"DCB Bank Q3 FY12 Earnings Conference Call"

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Moderator

Ladies and gentlemen, good day and welcome to the Q3 FY12 earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Murali Natrajan, MD & CEO of DCB Bank. Thank you and over to you sir.

Murali M. Natrajan

Good afternoon everyone and welcome to the Q3 FY12 analyst call of DCB Bank. I am joined by Bharat Sampat who is the CFO of the Bank, Sridhar Seshadri - Financial Controller, Rajesh Verma - Treasury and Corporate Banking Head, Mr. Barve - Company Secretary and Meghana - Head of Investor Relations. In the next 10-12 minutes or so I will just mention the highlights of the performance for Q3 FY12 and would then we will open the floor for questions. I want to make two statements at the start of the meeting. One is, we are making steady progress in improving the Balance Sheet and the performance of the Bank, however, we recognize that there is still a long way to go. Secondly, given we have had two difficult years which is 2008-2009 and 2009-2010, we are being cautious in terms of how we grow this Balance Sheet and that is the approach we will continue to take for at least another 6 to 9 months. At the same time there are quite a lot of headwinds, so that also is necessitating us to be cautious in growing our business. So in the light of that, what we have been able to achieve in the Q3 FY 2012 is profit of Rs. 15.64 Cr. If you compare that with the previous quarter that was Rs. 13.33 Cr. and the same time last year it was Rs. 8.2 Cr. So clearly there is steady progress being made. This is on the back of improvement in Net Interest Income. It is also 40% to 50% drop in provisions on a year-on-year basis and we have made investments in the front line in terms of adding more people at the branches so that is reflecting in our cost increase. So all in all this has been a substantial increase in Profit although from a very small base.

If you look at our year-to-date Profit, we are well ahead of the full year Profit that we have made last year. We are hoping to keep this trend in the coming quarters and years as well. In terms of Deposits, if you compare it with last year December we are up by 9.6% and CASA is up by 9.5% and I will talk a little bit about CASA in a minute. Advances are up by 8.5%. What we are doing is we are making rapid growth in Retail Mortgages, MSME and SME, but we have kind of moderated our Balance Sheet in Corporate Banking, so net-net that is why the growth is at 8.5%. We are confident that we will be able to achieve 14% to 16% growth for the full year on Advances and about 16% to 18% growth in Deposits. We continue to make very good progress in acquiring new balances in CASA. However, in the last 4 to 5 months there has been a substantial increase in Term Deposit rates which are very attractive, so therefore, we are seeing a lot of shifting of balances from CASA to Term Deposits. While it is not affecting the new acquisitions it is definitely affecting the balances that we have as large customers will start shifting their balances to Term Deposits.

The other point is that Current Account is a reflection of the state of business. So there is a slowdown in business, therefore, Current Account growth has been a challenge. However, we have managed to maintain our CASA ratio at 33.08%. Our stated strategy is to be above 30% on CASA.

The point that I want to mention is that when we look at our attrition data of customers we are not seeing any impact of the de-regulation of Savings Account in the above book. We do not plan to increase our interest rate at the moment. We will wait for some large Banks to make the move before we take a decision on whether we need to increase the interest rate in Savings Account.

Advances growth we are focusing on SME, MSME and Retail Mortgages. We have been able to reach 30% of our Advances in respect of contribution from MSME and SME and about 35% from Retail Mortgages. Our stated goal is that in two years' time we should reach of 40% level in SME and MSME.

In terms of Mortgage, we do Loan against Property as well as Home Loans. Loan against Property contributes about 50% to 55% of the overall book. We have exited some large exposures in Corporate Banking that is the reason the Corporate Bank Advances are down. We will, of course, re-work our strategy but our aim is not to grow the Corporate Book rapidly. Agri and Inclusive Banking is a seasonal book and in the next three months obviously it will start growing as we have to complete our priority sector lending targets and the Balance Sheet of that is primarily low between June to September due to seasonality.

