutty: There is enough ceiling room available to do more of LAP and less of home loan with the same number of people. There is enough more to do. And while incremental disburses are skewed in favor of business loan, over a period of time you will see the portfolio also going into that particular level.

It has a capital impact, but then you see your risk weight is very conservative at less than 50%. So there is enough, the benefit you get of higher yield really offsets the incremental capital requirement you will have for LAP, which is higher than that required for home loans.

Suraj Das: Sure. And sir, on the core fee, I mean as you were speaking that core fee obviously we have seen sequential improvement for last 4, 5 quarters continuously. Right now I think fourth quarter it is something like 95 basis point as a percentage of your assets.

So the question is how far you can improve it and if there is still room to increase, I mean what are the levers, I mean which products or from which area you will think that the core fee can further improve?

Praveen Kutty: For whatever it is worth, quarter 4 is always a good quarter for third-party distribution and it has been a good quarter for us from a third-party distribution perspective. Having said that, will you be able to replicate Q4 in Q1 on third-party distribution? May not be.

But will it be better than the previous quarter 1? Content to think so, because there is robust momentum that is being built up. So third-party distribution is a very key element. When we have met also we have spoken about engagement being key, overdraft, transaction accounts being key, wholesome banking of meeting all the banking needs of a customer rather than just a product per customer is the key.

So, what we are seeing the beginnings of is that the greater engagement is resulting in greater transaction, is resulting in a higher opportunity for fee income. We haven't even scratched the surface on this, Suraj. I really, think there is more to come. But you are seeing the beginnings of that coming through trade fee income. You are seeing incremental processing fees coming through.

And also there is a structural advantage we got where NIM suffered and fee increased on account of penal interest being replaced by penal charges. But at the end of the day you still have to collect. So you are seeing that momentum happening.

On the non-core fee income, yes, we have had a good treasury year. So, the flip side of the NIM compression possibly is a potentially higher treasury gain if it were to happen. But then honestly our energies are going into ensuring that the core fee income consistency and growth continues like it has for the last 4, 5 quarters, keep that going. That is renewable, that is predictable. That consistency is what we are aiming for.

Suraj Das: Sure. I understand. And the last question, I mean, in terms of this capital raise, I think due to some unfortunate events, the plan got delayed. I think now you are doing the paperwork again. So I mean, do you think this can happen this year or it might take longer?

Praveen Kutty: I am so happy that your window has moved to a year and not a quarter right? Yes. So that activity, that paperwork activity has happened. Possibly. I mean, we are looking at quarter 2 for that incremental money to come in. But what is more heartening is that, look, any business which can grow by 25% with 23 bps usage of capital, I think that is a fairly efficient capital efficient model.

And this includes a proposed dividend also, right? It includes a proposed dividend also. So that is it. Including the proposed dividend, you are talking about 23 bps when you are growing by 24.7% year-on-year.

Suraj Das: Right. Fantastic. Thank you so much. That's all from my side.

Praveen Kutty: Not at all. Thanks, Suraj.

Moderator: Thank you. The next question is from the line of Varun Bang from Bandhan Life Insurance. Please go ahead.

Varun Bang: So firstly, as you start focusing on higher ticket LAP, I think we'll have more competition from larger banks and we can't compete with larger banks on yield. So, how do you find niche areas for ourselves? And secondly, when you when we talk about better yield on advances, would that mean the risk profile of business will also change?

Praveen Kutty: The risk profile will not change. We are conservative. We are proud to be conservative. We really believe that the hallmark of a bank is the ability to manage its portfolio health. So that's a very clear answer. Right. So we don't expect us to dilute credit quality for anything, including NIM. That's not going to happen. So that's one.

Second part is, where is the competitive advantage? More than 50% of our loans that we get and the loans that we lose out in terms of balance transfer happens to NBFCs and Small Finance Banks. It doesn't happen to normal private sector banks. It doesn't happen to big banks, like you said. It doesn't happen, at least in a material way, to public sector banks.

So, 50% of where we get the customers from or where we are customers, we lose our customers to on the asset side or on the instalment lending side is to NBFCs. If that is the way it is, what is the mode that we have? And the mode that we have is clearly, how do we move from a fill it, shut it, forget it kind of product to a customer engagement product? What is it that DCB Bank has which this 50% of the customers or 50% of the competition does not have?

