

"Dhanlaxmi Bank Limited Q2 FY-15 Results Conference Call"

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MANAGEMENT: Mr. P. G. JAYAKUMAR - MANAGING DIRECTOR & CHIEF

EXECUTIVE OFFICER, DHANLAXMI BANK LIMITED MR. CHANDRAN L – CHIEF COMPLIANCE OFFICER,

DHANLAXMI BANK LIMITED

MODERATOR: MR. RAKESH KUMAR – RESEARCH ANALYST, ELARA

SECURITIES PRIVATE LIMITED



Moderator

Ladies and gentlemen good day and welcome to the Dhanlaxmi Bank Limited Q2 FY15 Results Conference call hosted by Elara Securities Private Limited. As a reminder all participants' 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 would now like to hand the conference over to Mr. Rakesh Kumar from Elara Securities. Thank you and over to you, Mr. Kumar.

Rakesh Kumar

Welcome to you all in the Dhanlaxmi Bank Q2 Results conference call. We have with us the bank's senior management MD & CEO – Mr. Jayakumar and the other key members. I would like to request MD sir to touch up on briefly on the Q2 numbers. Thereafter we can start the question and answer session. Over to you, sir.

PG Jayakumar

Thank you very much Mr. Rakesh Kumar and other friends from the investor community. We are really grateful for your great support for the bank. If you look at the topline growth we have not been very keen to grow the liability size because of the lack of opportunities to expand our credit. So our aim was to reduce our cost further thereby we reduced the cost to 7.90% in cost that is almost stagnant when compared to the last quarter.

And also our effort was to increase the advances retail assets and SME. But it was very challenging so we did not aggressively pursue the liability growth last time but we are aggressively pursuing the credit growth. When I say we are aggressively pursue we also do not want to repeat the past mistakes of lending to the corporate in the wrong manner or just for the sake of increasing to grow inorganically and all that. So had a systematic growth and this year in the first six months we sanctioned about Rs. 2,200 crores of advances and dispatched about Rs. 1,700 crores but actually the net growth in advance was only about Rs. 60 crores because of the huge repayment from several segments. So that is the situation. It will continue for another three, four months. Thereafter the systematic growth will continue because much of the inorganic growth consequences even now about Rs. 300 crores of corporate advances got repaid in the last six months and also retail assets of about Rs. 700 crores to Rs. 800 crores got repaid.

So that is the reason for the not growing the advances but we expect that going forward advances will also systematically grow. Only after growing the advances systematically or after the signs of growth we will go for more liabilities otherwise bank will not have a very comfortable position. Our CD ratio continue to be at 68% but whereas we have the government securities and other non-SLR investments to the tune more than 40% to Rs. 45% of the liabilities. So that is the situation now but we do one thing we have excess SLR of Rs. 1,450 crores. We leveraged is Rs. 800 crores to Rs. 900 crores we do the borrowing from the market and we deploy for an arbitrage. So that is how we have been managing our resources in the last three, four months.

And also I will tell you that going forward in the last two months we have created very dedicated market team to mobilize retail assets and SME throughout the country. We have nine regions all over the country and in all these regions there are separate team setups to mobilize the retail





assets. These are some of the initiatives. On NPA front there was slight accretion of Rs. 10 crores. We had a recovery of Rs. 46 crores but addition of Rs. 56 crores in the last quarter.

If you look at there is also a decline in the kind of slippages in the last six months compared to the previous year and the year before that. And if you look at the non-interest income there is a slight increase in the non-interest income in the current quarter and NIM is also improving slightly. Cost to income ratio came down from 98% to 86% and in the last two quarters we reported profit and we do not expect any further heavy slippage in the next six months in the current financial year and thereafter because many of the accounts which are likely to fall back have almost bottomed out. NPA likelihood has almost bottomed out in respect of our portfolio and SMA system also showing that our advances are not vulnerable to further slippage. That is the general observation I have to our dear investors and also we propose to improve the net interest margin that is the effort to reduce the cost and also increase the yield. I am hopeful that by lending and concentrating more on SMA and retail we will be able to improve our NIM.