Cost of funds continues to rise, especially in the Retail Term Deposit. We do not expect a drop in Cost of Funds until April or May 2012 for two reasons. Firstly, I think there will be a lot of activity in the industry in terms of growing the Balance Sheet for priority sector lending. It is a busy season. Secondly, the profile of our Term Deposit is such that the entire Term Deposit I think will get completely re-priced by April or May 2012 beyond which if interest rate situation, say for example, remains stable then we do not expect any further increase in Cost of Funds. To that extent I do think that there will be pressure on NIMs for us in this quarter and in fact in this quarter already about 4 basis points drop has happened on NIM.

Also one other point in terms of yield for the coming quarter is PSL, Priority Sector Lending yields are normally lower than the overall yields. So that also should cause some level of pressure on NIMs for the coming quarter (Q4 FY 2012). Retail Deposits constitutes 82%. So again our stated strategy was that we should always be above 70%, so we remain at 82%. As we are improving performance we are finding lots more avenues opening up for us in terms of lending from other Banks, so we do plan to use those opportunities to grow our Balance Sheet.

Total income has grown by 14% as compared to last year same quarter. For the first nine months total income has grown by 10%. Operating cost last year same quarter comparison we are 16% up primarily on staff cost. We have actually increased the number of ATMs to about

275. We have done a partnership with 3rd party to expand our ATMs as part of our CASA strategy. So that is going on quite well. We still have 10 branch licenses which we plan to implement in the next three months. It has taken us some time to locate the right areas for us to put these branches so we are currently at 82 but when we exit this year we are hoping to be at 92. We have been given permission by RBI, as far as Tier-2 is concerned we can open branches anywhere. We will use those opportunities because we also have to be conscious about our cost income ratios, so we will use those opportunities after due consideration in the next year plan.

Provision continues to be in control. What I want to say is that in this quarter (Q3 FY 2012) Gross NPA was in control again we did not have any challenges in Retail, SME or MSME, our Agri and Inclusive book is in good shape. We had couple of slippages in Corporate lending that is the reason the overall NPA did not come down significantly. However, the rest of the book is in quite a good shape and we continue to work hard on recovering our Personal Loans and other NPAs that we have in our book. So the Retail portfolio is with strong recoveries and we hope to continue that trend.

In terms of Capital Adequacy we are at 13.00% with Tier-1 of 11.15%. We have been trying to raise capital for the last 6 to 7 months; however, the market has not been conducive. We are hoping that in this calendar year we should be able to raise capital but in terms of adequacy we are pretty good at the moment with a Tier-1 of 11.15%.

That is what I wanted to share with you in terms of highlights, I am happy to answer questions.

Moderator Thank you very much, we will now begin with the question and answer session. The first question is from Amit Ganatra from Religare AMC. Please go ahead.

Amit Ganatra Good afternoon. You have mentioned that you are expecting 14% to 15% growth in Advances by the end of the year. Would it largely been driven by growth in the Agri book?

Murali M. Natrajan Part of it would be in the Agri and Inclusive book, rest of it would be in the SME, micro-SME and Retail Mortgages. Part of what we do in Mortgages and SME also falls naturally into priority sector lending, so that should also help us to complete our priority sector lending target.

Amit Ganatra But growth in Agri, would it lead to some sort of pressure on the yield on advances.

Murali M. Natrajan Which is what I mentioned that in the 4th Quarter normally because of heavy disbursal in priority sector lending yield does come under pressure.

Amit Ganatra Your number of ATMs has increased drastically on the quarter-on-quarter basis. Can you explain this partnership because your cost has not gone up fairly, number of ATMs have gone up significantly?

Murali M. Natrajan Yeah, we have been able to strike what I recall as some kind of a brown label type of a partnership, where we are able to take optimal cost for the kind of expansion that we wanted. So it is a model that has been put in place recently. So it is a very cost effective solution for us, other than that I am not able to tell you more on that.

Amit Ganatra But these ATMs basically will have the hoarding and everything of DCB right?

Murali M. Natrajan Absolutely.

Amit Ganatra But cost, it does not seem to be owned by DCB because your OpEx has not come anywhere?

Murali M. Natrajan Because it is part fixed, part transaction-based so, therefore, it is quite effective for us.

