DCB BANK

"Development Credit Bank Ltd. Q3 FY2012-13 Earnings Conference Call"

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Management Participants:

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

Mr. Bharat Sampat – CFO, DCB Bank

Mr. Rajesh Verma – Head – Treasury & Corporate Banking, DCB Bank

Mr. Sridhar Seshadri – Financial Controller, DCB Bank

Ms. Meghana Rao – Head – Investor Relations, DCB Bank

Moderator Ladies and Gentlemen good evening and welcome to the Development Credit Bank Ltd. Q3FY13 Investor Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – M.D. and CEO, DCB Bank and Mr. Bharat Sampat – CFO, DCB Bank. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you Sir.

Murali M. Natrajan Thank you. Good evening everyone and welcome to Development Credit Bank Ltd. Q3FY13 Investor Conference Call. I am joined by Mr. Rajesh Verma – Head of Treasury & Corporate Banking, Mr. Sridhar Seshadri – Financial Controller, Mr. Bharat Sampat - CFO and Ms. Meghana Rao – Head, Investor Relations. For the first 10-odd minutes, I will quickly update you on the results for the 3rd quarter and then we will open for questions. We would like to finish the call in about 45 minutes, so if by any chance, your questions remain unanswered please feel free to call/email us later. We will only be too happy to provide you with the required details, if we could. So let's me start the update.

Before I proceed I hope everyone has got the press release and the investor presentation that was uploaded on our website. In the 3rd quarter of FY 2013 we delivered a profit of Rs. 26.9 crores as compared to Rs. 15.6 crores for 3rd quarter of FY 2012. In terms of Deposits compared to last year we have grown by 22% and Advances by 39%. We are having a strong Capital Adequacy of 13.71% and we also raised about Rs. 40 crores of Tier-1 capital during the quarter. In terms of Balance Sheet growth as compared to last year it is 17%. We continued to have a strong contribution of Retail Term and CASA Deposits together at 80% plus. CASA ratio came below 30% and I will explain that in a minute. Net Advances grew by 39%. We had a Net Interest Margin of 3.38% but I do not expect this margin to be continuing because 4th quarter always has Cost of Fund as a major issue and also we have to complete our Priority Sector Lending which has Loans that do not yield us the similar kind of rate as other Advances. In terms of Provisions, it continues to be in control. For this quarter our fresh slippages were approximately Rs. 20 crores and upgrades and recoveries were approximately Rs. 11 crores so there is an increase of about Rs. 7-8 crores of Gross NPA for the quarter. Most of the slippages were in secured lending in MSME and SME category and we have hard collateral in all these slippages. So over time we will be able to recover. Part of the slippages was due to the kind of environmental challenges that exist and part is business as usual type of issues that SMEs face in terms of either a business slowdown or breakdown in partnership or any such type of issues. We had a reasonably good quarter in terms of the Corporate book, we did not have any issue. We have started to roll out few branches in the rural and semi-urban areas, we opened our 89th branch in a place called Hinjilicut in Orissa. We think that by the end of the year that is by March 2013, we would have opened another 6 to 7 branches. We are still absolutely pursuing the plan of having 120 to 150 branches in the next two – three years with a mix of semi-urban, rural and metro. The Income growth has been, if I compare year on year, is about 19% on NII and 16% on NFI, Non-Funded Income. Our aim is to keep income growth at 20% or above and make sure that the cost growth is in the range of 10% to 12% which is what we have been able to achieve. This quarter our Cost Income Ratio also came below 70%. Our aim is to end the year below 70% and then progressively bring down the Cost Income Ratio to 60% or below in next two years. The contribution of Advances, 42% is Retail that includes the Mortgages, 35% has come from Mortgages, it also includes Gold loan, Commercial Vehicle etc., about 25% in SME/MSME, 24% in Corporate Banking and about 10% in Agri & Inclusive Banking. Our Gross NPA ratio is at 3.80% and Net NPA is at 0.73%. We continue to have strong coverage ratio of 88%. I do not recall any significant write-offs during the year. ROA has crossed 100 basis points, we are at 1.14% and ROE is at 11.66%. Like I mentioned our aim is to deliver in next two year's time 14% to 15% ROE and much of that would come by building scale, keeping the incremental costs in control while generating an Income of at least 18% to 20% every year. So that is what I wanted to share with you. I am very happy to take questions.