And the answer to that is neither innovative nor mind blowing. It is something which has been there in the industry for ages, overdraft accounts. We are going hard on overdraft accounts as a solution for deficit needs of our small and medium business owners.

Why overdraft? Because our customers intrinsically, instinctively understand interest paid versus interest rate. Because you have the mote of an OD facility, you can charge a higher rate of interest, because the customer can park surplus funds in those particular accounts and enjoy a lower interest cost to himself or herself.

This customers understand very well. We are really going big time on business loans, which are of an overdraft nature. Customers are liking it. They are benefiting from it more importantly. And if we continue on this journey at a similar kind of growth rates over the next few quarters, maybe even years, we will find that as matters stand, the relative white space that we have would continue.

You can compete with the largest of the largest NBFCs, because you have the mote of an overdraft product. So clearly, where is the contested area? What can you do to make it easier for your frontline and for your customers? What is the specialization that you can build in? I tend to think it is overdraft.

The other benefits, since you already asked about it, the other benefits of going in the strategy is that our customer attrition levels get lower. Overdraft creates engagement, which creates transactions, which creates cross-sell benefits, which improve our core fee income, renewable core fee income.

It also shows that the lifetime of the loan, the life currency of the loans with us improves significantly. There are multiple benefits that we get out of this. So I'm glad that you asked the question and we are very clear about it in our strategy of what we are pursuing with whom, so that the competitive advantages come to the fore.

Varun Bang: Got it. And one question on opex. If I see last 4, 5 years, the opex per branch has increased from 2.5 crores to .3.5 crores. So just want to understand what investments have we incurred and what is the right way to look at it? At list while the advances and deposits per branch have seen material improvement, the profitability has not improved because of higher opex per branch. So if you can just help me understand what is the right way to look at it?

Management: You're talking about the overall operating expense?

Varun Bang: Yes. So simple math, total operating expenses divided by number of branch?

Praveen Kutty: That's not necessarily a metric that we look at. So, the way we look at it is there are two big items there. There is an employee expense and there is other expense, mainly within the other expense are technology related expenses that we incur, which have long term benefits. And I want to spend some time on the employee expenses.

If you just spend some time on employee expenses of Q2, Q3 and Q4. If you don't have the figures right there, let me tell you, it's Rs.235 crores in Q2, Rs.231 crores in Q3 and Rs.232 crores in Q4. During this time period, the bank has been growing roughly Q-o-Q 5%, actually more than that.

So what we've done, and I don't know if you remember this, when the Q1 results came out or Q2 results came out in a similar kind of discussion meeting, I had said that the number of people we will have in the bank will not exceed the current levels for the rest of the year, as well as for next year. And we're very clear about that. When we ended the year, we had 11,057 customers which is lesser than this, very customer centric the employee centric. So, 11,057 employees which is lower than the number of employees that we had during the course of the year.

There will be some increase in the current year, but it will still be less than the number of employees that we had, the maximum number of employees that we had in the last year. So this reduction of number of employees, not reduction in growth of employees, reduction, absolute reduction in the employees, why is it happening? Two legs to it. One is productivity increases happening.

Two is where we have tried and worked out improvement and we've seen that not happening. We fail faster. We move on from them quicker. And the third is there is so much of tech improvement happening, both from an offering perspective and much more importantly from an adaption from the customer's perspective, which is resulting in a lowering of cost.

Just one single example, statementing or any kind of paper stationery going out in the market is getting, not only is getting, has gotten replaced by electronic communication links, my docs where the information is being stored, all is helping us improve our optics.

But there is technology spend, there is cyber security spend. We are spending quite a lot on improved customer-facing technology, better backend technology and also in terms of enhancing the cyber security. And this will continue in the future as well.

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

MB Mahesh: Hi, good afternoon. In FY25, what was the full impact of the penal interest fees that you have recorded?

Praveen Kutty: Mahesh your voice is kind of coming in. Can you kind of repeat yourself or come closer to the speaker, to the mic? Mahesh, can you hear me?

MB Mahesh: Yes, I can hear you. Can you hear us?

Praveen Kutty: Now we can hear.

MB Mahesh: Sir FY25, what is the full-year penal interest fees that was collected?

Praveen Kutty: Let me put it this way, Mahesh. There is a 5 bps reduction of NIM and a similar 5 bps improvement in the fee to average earnings, which has happened. The absolute amount is actually in line with the balance sheet growth, which you usually see. There is no real difference between 2023-24 and 2024-25.