Amit Ganatra Is it that any cost is being capitalized currently?

Murali M. Natrajan No. Even if I capitalize it will have to come as depreciation.

Amit Ganatra Also, after a long time your fee income has shown some sort of an uptake, where many quarters thereby it was hovering around 20 crores, this quarter I think it is….

Murali M. Natrajan There is no mistake in that, I can tell you that….Just joking.

Amit Ganatra But what has basically led to this and how sustainable is this?

Murali M. Natrajan I think it is sustainable. We have been explaining to the investors that we have been working on mainly four items. One is the Trade Income. So we have a target for our relationship managers in Retail, Corporate and SME to generate Trade Income. Trade income being Bank Guarantee, LC, Remittance, Bills, etc., so those are starting to take effect as we roll out the training and roll out the capabilities. Secondly I think for about six months there was a lot of challenge on Bancassurance income primarily because of the regulatory changes. It seems to be settling down and that is also starting to generate income. Third is, as we acquire customers both on the Assets and Liabilities side we get processing fee and various transaction fees, so that is also coming through. And four is, some of the Treasury Income, so we do hope that we can maintain this momentum.

Amit Ganatra Have you done any restructuring for your Corporate Book this quarter?

Murali M Natrajan In the quarter I do not think we have done any restructuring.

Bharat Sampat We have three accounts which are standard restructured and total exposure is Rs. 5 Cr.

Amit Ganatra But was it done this quarter?

Murali M. Natrajan One account was done this quarter. One account of Rs. 2.5 - 3 Cr. was done. We do not have a big restructured book, if that is what you are looking for.

Amit Ganatra I know that you do not have an existing restructuring book, just wanted to know any additional restructuring that might have been.

Bharat M. Sampat One account whose current standard outstanding is Rs. 15 lakhs was restructured during the quarter.

Amit Ganatra Last thing is that your capital adequacy, this is unaudited, so if you add the current year's profit how much increase is it?

Murali M. Natrajan I think we should defer that question till we reach April 2012 because let it get audited fully, although these are all limited audit, so I am quite sure if it gets added you can do the maths on that.

Amit Ganatra What would be the total absolute amount of the Risk Weighted Assets?

Murali M. Natrajan Around Rs. 5000 Cr. I think.

Amit Ganatra Thanks a lot.

Moderator Thank you. The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi Good evening, sir. Congrats on good profitability numbers. Sir, we wanted to know whether there have been write-offs in the book and to what amount?

Murali M. Natrajan I think there is a bit of write-off, I think about Rs. 9 Cr. or so.

Kajal Gandhi Rs. 8 Cr. odd is what I could judge.

Murali M. Natrajan Yeah, about Rs. 9 Cr. has been written-off.

Bharat Sampat Write off cum settlement.

Murali M. Natrajan We do keep doing settlements on some of those smaller loans so that part which is not paid by the customer is also put into the write off bucket. Let us say, for example, a personal loan customer needs to pay Rs. 100,000 and he pays only 80,000 so the 20,000 we take it into write off, for example.

Kajal Gandhi I think it is not clear what is your target growth for this year now?

Murali M. Natrajan We started actually working on a 20% plus target. Then somewhere in June - July 2011 looking at the turbulence in the market we decided as a small Balance Sheet we want to be even more cautious in terms of taking risk. I think we will end up in Advance growth of about 15% to 16% and Deposit growth of about 17% to 18%.

Kajal Gandhi But that would mean nearly of Rs. 500 Cr. odd of disbursals in one quarter?

Murali M. Natrajan That happens normally in the last quarter because in AIB Banking alone we probably will disburse about Rs. 250 Cr. See in PSL and all, there is no point in holding a low yielding asset for a whole year, but our traction is quite good on Retail Mortgage and SME, so that should also contribute steadily in this quarter.

Kajal Gandhi What is your fund Deposits?

Murali M. Natrajan Which is what I said, we should be able to reach 17% to 18% growth on Deposit.

Kajal Gandhi Thanks.

Moderator Thank you. The next question is from Abhishek Kothari from Alchemy Share and Stock Brokers. Please go ahead.