Moderator Thank you Sir. Participants we will now begin with the question and answer session. We have the first question from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah Sir, you mentioned that you are looking targeting an ROA of 14% to 15% over the next couple of years and you are looking at income growth of 18% to 20%. So where does your Non-Interest Income fit into your strategy because slowly if you see the share of your Net Operating Income which is slowly trending downwards. It is about 28% right now. It was 36% in Q4 FY 2011.

Murali M. Natrajan If our Balance Sheet is small and NII is weak then obviously Non-Funded Income will look higher in proportion. So if you look at our September 30, FY 2009-10 numbers just for a quick recall we were at a Rs. 2,900 crores of Advances approximately and we are now at about Rs. 5,800 crores. If you look at our Non-Funded Income, year on year growth is about 16% and so I think we are making progress on Non-Funded Income also and the good news is that its all very granular income like accident insurance cross sell, life insurance cross sell, some of the capital product at mutual fund cross sell, trade, CASA related fees, ATM fees. Our aim is that whatever is the incremental cost, much of that incremental cost should be covered by improvement in Non-Funded Income. That's our strategy.

Prashant Shah So can we consider this more or less to be the bottom in this quarter and further improvements in the coming quarter, higher traction in the coming quarter in NFI?

Murali M. Natrajan I think the quarter has ended at about Rs. 28 or Rs. 29 crores, so what is the bottom and top I am not sure what you are saying on this.

Prashant Shah No, because in the last 3 or 4 quarters if you see it has trended between Rs. 27 or Rs. 28 crores. So can we expect further improvements, going forward I mean as a percentage of your Net Operating Income going above Rs. 30 crores?

Murali M. Natrajan I do not look at it as a percentage of Operating Income because there are continuously some regulatory changes happening. For example, ATM fee which was about Rs. 17 or something has dropped to Rs. 15. Due to which we are losing almost like Rs. 30-40 lacs per month. I am not sure how has that impacted other Banks but definitely we got impacted due to it. So I look at it as saying that every year am I able to cover much of my increase in cost on staff and operating expenses by improvement in Non-Funded Income and am I able to keep my Provision and credit losses in control such that much of the NII increase drops down to the bottom line. That is the way I look at it.

Prashant Shah And sir coming to your Balance Sheet, your SME which was actually your strong focus of the Bank has steadily lost traction. It grew by just 15% during the quarter, any particular reason for that?

Murali M. Natrajan I think SME is a challenge from an environment point of view so what we did was in the last quarter or slightly before that we kind of cut out some of the segments that we would like to do. For example, in terms of ticket size, say for example we were doing a Rs. 5-6- crores type of Loan, we kind of reduced that to saying no, we should do only about Rs. 3 - 4 crores type of Loan. Not that we are seeing any dramatic stress in our portfolio but we do find that given the environment, where for example, there is a customer who is still waiting payment from a Government agency for having done work almost six months ago. So there is a general slowdown that is there, so we want to be a little cautious. So the reason why you see slower growth this year is because we have consciously kind of reduced some of the segments that we were erstwhile focusing on last year. So if you look at our Mortgage book, 70% of our Mortgage book is SME segment. It may not be kind of CC/OD type of Loans that Mortgages does, it could be a Term Loan but the segment continues to be SME.

Prashant Shah So this is basically may be we can say a slight shift in focus. You are still focusing at SME but the other than CC/OD Loans you are focusing on Mortgages.

Murali M. Natrajan I am reducing some of the CC/OD Loans, not necessarily the entire thing but suppose I was doing one account of Rs. 6 crores, now I will have to do two or three accounts of Rs. 2.5 crores each to make up for that. So therefore I am actually reducing the ticket size in SME.

Prashant Shah So do you see the trend improving may be in the couple of quarters down the line?

Murali M. Natrajan I think I would like to give it another six months, I would like to see the environment improve further and only then start to build up further. If at all I want to go into slightly larger ticket size I would like to wait for the environment to improve.

Prashant Shah So you expect the incremental growth in Advances to come from Corporate, Mortgages and Agri in Q4 FY 2013?

Murali M. Natrajan Q4 FY 2013, a lot of it would come from Agri and some from Corporate but we will continue to perform the way we are doing on Mortgages. Mortgages we have a pretty strong traction.