And our capital adequacy with your support we could maintain at 12.75% under Basel II and 11.65% at Basel III. And we will be able to safely lend another Rs. 2,000 crores with this level of capital and we expect to grow to Rs. 9,000 crores in advances in the next five months. And generally as far as our banks is concerned mostly the growth happens only in the second half of the financial year. So we are looking forward for growth this time and also there will be increase in profit and with the interest rates coming down there is likelihood of some reversal of our MTM notional losses which we booked last year. That is also happening and also we had provided about Rs. 380 crores in the last three years towards the NPA provision and subset that income put together will be about Rs. 3,060 crores to Rs. 3,370 crores.

So NPA recovery is another major area where we are concentrating. In the first half there is no much reduction it is mainly because we planned to sell about Rs. 150 crores to ARCs but that was not successful because they asked for huge discounts to our book value. So it will end up in further losses so we are trying to do more recovery directly than drastically reducing the NPA figure by selling at a loss to the ARCs. This is a well thought off strategy of the board that in order just to show that our balance sheet that our NPA came down we should not sell and incur loss.

So machinery is strong enough to recover and that we are doing. These are all the major submissions I have before our esteemed investors. I solicit your kind questions or information whatever you would require.

Rakesh Kumar

So we could now start the questions.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Pranav Khandwala from Khandwala Securities Limited. Please go ahead.



Pranav Khandwala

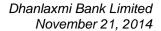
I have just a couple of questions which I will club them in one and may be you can answer them. One is I would like to know in terms of what was the deposit growth in terms of percentage and Rupee terms in the last six months and where do you see the deposit growth going in the next one year? Also I would like to know is in terms of the number of branches like you mentioned you are presence in nine regions but in terms of branches currently how many do you have and where do you see the number of branches growing in the next six months? And also if I would know what would be per branch deposit and also the top 10 branch deposit in terms of rupee and percentage terms?

PG Jayakumar

See I would respond to you because deposit increased by about Rs. 113 crores in the last quarter. If you look at the last six months there is some decline mainly because as I told you at my introductory submission we shed Rs. 860 crores of deposits roughly from this bulk deposits plus inter-bank deposits. These inter-bank deposits were contracted earlier. So these were not contributing to the bottom-line of the bank. There was no positive contribution to the bank's kitty so we deliberately shed this deposit. So that is one reason but there is actually growth in the retail deposit. If you look at the retail deposits out of the total deposits retail deposits has grown to about 62%. It is down from 40%; that is one of the major good developments. Also there is gradual improvement in CASA percentage and stable CASA. And that is another improvement as far as CASA deposit is concerned because we are looking at more growth in CASA only not at the as I told you initially there is no point in raising deposits at any cost.

And going forward next year we expect that we will end up about between Rs. 12,500 crores to Rs. 13,000 crores. That is what we expect by the end of the year. Then regarding the number of branches as of now we have 280 branches and see our major challenge now is or continued to be in the last two years is that we have more than 60 branches spread between Delhi and Mumbai. Mumbai also we have 26 branches and northern states and Delhi we have about 30 to 40 branches we have. So our major challenge is that in the last three years we had a set of managers who were not able to contribute for the growth of these branches. In last March what we have done is we have deployed our well versed branch managers in all these branches. We removed sales guys from the branches as branch heads and we deployed people who know banking in a wholesome manner.

That is a very conscious decision to see that the branch centric model which our bank has adopted should develop in all these areas. So we have given specific target for what is if you look at the North and Mumbai region had about Rs. 2,000 crores depletion in deposits in the last two years. These are purely inorganic growth than high cost funds. So instead now we concentrate only on retail deposit and CASA. That is the target set. There were two objectives. One is to reduce cost; second is to make them operationally efficient and also the direction given to these branches is that. Earlier we had only corporate advances and big SME advances in those areas. Now we have told them very clearly that we will advance only mortgage backed products and with retail and SME fully covered by Mortgages. Otherwise we have decided not to lend in Mumbai and Delhi.