Abhishek Kothari Sir, could you please give me the movement of NPA during the quarter?

Bharat Sampat Slippage is Rs. 16 Cr., Upgrades – Rs. 10 Cr., Write-offs and sacrifices on settlement - Rs. 10 Cr.

Abhishek Kothari Also if you could provide, in this provision of Rs.69 Cr. breakup of NPL and standard assets?

Murali M. Natrajan Which number are you referring to?

Abhishek Kothari The provisions?

Murali M. Natrajan We do not have standard asset provisioning because of….

Abhishek Kothari Not Rs. 69 Cr., Rs. 6.9 Cr.

Murali M. Natrajan **Rs.** 6.9 Cr., can I have the break up.

Bharat Sampat Rs. 6.9 Cr. is for the quarter. There is no standard asset provision but I do not think we give breakup of this. But largely I can tell you that it has come from the slippages that we have experienced this year on two or three larger Corporate Accounts. So Retail and SME has been pretty much minuscule.

Abhishek Kothari That is it from my side, thank you.

Moderator Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe Sir, very good set of numbers. Just one question on the SME and MSME portfolio, can you give some idea on the sector wise exposure led to which sectors contributing to most?

Murali M. Natrajan Thankfully, we do not have any skew towards any particular sector. The way we do business is that we look for 3 to 4 years of business experience or business performance and we look at the cash flows, trade references, Balance Sheet and the Bank statement analysis, then we do a personal interview. So we actually have a lot of filters in terms of choosing the customers. We are not skewed towards any particular segment. That would be quite of diversified portfolio.

Amey Sathe Your AFS and HTM portfolio what will be the average yield on that?

Murali M. Natrajan SLR yield in the current quarter is 7.48%.

Amey Sathe What I am asking is, if there will be any chance of mark-to-market gain in the Q4 FY 2012 due to fall in yield?

Bharat Sampat No, we maintain conservative Treasury. Most of the time our AFS & HFT in modified duration is around 0.5.

Amey Sathe Very short term, okay.

Murali M. Natrajan Maybe there is some gain but nothing substantial I think.

Amey Sathe Thanks a lot, sir.

Moderator Thank you. The next question is from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah Thank you very much. Sir, I just wanted to ask, you mentioned just now that in your provisions of Rs. 6.9 Cr., you do not have any standard asset provisioning.

Murali M. Natrajan Because we are carrying excess standard asset provisioning.

Prashant Shah So you are not required to follow the RBI's new policy

Murali M. Natrajan No, we follow the RBI policy but basically we do not have to have additional provision because in the past I think we have carried certain excess provision, when we reduce our book size we never reduce the standard asset. Bharat wants to add something.

Bharat Sampat When RBI as a contra-cyclical measure took standard asset provisioning on unsecured Personal Loans, the provisions made that time were not allowed to be reversed by any Bank subsequently when they have brought it down again, we have rundown of our unsecured Personal Loan book. So that excess provision, I mean every Rs. 10 Cr. of unsecured Personal Loans rundown would support standard asset provisioning of Rs. 50 Cr. of asset, so we are carrying a surplus there, so till we absorbed all that we do not have any standard asset provisioning requirement. That means we are not creating, we have more than required standard asset provisioning.

Prashant Shah Okay fine, that clarifies it. I just wanted to ask you your credit growth you are mentioning you have got 14% to 16% for this current fiscal, do you think you should be able to maintain that or move better in the coming years?

Murali M. Natrajan It all depends on how conducive the environment is for doing business. I can tell you that we did definitely tighten our credit norms somewhere in the month of June when we looked at the kind of challenges that were coming out in the system. If things ease off, obviously we will definitely accelerate the growth but too soon to comment. I will be able to talk about it more maybe in the month of March or so as things unfold.

Prashant Shah I wanted to ask you about your Borrowing program, in the sense your funding program, your Deposits were more or less flat than this quarter, means they grew on 9% year-on-year.

Murali Natrajan What we did was we replaced some of the Bulk Deposits with customer Deposits, that is the reason you find that. You should see a growth in this quarter because obviously we have a program of growing lot of Advances in this quarter. So we should see a growth in customer Deposits, it is quite a lot this quarter.