Prashant Shah And just one last final thing, what is your outlook for Gold Loan and CV portfolio though we have started recently, but on a sequential basis if we compare growth is still there at just about 5%?

Murali M. Natrajan On Commercial Vehicle?

Prashant Shah Yes, Commercial Vehicles and Gold Loans.

Murali M. Natrajan We just started Commercial Vehicle and the Gold Loan about few months ago. Commercial Vehicle is not even 3-4 months old and we are being very cautious because the entire market is having some challenge on Commercial Vehicle. We got into Commercial Vehicle purely because the number of options that are there for buying portfolios or doing Priority Sector Lending is very limited under the new guidelines. We have experience in Commercial Vehicle so we went into it with a very steady approach so that we do not have to depend on other entities for completing our Priority Sector Lending. So I will not able to give you any guidance on that. We are doing it to make sure that we meet our Priority Sector Lending.

Prashant Shah So primary reason for Gold Loans and Commercial Vehicle (CV) is for PSL?

Murali M. Natrajan For CV primary reason is PSL, for Gold Loan a lot of branch customers want to have Gold Loans so we have to offer that and we are doing that.

Moderator Thank you. We have the next question from the line of Bhavna Sinyal from IIFL. Please go ahead.

Bhavna Sinyal Sir your Yields on Advances have just gone up by 4% during the current quarter whereas the Costs of Deposits have been flat and even the CD ratio is almost unchanged. So Sir, what explains this 14 bps rise in NIM?

Murali M. Natrajan I think with some switch in like for example, some change in Borrowings versus Deposits because our Retail Deposits, that is I am talking about Retail Term Deposits have gone up significantly and in investments we have had some better yields on investment so that is what is the reason. Like I said, 3.38%, we do not believe that it is sustainable. We probably think it will still be around 300 to 327 basis points, but YTD we would be only about 325 basis points on NIM.

Bhavna Sinyal But sir the Interest on Investment has been grown by 0.6% during the quarter.

Sridhar Seshadri As you can see the Yield on Advances have gone up by 4 bps which is already there in the presentation. Similarly there has been a slight improvement in the Yield of Investments. During the current quarter the composition towards the higher yielding Advances, the composition also has been changing towards that from a larger Investment Portfolio. So a mix of all these three leads to the improvement in the NIM that you are able to see.

Murali M. Natrajan So we have more Advances in proportion to Investments. So even though in absolute Advances and Investment, yield has gone up only slightly but the mix between Advances and Investment has gone more towards Advances by about 2-3% and that is contributing to about 5%.

Bharat Sampat Rs. 10 crores more Interest Income versus Rs. 5 crores more Interest Expense on the Deposit side.

Murali M. Natrajan So that is why the NIM is showing up to be at 3.38 and like I said even this was asked to me by some other analyst yesterday, I said that given that we have to do Priority Sector Lending plus the Deposit rates are quite firm at the moment, at least as we can see for the month of January and February definitely it is going to be. So we think that we will be around 315 to 320 basis points. We will come back to you separately also on that

Moderator Thank you. We have the next question from the line of Praful Kumar from Birla Sun Life Insurance. Please go ahead.

Praful Kumar Couple of things. One is in the opening comments you wanted to say something on CASA. Can you explain it now?

Murali M. Natrajan What is happening in CASA is like this. First of all our Savings Account growth is ranging 14% to 15% annually. If I look at December figures of last year versus December figures of this year, we are making steady progress on Savings Account. Current Account, new acquisition is not a problem but balances are very volatile and I looked at some market data and I find that in fact market, you do not get Current Account separately but market data on CASA is pretty weak when I look at that. And I also compared some notes with a couple of other Banks of our size and we find that CA is a problem; SA seems to be growing well. So there is no let up on acquisition of the Savings Account or Current Account.

Praful Kumar Can you share the numbers in terms of accretion of Savings Account, what is the run-rate for it?

Murali M. Natrajan I cannot share that numbers because that is not a public number. I have just told you that gross increase on Savings Account is approximately 15% for year on year. So we feel that some of the resources from the Current Account or the scorecard in the branches from Current Account needs to shift a little bit more to Savings Account because I believe that Current Account is a function of the environment also in some ways if this sort of business momentum is there on Current Account, sometimes it comes in even without making too much of effort. So that is where we are. I think we still want to reach a 30% CASA ratio, so let us see how the fourth quarter goes. Also we are finding a lot more traction in our Advances growth and therefore that needs to be funded by Retail Deposits. So even Retail Deposits growth is being somewhat faster than CASA growth that is why you find the ratio to have slipped.