As far as the fee collection is concerned, it's in the same proportion, but in fact, slightly less I'll tell you why? Because earlier penal interest was accrued. You didn't have to collect, but now with penal charges, unless you collect, you cannot account for it. So it is slightly on the lower side, but if you want, I don't know if it's publicly available.

MB Mahesh: No, that's fine. That is fine. Just wanted to understand the materiality of this.

Praveen Kutty: That is hardly anything.

MB Mahesh: So second one is that, if I heard you correctly, your commitment is that - your observation is that over the next couple of quarters, despite yields moving down, margins will improve, led by cost of deposits. Is that how you're saying this?

Praveen Kutty: No, it will not. Any further repo rate cuts will hurt the bank. What we have, we have managed, but the later the repo rate cut happens, the better it will be for the bank. If it were to happen immediately the impact of what we are doing on the portfolio, what we've done on the portfolio will realize over a longer period of time. So the later the rate cut, the better it will be for the bank, from a margin perspective.

MB Mahesh: Okay, so just to confirm, we've done 50 so far, but your expectation is that in the base case, we should be able to hold on to that margin?

Praveen Kutty: To the current level of margins, yes.

MB Mahesh: Sure. Okay, that's fine. The final question, you said co-lending is a bit margin dilutive. Is it also ROA dilutive?

Praveen Kutty: I don't think we give individual ROA.

MB Mahesh: No, I'm just trying to understand, if you're reducing co-lending, does it improve ROA or does it reduce ROA, that's it?

Praveen Kutty: Theoretically, I'm not talking about the DCB Bank at all. Let's talk purely theoretically. If you're talking about co-lending and you're talking about a fairly secure co-lending where provision will not come and hit you, then it will be ROA accretive. And with a product which requires less capital or low capital, it is hugely ROE accretive.

MB Mahesh: Okay, perfect. Thank you.

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

Jai Mundhra: Yes. Hi, sir. Good evening. Sir most of the questions have been answered. I just wanted to check on your -- I mean, we have a small proportion of MFI loans, either through BC or direct. Was there any slippages in contribution to this quarter and hence, with - yes, so the question is sir with situation improving, do you see some delta coming from MFI slippage as we move into FY26?

Praveen Kutty: Honestly, I don't see any improvement. At least our portfolio, there is no improvement. It's a small portfolio, so we are okay with it. We have taken accelerated provisions on it, but I don't see any improvement.

Jai Mundhra: Okay. And, sir, on gold loans, is there any change in the way you are doing business after this RBI circular and possibly tighter scrutiny or there is no change as such?

Praveen Kutty: Absolutely no change. Whatever was mentioned in some form or the other or perhaps even higher, we are - for organic book, okay, I'm not talking about co-lending at all. I hope you're not referring to co-lending guidelines. On the gold loan proposals, we are on our organic own book. It's pretty much the same.

Jai Mundhra: Okay. And is there any changing on the co-lending side, sir? I mean, because the guidelines are very comprehensive. They also talk about.

Praveen Kutty: There is a draft guideline which has come in with about 15-18 points. Jai, I would suggest let's wait for the final guidelines to come in to see what changes have to be made or what the impact, positive or negative, it will be. Currently, it's draft guidelines. At some point in time, I'm sure the draft guidelines will become proper guidelines and then probably we'll have a conversation on that front.

Jai Mundhra: Sure. In the treasury income, so this year, of course, the treasury department seems to be having a very good job. Was there any one-off? Do you include, I mean, is this only trading gains or you include some forex-related activity here and is it likely, I mean, is there any offset available within this treasury income or you think that it can sustain as if I look at as a percentage of assets around 20 basis point, is there any more details there?

Praveen Kutty: Usually and I'm giving you a general answer here. Usually, when you are in a rate cut environment, NIMs suffer and you make gains on your investment usually. So I'm sure treasury has done a reasonably good job, but the environment has also been favorable. So while you take the stick on the NIM compression, there is some benefit you get on the investment piece as well.

Will it continue in the future? If rate cut continues, if bond yield drops, I mean, we can't predict it, but frankly our focus is more on the core fee income. We are happy with the treasury gains and we welcome it. But even within treasury, the yield on investment is a very, very important factor more than the – not more than as much as the gains that we make on the fee line basis.