Prashant Shah The reason I was saying, in contrast your market Borrowings went up quite a lot.

Bharat Sampat There was an arbitrage opportunity at the end of the quarter, so part of it was put in short duration CD and part in overnight market. So Market Borrowings, significant part of it is LAF-CBLO which was taken overnight basis and deployed short-term.

Prashant Shah When do you expect these short-term borrowings to run off?

Murali M. Natrajan It has run off by now. It is not for growing the asset that we have taken that.

Prashant Shah It was a pure arbitrage opportunity?

Murali M. Natrajan Exactly, growing the Advances we do not take from markets like LAF, etc., we do that only for arbitrage opportunities.

Prashant Shah So that would also explain your high cash balances and inter-bank balances at the end of the quarter?

Murali M. Natrajan Correct.

Prashant Shah Outlook on your Mortgage portfolio, you are concentrating on it but it shrunk slightly quarter-on-quarter?

Murali M. Natrajan We had an agreement with the Board in terms of our liquidity planning that we need to test sale of our Mortgage portfolio, so the Home Loans that we actually originated ourselves in the last two years, we tested it by actually selling a part of that to one of the Foreign Banks. So as a contingency test measure, we just did that and that's the reason you see that shrinkage.

Prashant Shah Would it be possible to know what is the amount of that shrinkage?

Murali M. Natrajan Must have been about Rs. 40 - 50 Cr. odd.

Prashant Shah Thank you very much, sir.

Moderator Thank you. The next question is from the line of Elizabeth John from CRISIL. Please go ahead.

Elizabeth John Hello sir, congratulations on good set of numbers. One part on the CASA, I was just looking at the numbers quarter-on-quarter sequentially, it has almost remained flat till now and in Q1 FY2012 we mentioned that we were building in the frontline staff and it would start reaping benefits in six months or so. So will we see now the impact coming in Q4 FY 2012 onwards, or how is it?

Murali M. Natrajan Let me just divide this into two parts, the new acquisitions of CASA and the balances of CASA. So generally if you acquire say 100 accounts, maybe 70 of them would go to build balance itself. We are finding between branch and the outbound sales team, our CASA new sales has increased at least by 40% as compared to the last year same time. To that extent acquisition strategy is working. Now what does not been a very good story for us is that the Term Deposit rates are much higher this year than last year so we have seen when large accounts moving their balances to Term Deposits, so to that extent what has happened is our existing book has moved from the CASA to Term Deposits. So I really think when I look at the market, while we should not be comparing market but just for a very mild reference, I think from March 2011 to now if I am not mistaken, Demand Deposits in the market is down by about 11% or so, if I look at the RBI website. CA has been a problem for us because CA is a very reflection of business activity, there it has been flat or down despite acquisitions it has been flat or down. So I think the effort that we are putting in would definitely see results as the interest rate cycle kind of eases off a bit.

Elizabeth John How much would be the percentage of NRE deposits to Total Deposits?

Murali M. Natrajan May be it is important for me to mention that we did start the NRI business in this quarter. We have been putting a plan in action in the last few months so we actually started on the NRI business this quarter and as luck would have it also the regulation started favoring the NRI business. The two regulation changes, one of course interest rate and also there was some new regulation coming from RBI. So our NRI Deposits that is not a published number but I think it is about Rs. 240 Cr. But in months to come we do plan to build our NRI franchise.

Elizabeth John Actually I am just taking this quarter again, it was there in the previous call also, but it was regarding the loan book. Sequentially if I see obviously the Retail Mortgage has remained almost flat. Even SME has marginally grown by 8% QOQ. So going forward how do we see trend in these two main segments because they are the key drivers?

Murali M. Natrajan We are likely to grow both SME and Retail Mortgage by about Rs. 35 Cr. per month. That is how the trend is looking and we are confident we should be able to reach that number. See, the challenge Elizabeth is that in the market there is a lot of poor credit because of pressure on NPA in various banks. The last thing we want to do is to acquire some account which is not wanted by some other Bank, so therefore, we are very cautious in the last few months.