This because if you look at 65% of our NPA is from Mumbai and another 35% to 40% is from Delhi so we want to avoid such a catastrophe any further. So this was a bad learning for us so we want to correct ourselves. That is why we have taken this decision and we are being proved correct because now these two regions are showing some progress in growth in retail deposit and also the retail advances so that is why we are not. The reason my talking this is our intention is first to tap the opportunities in the existing branches. So before we expand our branch networks further we want to tap the full potential of these 70 branches in the current year and perhaps next year only after these branches have turned around.

Many of them have turned around now but only after they establish sustainable growth we will be further thinking of expanding the branch networks in this area. And we find that the best places to open more branches are Western India and places like Haryana, Punjab and all that. We will be opening branches but only after stabilizing and establishing sustainable growth in these branches where we have only untapped opportunities.

Then per branch deposit if you look at it is about Rs. 44 crores. And top 10 branches will represent about 35% of our total business.

Pranav Khandwala

And which region if I may ask which region is your top 10?

PG Jayakumar

The top 10 is mostly in South India and Mumbai Fort. Out of 15 branches will be from South India and 3 to 4 branches in Mumbai and 1 or 2 in Delhi. That is how.

Moderator

Thank you. We have the next question from the line of Nitish Chawla from Banyan Capital. Please go ahead.

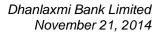
Nitish Chawla

Last quarter there were around Rs. 111 crores of provisions which you had taken with respect of Parekh and the reconciliation between i-Flex and Trident and which are the as you mentioned around Rs. 70 crores of provisions. So just wanted to know what is the status of Parekh and where have you taken the provisions in this quarter?

PG Jayakumar

This Parekh what we have requested the RBI. I can give you a small background. Parekh is an account where the IOB is the leader. State Bank is another partner in lending in the consortium. There are major banks but unfortunately we are called upon to provide that. So we will present it to RBI requesting them to give 12 corporates to provide it so that it will become only a normal provisioning. They actually wanted us to treat it as a loss asset but we felt that it is not fair on their part to ask us like this because even in the leader bank IOB up to June 2014 this account continued to be a standard asset whereas Reserve Bank of course restructured. But standard asset and we have provided for the restructured part of it but IOB it is a standard asset but they are insisting that Dhanlaxmi Bank should keep it as a lost asset considering it has an NPA from March 2013.

So we represent it to Reserve Bank of India with all reasonable arguments and submissions that this should be like this and it is likely that RBI will permit that. That is one thing. And second





thing is with regarded to the FOREX reconciliation difference of about Rs. 37 crores which was we employed chartered accountant from Mumbai who are treasury experts Khimji Kunverji & Company and they found that whatever stand the bank had taken is correct and they have certified it and we have reported this to Reserve Bank of India and Reserve Bank agreed that that provision need not be looked in to or they have told that the bank's position is correct so there is no need for provisioning on that count. That is the situation.

Nitish Chawla So this Rs. 69.8 crores that is there that is all Parekh Aluminex?

PG Jayakumar Rs. 66.10 crores is Parekh.

Nitish Chawla Others are some small?

PG Jayakumar Others are small, small accounts which we have already provided in the current quarter and last

quarter.

Nitish Chawla And sir, secondly what is the quantum of the restructured asset currently?

PG Jayakumar Rs. 80 crores is the restructured asset in the second quarter.

Nitish Chawla Your total restructured outstanding?

PG Jayakumar It is Rs. 234 crores.

Nitish Chawla So REI Agro restructured in this quarter?

PG Jayakumar REI Agro was the latest one which was restructured and restructuring also we do not expect any

major account because we do not have any other big corporate accounts left in our books now.

Nitish Chawla Sir, in the last call you had mentioned two accounts Noida Medical Center and Champion Agro?

PG Jayakumar But out of Rs. 20 crores we recovered Rs. 10 crores. Champion Agro we are yet to recover but

we took lot of stringent actions like declaring him as a willful defaulter; filing a criminal case against him with the economic offense wing and also publishing his name in the newspaper. So

many actions we have taken and also we have filed the case with the DRD now.

Nitish Chawla And sir, in the annual report there is a mention about Shriram City Union Finance which has

defaulted?

PG Jayakumar That we already settled we got our money back.