The second part of that is that, yes, fine, treasury has contributed. I'm not grudgingly accepting it. I'm wholeheartedly generously accepting it, but you just see the core fee income growth. And that's over a period of and don't look at it over last quarter or the quarter before last. Look at it over the last five quarters. See the consistency of that core fee income growth, which is coming in. And these are trends. So it's on us to keep improving the trends and we welcome windfall gains as it comes in. But the key is, of course, the core fee income.

Jai Mundhra: And sir I think last quarter we were still awaiting this PMAY 2.0. I think during the quarter the final guidelines have come in. Would you have any comment on the implementation of those guidelines? I mean, how those guidelines benefit the core mortgage business?

Praveen Kutty: We're very happy with it for multiple reasons. One is that the max interest rate on that is 11.5%, which if you were to look at it is almost on par with the yield and advances that we're currently getting at 11.54%. Secondly, the book stays with you, the customer stays with you for at least five years is guaranteed. Thirdly, the incentive for the customer to remain current, non-delinquent is very, very high because the subsidies spread over equally over the five-year period.

So from a priority perspective, he or she will default this as the last loan and not otherwise. Because the subsidy that you get is substantive. Fourth, this is a loan which has got max size of 25 lakh and that is like the sweet spot for us, the middle of the bat kind of area for us. So it's something which we know, we understand.

And we are very comfortable with new to credit customers. Correct? We do rely on bureaus, etc. But the bank is very, very comfortable with assessing new to credit customers, first time home buyers. We've gone through two, maybe three credit cycles, good times, bad times, ugly times, and they've all rebounded, mostly.

So it's an area of skill for us. It's an area of expertise for us. And we will be continuing to focus on it. And you'll see that we're promoting it big time. So you'll see PMAY being a very integral part of our growth plan for the next foreseeable number of years.

Jai Mundhra: So the only flip side is, sir, does this tilt the balance in favour of mortgage, I mean, the home loan versus LAP or this is just an enabler and you are confident that even the LAP growth will be higher than this home loan growth?

Praveen Kutty: Just think about this. If you were to replace a chunk of the current home loans with the PMAY loans, you will have a yield enhancement coming through. You will have lesser collection cost. You will have lower provisions. You will have lower capital cost. And you will have a, you know, you will have a customer longer with the bank for a longer period of time with the bank. Right. And I think most likely, and this is our belief, we are done. We just started this exercise.

Our belief is because subsidy comes in. And just imagine for an Indian, normal Indian middle class person, owning a house is the ultimate destination. It is the height of purpose for most people. I mean, that's like a revelation for most people, right? And here is a bank which is helping you get, you are funding a house and you are getting a subsidy for that. It is a big leg up.

And that is perhaps the only asset he or she will get, will make during his lifetime. And it is definitely the single most prized position the person will have. So, and if you are a banker, who is giving that particular loan, for life, he or she will be your first port of call for any of the financial needs, surplus, deficit needs, insurance needs, trade needs. Don't forget all, most of our customers are SME customers, right?

And trade, insurance protection, these are things that they definitely will want to have. And combine it with what I spoke to you, not to you, in general earlier, engagement is key to the bank. Why this overdraft is a less contested area, why it is a moat area is because we will do the engagement. And for this PMAY customers also, it’s not, this whole engagement concept is not limited to overdraft or to CASA. It is the way we do things.

It will be the DCB way of approaching, engaging a customer. So that is the way we see this. It is not that LAP will suddenly go down and most of it will get replaced with PMAY. No.

Jai Mundhra: Sure, sir. And lastly, sir, if I may ask, while you mentioned that in this quarter, we have made some affirmative action on, and we saw that the savings rate was also cut in the month of Feb, but still the cost of deposit has gone up at a pace which is slightly higher than the earlier quarters. I would have thought that because you have cut SA rate, I mean, what explains this rising still cost of deposits? Is it only CD or the re-pricing is still higher? How should one look at it?

Praveen Kutty: Maybe you should look at it as an opportunistic move rather than a strategic one. You had a 24.7% increase in advances. These advances were coming in with, they are accretive to ROA, even if it meant that it was being funded by higher cost deposits. Is that the way we will go? Perhaps not. I am not particularly happy with two consecutive quarters where the advances growth has been higher than the liabilities growth.