Praful Kumar Also in terms of ground, see for the first time we are seeing that accretion to gross NPAs have been towards a positive territory. Is there any trend to read into this or you want to talk about what has contributed is Rs. 20 crores of slippages for the current quarter?

Murali M. Natrajan Rs. 52 crores is our Total Slippage for the 9 months, which is approximately 1% of our opening say Net Advances or whatever. So out of this when I look at it in the last quarter of about Rs. 20 crores some Rs. 7 odd accounts have contributed, I am not counting the small accounts like Rs. 5-10 lakh account, some major accounts have contributed. The biggest item seems to be about Rs. 4 crores and the other ones are small like Rs. 1-1.5 crores. All of these are Secured Advances that means we have hard collateral coverage on them and we are confident of pursuing our recoveries either customer himself paying or through any sale of property or something but obviously it will take anywhere between 3 to 12 months to recover this. I will say that part of this slippage is clearly because some of these customers were facing challenges in terms of business slowdown, not getting payments from their customer including one customer where a Government agency has not been able to pay him on time. So I do not see any major trend in it. We saw this trend a little bit in the second quarter that is the reason we kind of cut down some of the segments in SME that we were focusing on. So that is also helping us in someway to not create any problem for the future for next year or something but at the same time that has caused muted growth in SME/ MSME as a separate item but as a segment we are still concentrating even on Mortgage on SME segment.

Praful Kumar Sure. But in terms of reality on the ground you still think, do we read that worst is behind us in terms of as you said receivables are still a challenge. So is there any pickup in any SME segment that you have seen lately in the last say 2-3 months?

Murali M. Natrajan I think the situation is still better, I mean I would not say it is strong. That is my own sense and I can only tell you anecdotally because when we talk to a few customers we get some sense of what is happening.

Moderator Thank you. We have the next question from the line of Deepan Sankara from HSBC Invest Direct Securities Ltd. Please go ahead.

Deepan Sankara The CASA ratio has declined and how do you plan to improve the same in the future?

Murali M. Natrajan First of all we will start putting in new branches in April or May 2013 once this year is over. Of course I would be careful not to deteriorate my Cost Income Ratio and continue to improve it. So we have to do that very steadily. Secondly, like mentioned for the previous question we are looking at whether we need to shift a little bit more focus on Savings Account and less on Current Account because Current Account while the acquisitions are happening the balances are very volatile and therefore we are unable to kind of, if the customer is withdrawing the balance there is hardly anything you can do on a Current Account. So on Savings Account we have grown by about 14-15% in the last 12 months as per our records. So we think that we need to shift some focus to Savings Account and that would be done by changing some of the scorecards in the branch banking area. So that is basically how we are thinking about bringing it back to 30%.

Deepan Sankara Sir, do you think now with interest rate cycle coming down the pressure on bringing Deposits up will be higher at this level?

Murali M. Natrajan I do not know from where you are getting the sense that interest rate cycle is going to come down. Even today people are quoting 10.10% for three months Deposit, two months Deposit is going at 9.5%. I hope we both are referring to the same interest rate.

Deepan Sankara Sir on this Cost to Income ratio, like overall if you see now we are planning to increase our branch sizes also. So still we will be able to reduce the same aggressively in the future also?

Murali M. Natrajan We have grown a few branches and if you see that at least for the quarter we are at about 68.7%. I had mentioned in my previous quarter calls that every quarter or every year we will be reducing it by a few percentage so that we come to below 60% level at least in the next 2 years' time. And that will also give us a cushion to make more investments for growth. So you can be rest assured that tremendous amount of effort is going into making sure that Cost to Income ratio is improved. Also, it is not a cost issue but size issue. It is just that I have to systematically grow my Balance Sheet on the current infrastructure.

Moderator Thank you. We have the next question from the line of Subramaium PS from Sundaram Mutual Fund. Please go ahead.

Subramaium PS Few data keeping questions, how much would be the unabsorbed losses now sir?

Murali M. Natrajan **U**nabsorbed losses would be approximately Rs. 250 crores and our roadmap is that within next 18 to 24 months we should complete absorbing that.

Subramaium PS And you are saying by end FY 2015 you should be able to absorb all of those?