Elizabeth John Thank you.

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

Saikiran Sir, just quickly on your cost to income, what is your guidance going forward especially looking at lower growth and what you have anticipated at the same point of time, the most of the growth is coming from retail rather than corporate?

Murali M. Natrajan The cost to income challenge for the Bank can be described as follows, if I owe up to divide the businesses into Retail Liabilities, SME, micro SME, Mortgages, Corporates, Treasury and so on, the cost to income ratio is more severe for us in the Retail Liabilities area. I will tell you the reason for that. If you notice in our Balance Sheet, and I have to go back to a little bit of history on this, if you look at our Balance Sheet you will notice that up to FY 2009, CASA is flat at about Rs. 1400 Cr. So there was hardly any focus in our Bank for CASA and the branches were largely generating fee or some other activity. We have started on the CASA journey only from April 2009 and we have added about Rs. 600 Cr. plus with the same number of branches in say about three years. So if I look at the cost to income ratio, our cost to income ratio should be about 70% or 65% in the liabilities area, it is much higher than that primarily because we have not generated enough Balance Sheet in the existing branches. So what we are working on is, getting the productivity of branches up. If you notice there is a page where I have put the Deposits per branch. In fact CASA per branch is about Rs. 24 Cr., used to be about Rs. 17 Cr. or so. Our aim is to take that to Rs. 35 Cr., that is what we are working on. As far as the cost income-ratio on other businesses like SME, Mortgages and Corporate, we do not have a challenge in those businesses. So as we grow our CASA, which is what our strategy is, I do expect cost to income ratio to drop. But since we are a Retail and SME banking I do not expect our cost to income ratio to be below 60%. So as a first step we are working towards getting this from 73.5% to 60% and the timeframe that we have in mind is about two years. It is a pretty aggressive timeframe because I also have to invest behind new branches for growth.

Saikiran Okay. Second thing, especially on the Mortgages side, looking at your branch network you are primarily located in Mumbai as well as Delhi. What we understand from the market is the Mortgage slow down has been much higher in these two markets. How are you facing the challenge in terms of growth considering a small player?

Murali M. Natrajan See, we have to grow only Rs. 40-55 Cr. per month, that is what our target is and we are doing in about 7 or 8 locations at the moment. I think in the last quarter we also opened one or two more locations. So we are seeing a slowdown in Mumbai but that is being I think made-up by other cities like Hyderabad, Bangalore, Delhi and so on. So I do not see that as a problem. Even within each of these cities we have good analytics to tell us as to which pocket should we avoid or not concentrate on, which pocket we should work on. It is a challenge but it is not such a difficult problem for us.

Saikiran A data-keeping question, out of our total Mortgage book what percentage is acquired and what percentages is self-originated?

Murali M. Natrajan 30% odd would be acquired and acquired means we have done the hard work of looking at each loan and acquired, it is not just a simple portfolio buyout. It is like we applied our own under writing criteria on each of those portfolios, so it just happens that we were able to do in one shot but the same strict criteria we have applied on the portfolio.

Saikiran Last question on the capital side, you mentioned that you might raise capital during this current year. Considering the low growth do you anticipate this getting postponed may be to the next calendar year?

Murali M. Natrajan We will raise capital when market is ready to give us capital, that is a short answer I can tell you that. I need to raise capital primarily because now that we have approval from RBI from Tier-2 to Tier-6 we can put branch anywhere which approval was not available to DCB Bank about say two months ago, we do want to start slowly expanding our branches in the right areas for two reasons, one is to keep building on our CASA, second also to be able to do our priority sector lending more directly than trying to buyout portfolios, etc. So for that if you raise capital it will definitely allow us to expand faster.

Saikiran You have any threshold in terms of Tier-1 capital beyond which you will be more accelerating the capital raising plans?

Murali M. Natrajan But the capital raising plans we are always on it for the last six months so the efforts have not been any less but the threshold that we are looking at is about 10.25% -10.50 %, like that, of Tier-1.

Saikiran That is it from my side, thanks a lot sir.

Moderator Thank you. The next question is from the line Silky Jain of from Nirmal Bang Securities. Please go ahead.