That's not the way we want to run this bank. Not that the CD ratio is alarming, it is at 85%, but the fact of the matter is that it is important, even at a higher cost, to get these liabilities going because the assets that we are getting were truly accretive in a cost sense, in a credit sense, and in a customer sense. So, is that the way the trend line? No, that's not the way the trend is going to be.

So, it's an opportunity which we had in the last two quarters and I do not think that is the way we will be growing the bank.

Jai Mundhra: Sure. Sir, I actually wanted to highlight one thing. You had the lowest SA rate across all banks, up to 1 lakh, you were offering 1.75. Now, you have brought it down to 1.50. Of course, you would have seen the behavioural thing, etc. But it looks like that you may be achieving only a few basis point, but you run the risk of having the lowest star offering by any bank, possibly in the last few decades.

I do not know. Does it -- is this substantial or you think the people have become very inelastic, absolute inelastic, to offer such low rate of star in the initial bucket?

Praveen Kutty: There are two sets of people that we cater to in a savings account. There are people who use savings account for their basic transactional purpose. If you were to take a statement of a savings account customer, your statement or my statement, three, four years back, you would find there are few transactions. Now, it will run into four or five pages, because there is a huge amount of UPI transactions happening.

So, customers need a savings account for transactions. That's one set of customers. Then there are other set of customers who have huge chunk of surplus money, which they want to park for an uncertain number of days, waiting for an opportunity, waiting for an investment, waiting for something to happen. So, that is actually a term deposit masquerading as SA. It looks like SA, it talks like SA, it walks like SA, but it is not SA at all.

It is a term deposit artificially sitting in this and boosting our CASA ratios, etc. It happens in most banks, it happens in our bank also. As long as customers are using it for transactional purpose, and that's why again, I am coming back to engagement and transaction. Use a bank account for the purpose for which the bank account is being made, for making your payments, for getting your receipts, etcetera.

Those set of customers, they are price inelastic. But if you are the same breadth, you have customers who are using, who want to utilize their investment, and we are happy with that. I mean, there is nothing wrong. I am not passing a value judgment here. But you are catering to both sets of customers, and how are you doing that? By having a spectrum of rates, which is as low as 1.5 currently, and perhaps even as high as 7.98. So, basically, what does the customer want?

We are catering to that customer's need. Are you the lowest rate at the lowest end? Why now only? You look at our savings account, the lower end of the savings account rate, over the last two years, we have been there. Why would you even lower it further unless we had some experience?

Jai Mundhra: Right. No, no, fair point, sir. And I think this, now I acknowledge your point of people using savings account, not for saving, but for transactional, and hence, this is okay. Great

Praveen Kutty: I mean that's what we want. I mean, you have UPI transactions. You need the facility of instant transfer. You need a safety factor that comfort that your money is safe, the fact that there is instant transmission happening in case there is an issue that you're able to solve quickly, you're not caught in a web book, phone banking labyrinth, where you can come in, you can't get out, right?

That kind of chakraview situation, you can't have you need, people can speak to this whole element of service element to the whole segment things go right is great. But when things go wrong, how fast you respond. These are very important factors in customers' life. And most people are intimated by finance. So that's the customer base that we are catering to. And for that customer, a lot of things are important, and interest rate may not be the highest amongst that.

Jai Mundhra: Sure, sir. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Prashant Kumar from Sunidhi Securities & Finance. Please go ahead.

Prashant Kumar: Yes. So my question is on technology front. Although the bank has shown some details on digital initiative. And can you give just some more color on technology upgradation, and what is the percentage cost incurred on technology development to total operating expenses?

Praveen Kutty: I'm not sure that we can answer the second question. We have the numbers, but we probably can't answer that, Prashant. But let me give you a flavor of what we're doing on the technology front. Let's talk about some less, what's the right word, less sexy stuff. We'll go core banking system, okay? It's functional. It has to be robust. It has to be -- have the capacity.

We have upgraded our core banking system, Finacle a year before last. Last year, we upgraded our instalment letting program FinOne. It's the state-of-the-art, one which we have implemented now. Third item is our treasury management system. TCS, we upgraded it in June of last year. We have totally 4 core banking systems, 3 of them are up and running. There's not like -- we're not in a flashy advertising kind of stuff.

This is like back end, which has to work, which ensures that what we all take granted happens. So the core-banking system happened across the bank, big-scale movement is around on the storage complication, infrastructure piece which we have up and running.