Murali M. Natrajan That is the roadmap that we have committed both internally and to regulator.

Subramaium PS Okay, so from a tax perspective is it fair to assume that you would start paying taxes only after FY 2015?

Murali M. Natrajan It is not very easy to comment on taxes but I think that we should be able to try and see if we can use these unabsorbed losses for at least two more years.

Subramaium PS My next question was on the Fee Income, I mean the contribution of the Fee Income as somebody had earlier pointed out also, has not changed significantly. Just wanted to understand any initiatives that could drive Fee Income growth on a different trajectory and any new the verticals that you plan to add? It looks that you were referring to the rating upgrade post equity raising which could open up avenues, so any particulars on that?

Murali M. Natrajan We are working on rating upgrade. It is a time consuming effort to convince the rating agencies. Our effort is on. I think our financials are improving so the rating agencies should not have a problem in viewing this favorably, we are still very hopeful. So that process is happening parallelly. I am finding that as our financials are improving we are getting a lot more support from various financial institutions including NHB, NABARD and so on. So that is also helping us to grow our Balance Sheet. Now on the Fee Income, I find that if I am working on Retail and SME then the Fee Income is like small items Rs. 1 lakh types, like even if I do a Trade with a SME it is about Rs. 100,000 or Rs. 200,000 that type of ticket size. If you do Corporate Banking you obviously get big ticket size like Rs. 10 lakh or Rs. 20 lakh type of Fee Income. So our strategy on Fee Income has been to make sure that all our branches are trained on Trade for the Retail and SME customers, which we are continuously doing and that is showing good results. We are cross-selling Insurance both General and Life Insurance taking care to avoid any miss-sell and so on. We are cross-selling Wealth Product again very carefully. We have lots of CASA related fees that comes in, also ATM fees. Unfortunately last two quarters ATM fees have disappeared because of some change in regulation and all but granularly the three items are being worked out and if you see year-to-year our growth is 16%.

Subramaium PS What I was trying to understand is if there is a potential income for Fee Income to grow ahead of what the Balance Sheet grows at? Is that something you are consciously targeting?

Murali M. Natrajan At the moment I would like to make sure that Fee Income covers substantial part of our growth in cost. That is the way I am looking at it.

Moderator The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra Has there been any portfolio buyout in Mortgages during the current quarter?

Murali M. Natrajan Now we have stopped reporting that separately. Once in a while we do get opportunities and we buy portfolio. Sometimes portfolios have to be bought even for PSL reasons in Agri Inclusive Banking. And that would be no different from what we have been doing even last year. So I do not have that number to share with you.

Amit Ganatra What is the total Risk-Weighted Assets amount?

Bharat Sampat Rs. 6,589 crores.

Amit Ganatra And in the investor presentation this Tier-1 and total CAR which has been reported, does it include the 9-month profits?

Bharat Sampat No, it does not include 9-months profit.

Moderator Thank you. We have the next question from the line of Ajay N from Bank of India. Please go ahead.

Ajay N You have contained your Operating Cost for quite sometime now. So for what level of growth you think we can still do with the same kind of expenses?

Murali M. Natrajan May be the way I will like to answer it is that the basic infrastructure in terms of systems, Head Office cost, the overheads that are necessary from managing operational risk and so on, I think that is all there. What we are incurring or will continue to incur is large amount of variable cost to grow the volume. Our intention is every year to grow income by 18% to 20% and cost not more than 10% to 12%. That is the way we will try to improve the Cost to Income ratio.

Ajay N That would be sustainable for the next 2-3 years.

Murali M. Natrajan I am confident that it is sustainable for at least next 2 years looking at the current situation. I do not have any new investments like buying a new system or some massive upgrade or going into some new buildings, those kind of things that I do not have any such cost envisaged in the next two years. Even the branches that we are putting we are very careful to see what the rental cost of the branch is and what is the people cost and how soon can we breakeven. So we have done some work on that and very carefully we kind of deploy those branches.

Ajay N And sir how many Bank branch licenses we have now for next year also?

Murali M. Natrajan For Tier-2 to Tier-6 we do not need any licenses. For Tier-1 we have about four or five licenses which we need to complete by May 2013.

Ajay N And how quickly we can have access to wholesale market because I think we have shown growth for 8-10 quarters?

Murali M. Natrajan Wholesale market in the sense?

Ajay N CD market primarily.