Silky Jain My question pertains to the loan book again, looking at your Agri loan book it is only around Rs. 416 Cr. Basically it is very lower compared to what we have seen in the FY11 and FY10 levels and we are targeting a very good growth year. So just wanted to understand basically how are we going to achieve that?

Murali M. Natrajan How are we going to achieve it? It is a very simple thing. We have a separate team of about 30 to 40 people who are specialist in the Agri and Inclusive banking. In fact these people have also started to manage some of our rural branches to do direct lending in terms of crops, direct lending in terms of tractors and all these things from of priority sector point of view. One of the big changes is that last year I think gold loans were allowed as PSL. This year it is not allowed so obviously we did not think it right or fit to originate those Advances in the Agri area, so that makes a big difference. But what we have done is we have done other alternate programs in terms of portfolio buyout of tractors, portfolio buyout of qualifying commercial vehicles and so on. So we are confident that we will be able to build the book in the next three months.

Silky Jain You said you are targeting around Rs. 250 Cr. in the book if I am not wrong?

Murali M. Natrajan About Rs. 250-260 Cr., yeah.

Silky Jain Second thing was regarding the NIMs. You said that you were seeing some pressure at the current levels, like maybe due to the PSL book which we are targeting, so there will be some pressure on the NIMs. So are we able to sustain it above 3% any which ways?

Murali M. Natrajan Beyond April or May 2012 I think we should be at about 3.3% -3.5% type of NIMs, that is what we think. This quarter obviously because of PSL, also please remember that I think more or less RBI has signaled that there is no interest rate increase possible. That means obviously we will not be able to increase our base rate, increasing of base rate is not an option any longer. So, therefore, all these factors put together plus there is likely to be some kind of a liquidity pressure usually in the last three months of a year, so all this put together I do see a 20-25 basis point challenge in our NIMs.

Silky Jain In the current quarter?

Murali M. Natrajan In the current quarter, so steady state we should be able to go back to 3.35% type of levels.

Silky Jain Looking on your cost-to-income we said that we are investing in employees. So what is your current employee base as of date?

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Murali M. Natrajan That is not public information but approximately it is about 2100 people.

Silky Jain Thank you.

Moderator Thank you. The next message is from the line Bhavna Sinyal of from India Infoline. Please go ahead.

Bhavna Sinyal Hello sir, congratulations on a good set of numbers, Sir, most of my questions have been answered. Just one small question, what was your cost of deposit for the current quarter?

Murali M. Natrajan There is a page on cost of deposit and cost of funds?

Bhavna Sinyal Cost of deposit is not given in the presentation.

Murali M. Natrajan We do not share that number, perhaps we will try and see if we can do it next time. It should be about 20-30 basis points less than the cost of funds I guess.

Bhavna Sinyal One more question sir, I just missed out the NPA movement?

Murali M. Natrajan First of all, there is hardly any slippage on Retail or SME book. So those books are quite good at the moment.

Bharat Sampat Slippage – Rs. 16 Cr., recoveries and upgrades – Rs.10 Cr. and write-offs and sacrifices on settlement – Rs. 10 Cr.

Bhavna Sinyal Thanks a lot, sir.

Murali M. Natrajan We have time for two more questions.

Moderator Thank you. The next question is from the line Parees Purohit of from Elara Capital. Please go ahead.

Parees Purohit Thanks for taking my question. Just to continue from previous question on the margins where you said, you are seeing a little bit of softening in the Q4 FY 2012 by 20-25 bps. Now do you have a full year NIM target that you are hoping to achieve, is that something is that something you share?

Murali M. Natrajan Actually we plan every two quarter because depending upon the cost of funds and what is happening, I see special pressure in this quarter like I explained because of priority sector lending, I do not think we can raise our base rate any longer but there will be some clamor for Deposits in this quarter (Q4 FY 2012). Our stated aim is that we want to keep the NIM anywhere at about 3.3% to 3.35%, that is where I think we are targeting. So that works for us. But let us see, obviously there is a lot of hard work going on in terms of choosing the right type of Deposits and pricing the customer right and so on to manage the NIM in the right manner.