Rakesh Kumar This is Rakesh here. I have couple of questions. Sir, last year if you see the situation was very

different on the G-Sec yield front and this year the situation has changed quite favorably, we have quite lot of investment book and the SLR book. Firstly what is the total MTM loss that we

had booked which can be reversed subject to the fall in G-Sec yield from here on? That is the





one question. My second question is that what is AFS investment size and the duration and how much of un-booked loss we are sitting on?

PG Jayakumar See last year our notional loss MTM provision was about Rs. 98 crores and we expect that in the

current year we will be able to reverse it fully. Almost 50% is now in a reversible position at the

present which is not actually we have booked only Rs. 18 crores in the last two quarters.

Rakesh Kumar Rs. 18 crores out of Rs. 90 crores we have booked?

PG Jayakumar Yes, Rs. 18 crores we have booked in the second quarter.

Rakesh Kumar The remaining is there like?

PG Jayakumar Yes, remaining is there.

Rakesh Kumar In the book right now?

PG Jayakumar Presently overall will be around Rs. 50 crores profit will be there. So at least Rs. 32 crores we

can further book.

Chandran L I am Chandran here.

PG Jayakumar Chandran, our Chief Compliance Officer.

Chandran L Presently the G-Sec average is ruling around 8.15% to 8.16% levels so if it is coming down to

8% level 100% our provision could be reversed. So out of this Rs. 98 crores whatever provision we have made more than 50% already in the book on an estimate valuation it has been reversed. But since it is not quarter end we cannot publish it but otherwise it is booked. And our strategy is to get rid of see as soon as it is out of this MTM burden we will exceed this in portfolio. We will get out of this portfolio and probably without we will look in to Treasury bill or some good

securities where MTM is not available. So that is our strategy.

PG Jayakumar And what is the duration of our book?

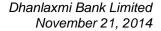
Chandran L Right now the average duration is 4.82.

Rakesh Kumar This is for investment trading book or total book?

Chandran L Total book.

Rakesh Kumar And trading book duration, sir?

Chandran L That is around 4 only now because we have Treasury Bill so that has reduced its duration.





Moderator Thank you. We have the next question from the line of Jigar Walia from OHM Group. Please go

ahead.

Jigar Walia Sir, just a brief question. If you can state the current loan mix between legal, corporate, SME,

and agri and what would be your NPL restructured guidance for the year given we have only

selling to ARC and probably we will look at recovery on our own?

Chandran L Along with this our corporate is 30%; SME 28%; agri and MFI 15%; and the balance 28% is

retail.

Jigar Walia Sir, on your NPL and restructured guidance for the year?

Chandran L Restructured we do not expect any more accounts to be restructured because almost it is

bottomed out. NPL also it is bottomed out. At the present level our gross NPL is 7.27% that is on ratio wise and the amount wise it is Rs. 555 crores. So we hope that we could at least make some

cash recovery out of this and we will be ending up with some Rs. 475 crores maximum.

Jigar Walia Can you tell me the net NPA number?

Chandran L Net NPA number is Rs. 340 crores.

Jigar Walia You expect this to reduce in absolute terms?

PG Jayakumar Yes, in absolute terms our aim is Rs. 200 crores that is also taking in to account the sale because

from the ARC side also parallelly we are looking in to. But only thing is that we have the ARC takers are there only thing is we do not want to sell it at a discount. So that is why we are just going on negotiating with a few companies like some high pitched companies are on the anvil.

Jigar Walia So excluding the ARC sale it would still be around Rs. 300 crores?

Chandran L May be Rs. 250 crores to Rs. 300 crores that is exactly.

Jigar Walia And sir, what is your NIM and CASA for this?

PG Jayakumar Now 23.5%; NIM 2.34%.

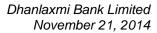
Jigar Walia And can you tell me break up of your savings?

PG Jayakumar See bifurcation between savings and subsidies.

Chandran L Current deposit Rs. 834 crores.

PG Jayakumar They are only in percentage. So Rs. 1,700 crores; Rs. 834 crores. 30:70 that is the ratio of current

deposits to savings bank accounts.