The second piece I want to talk to you about is on customer-facing technology, both on the loans okay, there are 3 areas which we'll focus upon, maybe 4, but the 3 key areas are deposits, loans and payments. You may want to subdivide payments into domestic payments and international payments, but broadly payments.

On the deposit side, the account opening is for individuals which is paperless. There is virtually no paper happening. It's cut down the fraud cost. It has cut down the, it has cut down our courier cost. It has cut down the supervision cost significantly. Most of the customer acquisition is straight through. A large proportion of the amendments to the account is straight.

Second part is on the loans piece. MFI lending, which we do is entirely digital. This, right from the customer information coming into the bank to disbursal going into the customer's own account. The entire journey is electronic. Why are we choosing to give an MFI example? Because you're talking about volume, large volume entirely goes as electronic.

Third piece, on secured lending, a lot of progress is being made in terms of digitization perhaps with the only exception of title search and physical valuation, which continues to happen on an offline mode, it's not technology-related. But as and when titles become digitized in India, you will see a scenario where secured lending also goes through a STP process. And remember, 54% of our book is mortgages. And that's a key element in terms of digitisation which happened to us.

The usage of RPA within the bank has significantly reduced the manpower. Now the rate of growth of manpower is what we're talking about. The actual number of people in the bank has reduced constantly over the last 3 quarters, partly from the advent of usage of technology.

Let's talk about technology of a different kind right now. It is about probabilistic modelling, it is about using GenAI to ensure that higher accuracy and lower operating cost comes into play. On phone banking, we have , instead of writing our SQL query, which only a few people possibly have the ability to, you can write in English and write what you want, and then you will be able to extract information.

Suddenly, information is not within the preserve of a few, if you're able to identify cuts by writing general English. And that's improving every time there's an error. So there's a built-in ML billing. I'm giving you one small example of what's happening on GenAI implementation within the bank. We are using a high-quality analytics to determine pursuing of which particular customer for what makes more sense than others.

Simple example that are customers in collections, for example, there are some customers who anyway will pay. There are some customers who anyway will not pay. No amount of effort into those two is going to result in incremental gains for the bank because of people who can't pay, can’t pay anyways. And the people who will pay, will pay anyways, wasting phone calls and activation on them is not going to make any sense at all. So the entire firepower resources of focus goes into the middle bucket, these are customers who can reprioritize.

So our ability to predict improved and more importantly, is improving as we go out. So I'm giving you three very different scenarios on the user technology. One, the traditional ensuring the core part of technology works, right? Where what we take for granted happens time after time, day after day. There is enough DRDC movement happening. There is enough redundancy being built in. There is cybersecurity.

I forgot to tell about it. Our SIEM, again, we upgraded last year. So you have invested extremely heavily on the back end to ensure things work normally. There is the computational power have gone up, the storage powers have increased significantly. There's computational powers have gone up, the storage powers have increased significantly, that’s one part of it. Cybersecurity, the second part of it.

Third part of it is customer-facing technology where paper is banned, right? Significant reduction in paper is happening. Fourth is usage of technology to make better decisions. So these are 4 elements of technology, which is coming into play, which is helping the bank, have we leveraged is enough? No way. Is the best yet to come? Of course. Do you have the people? Do you have the people skills to leverage it? Without a doubt.

Prashant Kumar: Yes. So going ahead on improvement in productivity due to, I mean, technology, especially on mortgage and all processing side, so do we think the cost to average asset ratio, kind of 2.4% or 2.45% is achievable in near to medium term on a sustainable basis?

Praveen Kutty: We are working very hard. It's a part of the agenda. You see how the last -- look at the cost to average for the last 4 quarters. Because...

Prashant Kumar: Already you have, sir, mentioned that...

Praveen Kutty: Wait a minute, wait a minute. And look at it next quarter also, usually Q1 is when the cost to income is at the nadir right? That gives an indication. I mean the trends usually forecast the future.

Prashant Kumar: Okay, that’s it from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I'd now like to hand the conference over to Mr. Praveen Kutty for closing comments.

Praveen Kutty: Thank you very much, you have been extremely patient, for your questions, and we hope to ensure that we continue to be consistent, predictable and boring. Look forward to meeting you next quarter with hopefully and even better set of results. Thank you for all your questions, and look forward to meeting you may be next quarter.

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.