Parees Purohit The reason I am asking is because I understand last year was a different period but if I compare last year's Q4 FY 2011 NIM, it is not that bad compared to the previous quarter and I understand that the base rate also moved by a good 50 bps in the same quarter but we had the same liquidity pressures every year in 4th Quarter and also going back to what you said in the beginning of the call in the beginning of the call where you were saying that a large part of your MSME and Retail Mortgage is also qualified for PSL in which case the yields that you will enjoy on those would be fairly competitive. So you are not really sacrificing yield for PSL exposure there.

Murali M. Natrajan Let me assure you I am not working towards reducing the NIM by 55 basis points.

Parees Purohit I understand that but I am saying that this over caution

Murali M. Natrajan We are a cautious bank. Yes there is some caution but you can see that NIM has come off by about 4 basis points and I am seeing pressures on Deposit rate building up, also we have to kind of build our Deposit rates to disburse these loans. So I do see some pressure there. So the idea is not to reduce the NIM but just to give you a view that it can happen this way.

Parees Purohit Even on the Deposit side you mentioned that you have replaced more expensive bulk with retail and the fact that we don't expect….

Murali M. Natrajan No, Retail is more expensive. But Retail Liabilities are usually are about 25 basis points higher, Bulk is cheaper. But Bulk is not reliable that is the reason we kind of keep switching the Bulk with Retail. And we also have embarked on a non-resident external Deposit program, so that also I think is going to increase our flow of Deposits.

Parees Purohit And you are saying on a steady state for at least next financial year you should be able to settle at the 3.3% to 3.4%

Murali M. Natrajan That is the way we are working towards.

Parees Purohit And that obviously factors in softening in policy rates?

Murali M. Natrajan What I am saying is that by April 2012 the entire Term Deposit stock would have bought re-priced to the higher level then after that again unless and until the Deposit figures raise there is no re-pricing risk on Term Deposits.

Parees Purohit Thank you, that is very helpful.

Murali M. Natrajan So last question operator? We are happy to take the last question.

Moderator Thank you. The last question is from the line Subramaniam P S of from Sundaram Mutual Fund. Please go ahead.

Subramaniam PS Initial remarks on CASA, I just wanted to understand your thoughts as to why you are not going ahead and raising savings rates when few of the Banks have gone ahead and one of Banks which has declared has seen a 20% quarter-on-quarter rise in Savings Account Deposits. So what is it that is keeping you back from doing this?

Murali M. Natrajan I will not be able to comment on another Bank's strategy I do not know the details there but I can tell you that if someone can get 20% growth by increasing their rate, then HDFC would have been the first Bank to do it because they are an out and out CASA player. I do not think it is possible to raise interest rate on the entire stock and make it up with volume because that is quite an expensive way to do business. Our own philosophy is that customers are there because of transaction convenience and service and if they want savings they can always have the option of shifting the balance to Term Deposit and I have seen a lot of Savings and Current account shifting to Term Deposits. Now why would you want to take it to a Bank which is giving 6% when I am giving you 9.5% on Term Deposit? You could have simply switched there and if you want it back into the savings account, it is much more convenient in our own Bank to transfer it back into the Savings Account for transaction. So we have not seen any impact, I have not seen a single customer saying that I am moving this deposit to 'A' or 'B' or 'C' Bank because of interest rate, because we monitor our attrition very closely. But that is not to say that that won't happen in the future. If it so happens that one or two large Banks increase their interest rates we would obviously have to come out with our own plan as to how we want to tackle that. As of now I have not seen a single impact on even our new acquisition. Our new acquisition has not even dropped; we still are offering only 4% which is the minimum. It has not dropped on a month-on-month basis.

Subramaniam PS Thanks and all the best.

Murali M. Natrajan Thanks. Okay operator, any other question which has been unanswered they can send a mail to Meghana, Bharat or myself and we will be more than happy to take those questions. I really appreciate the time that investors have spent in listening to this call, thanks very much.

Moderator Thank you. On behalf of Development Credit Bank, that concludes this conference. Thank you for joining us, you may now disconnect your lines.