Rakesh Kumar I had just one question on ARC, you mentioned that we had some loan accounts to be sold but

that could not fructify?

PG Jayakumar We are continuing our efforts.

Rakesh Kumar So how much that amount could be or how many accounts are there for that?

PG Jayakumar Originally we planned for about Rs. 250 crores spread over about 30 to 40 accounts.

Rakesh Kumar So how old these loan accounts are?

PG Jayakumar They range from 2 years to 18 months. Most of them are more than two years.

Rakesh Kumar So close to around 50% to 70% must be provided?

PG Jayakumar More than 50% provision would be there.

Moderator Thank you. We have a follow up question from the line of Nitish Chawla from Banyan Capital.

Please go ahead.

Nitish Chawla The top 5 NPA accounts as a percentage of total gross NPAs how much is that?

PG Jayakumar 45%.

Nitish Chawla And they will be from which industries like is it concentrated in some industry or are they

scattered across in the industry?

PG Jayakumar Some are in pharmaceuticals, jewellery, engineering and infrastructure.

Nitish Chawla Are you planning to sell these to the ARCs or you are trying on your own?

not be able to sell under the entire CDR members they agree for that. So assets like Parekh and

all it will be difficult to be sold. But given an opportunity we will sell.

Nitish Chawla So Parekh is the one of the top five you are saying?

PG Jayakumar Yes, one account like that.

Nitish Chawla But Parekh is not an NPA if I am not wrong?

PG Jayakumar We have not treated as NPA but we can sell it and.

Nitish Chawla I am talking of these top 5 you are saying around....





PG Jayakumar Now RBI is asking us to make it NPAs that is why we thought of. I told you earlier.

Nitish Chawla So this Rs. 250 crores that you are saying that you plan to sell to ARCs which has 30 to 40

accounts so does that include any of these accounts?

PG Jayakumar Some accounts are there about three accounts are there.

Rakesh Kumar

Just one question. Looking at the CD ratio and cash deposit ratio we have very comfortable

situation like this 66% CD ratio, we can grow credit book without taking any extra liability and

reshuffling of our asset mix?

PG Jayakumar That is our plan.

Rakesh Kumar So what would be a gain to our margin actually?

PG Jayakumar Yes, that is exactly what we planned. That is why we are not expanding our bulk deposits but

retail and then ordinary deposit will comes we will not say no that is all. Special rates we are not

giving or new deposits we are not taking in a bulk.

Rakesh Kumar There are two things, one is how soon we are planning to reduce the borrowing number? It has

come down drastically, how more can it be reduced apart from the capital Tier-2 borrowing?

PG Jayakumar See actually if you look at nowadays unless we do not have an arbitrage opportunity we do not

borrow. Say suppose interbank deposits we get 8.5% from one source if we are able to deploy it at 8.75% or 9% we will do that. But if you look at the present liability structure we are likely to

shed another Rs. 700 crores going forward.

Rakesh Kumar Rs. 700 crores?

PG Jayakumar Yes, in the current financial year. We will reduce the cost because most of these deposits are

contracted at 9.5% to 9.75% which we will shed in this financial year.

Rakesh Kumar And sir, on retail deposit card rate front, how are we positioned there? Is it on the higher side,

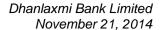
lower side or we have any thought to reduce rates for some of the buckets so that we can

discourage our customers?

PG Jayakumar See what I would say is that we are a bank where we value relationship a lot. Our presence is in

agri, semi-urban, rural, and even in metros. Our business is thriving based on our relationships. That is one thing. So straightaway we cannot discourage and we cannot be out of the market. So what we positioned ourselves at par with the public sector and State Bank of India. We are not at par with the south-based banks like Tamilnad Mercantile Bank, Lakshmi Vilas Bank. We are 25 basis points less than those banks. So as far as interest rate is concerned we are almost at par with the Public Sector. At least 10 basis points down than many old generation private central banks

we are consciously doing that. That is one thing. Second thing is not to offer higher rates for





accounts where there are no transaction banking because now we have huge opportunities lending in the market, we could have contracted such deposits. So we are deliberately even at the cost of fare reduced topline we are only trying to say that our bottom line is improving. Our efficiency improving, and our quality is improving. So, these are all our main reduced costs that is the declared policy of the bank even at a cost of a reduced balance sheet size we would like to reduce costs and improve the contribution. And our effort is majorly to expand our credit portfolio only depended on that we will be able to grow the liability. As you said we have enough headroom for growing the asset by another at least 7% in the advance side 7% to 8% we can grow with the present deposit liabilities. That is what we try to do. And as I said in the opening remarks even the Rs. 1,400 crores surplus SLR we are leveraging Rs. 800 crores every day.

We are availing term money and other short term overnight borrowings from the RBI window and deploying in the money market and making an arbitrage of 0.5% to 0.6%. But as you exactly said better to deploy this fund in advance that is our effort which will give us a NIM of more than 3.5% to 4% with the present cost.

Rakesh Kumar

We have seen an uptick in NIM. So what is the plan, are we planning to go moderately or aggressively on the branch expansion front?

PG Jayakumar

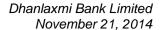
Branch expansion as I already told you we do not plan to expand the branches very quickly. The reason is this. We have untapped opportunities in branches like Mumbai and Delhi where we have invested hugely in the infrastructure. So we want to make them perform and in a sustainable manner before we go for further expansion. That is one thing. Second thing is why should we add even now prior to the last two years we have invested heavily in fixed assets so we do not want to continue with that kind of expenditure any more. Even if we grow after one year we will establish branches with only 25% of the expenditure we made for establishing these 60 branches in the last two years. That is our policy about the branch expansion. And second thing is that we have recently employed Ernst & Young who advised us on our direction and also trying to understand whether what we try to do is correct after this restructuring in to the branch centric model and our business direction, our policies and our HR practices all that will subjected to close scrutiny by E&Y and on a going forward they are advising us for the next five years. We have made a perspective plan in close consultation with them and it is placed to the board of the bank and the bank has approved that. So we are being handheld by E&Y for the next two to three years in our business growth and plans. We would like another eye to see whether what we tried to do is correct or not. So that is another major effort we did in doing this in going forward in the business plan.

Rakesh Kumar

Sir, on the investment book side, is there any scope to further increase the yield by putting in to the longer duration paper or may be putting funds more in HTM book so that we are protected and we have higher asset yields also?

PG Jayakumar

HTM side there is RBI restriction because now it is 24% and it will be reduced by 1%, 2% during every policy by the Reserve Bank of India. It was a special window given to the banks





last year. So now we may not be able to absorb more investment in the HTM category so that prospect is not there. And we also will not have any MTM loss when we deploy in the retail asset or something like that. So we will reduce our SLR investment to the minimum as soon as possible. When there is an opportunity to lend we will unlock the SLR and we will lend.

Moderator

As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Rakesh Kumar for his closing comments. Over to you, Mr. Kumar.

Rakesh Kumar

Sir, thanks a lot for sparing your precious time and clearing our doubts and giving lot of clarification on the figures, financials and letting us know strategy of our bank. Thanks a lot for all that. And, we will conclude the conference call here. Thanks a lot everybody.

PG Jayakumar

Thank you very much, Mr. Rakesh and other esteemed representatives of our investors and the investors. Thank you, madam Karuna. We look forward to for frequent interactions wherever it is possible or you feel it necessary. We look forward to talk to you as very often as possible. One thing I assure you while we conclude that we are straining every now to see that our bank is back to the level where we will be able to. In the current year we were end up with a Return on Asset of about 0.3% and going forward our aim is that in the next couple of years we will reach 1% Return on Asset because our major challenge now is only in NPA recovery. If we recover 50% of our NPA the entire scenario of the bank will change. So all our efforts are in NPA recovery, increasing CASA, increasing retail advances, increasing SME and also I did not tell you one thing gold advances. It forms part of the retail and it is another area. Gold is not very attractive now it is not picking up in many areas but still we are concentrating a lot on that because these are all the areas where we get better comfort and better safety. So we are confident that your bank will do well going forward. Thank you very much.

Moderator

Thank you very much, sir. Ladies and gentlemen, on behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.