Murali M. Natrajan We are hoping for a rating review by the rating agency in the coming quarter. So we are hoping that at least for the majority part of the next year we should be given a better rating than this but I just keep my fingers crossed. So they look at the lot of the environmental factors also. So that would come into picture I guess in their rating.

Ajay N Next quarter you are saying in Q4 FY 2013.

Murali M. Natrajan No, no, this quarter we are going to do a review but I hope they will give it to us by 1st quarter of next year.

Moderator: Thank you. We have the next question from the line of Prakash Kapadia from I Alfa Enterprises. Please go ahead.

Prakash Kapadia Corporate Banking side we have seen a good growth of over 50% in Advances. So can you throw some color, was it low base and some insights as to what kind of sectors or what size of Corporates are these and is this sustainable in the coming quarters?

Murali M. Natrajan Corporate Banking in FY 2011-12 that is the previous financial year, we exited a lot of accounts. And we exited because it was not fitting the risk appetite that we had put for our strategy.

Prakash Kapadia So these would be what businesses which are government dependent or sectors which saw some stress?

Murali M. Natrajan For example, power sector, some gem and jewels we got out of and some accounts even if it is proper sector we are not happy with the credit. It may not be fair for me to tell you the names here but other Banks may have found it to be good credit. We found that it does not fit our risk appetite. So since then what we have done is we have kind of internally reorganized our thinking on what are the Corporates we will be going for and what are the kind of credits we will pursue. So we have found some success in the last this thing. I think our main growth will continue to come in Retail Mortgages and Retail business. There has been some slowdown in SME and that has been a very conscious decision. In terms of number of accounts we are still originating a lot but I have reduced the ticket size so obviously even if I do more accounts if it still does not show up in Balance Sheet that much. And please understand there is a lot of competition in SME and MSME purely because some of those accounts are Priority Sector Lending. People are willing to pay even some silly rates to grab those to save themselves from some penalty. So that problem is also happening in SME. So our growth would be measured in Corporate. It is very difficult to predict in any particular quarter whether we will grow by Rs. 300 crores or Rs. 500 crores, it all depends on the flow of deals. But our aim is to grow carefully and methodically in Corporate Banking.

Prakash Kapadia And these would be typically what size Corporate? Would it be like sub-thousand crores?

Murali M. Natrajan Anywhere between Rs. 300-400 crores. But the large ticket loans are very few. We normally concentrate on ticket size of Rs. 20-30 crores type of Loans.

Moderator We will take the next question from the line of Shweta Mane from Arihant Capital Market. Please go ahead.

Shweta Mane Sir firstly, how is your experience on the Gold Loan portfolio which forms somewhere around mere 1% of the total Advance book?

Murali M. Natrajan There is no problem with Gold Loan portfolio. Few months ago we had some 3-4 accounts which was claimed to be some fraud or something like that. I think we must have written-off 2 lakhs or something because of that. We have a lot of operational control. There is spot audit that is done. The idea is to avoid any errors, basically we should not end up taking silver and give gold loan type of pricing. So there is a lot of training that is required to be done at the branches plus spot check. Also we employed some kind of electronic machinery to kind of check the percentage of gold, etc. So far our experience has been okay. I do think we probably have a portfolio of about Rs. 50 crores or so. We do plan to grow that but that is only for branch customers we are giving Gold Loans.

Shweta Mane Sir secondly if I were to see your Base Rate, it has remained constant for the past six quarters. So given the dynamics in the environment do you see any changes happening on this count?

Murali M. Natrajan I do not see the Deposit rates coming down dramatically. Base rate is function of, as prescribed by RBI, I am sure all Banks are using transparent formula which is also subject to some kind of review by the inspection team on how a Base Rate is being calculated and we have been consistent on how you calculate that Base Rate. And if there is an improvement in Base Rate you are supposed to change the Base Rate. Since August 2011, I think that is when we last changed the rate. I have not seen improvement enough to pass it onto customer. In fact we thought that rates are going to soften somewhere in October-November of 2012 and again now we find the Deposit rates have gone up. So Base Rate will change when our Cost of Fund as calculated by our Base Rate methodology changes.

Shweta Mane Sir then lastly you mentioned the five new licenses which you have, is the approval already there from the RBI and will close the year with around 94 branches?

Murali M. Natrajan 94-95 branches. In South because all the pipelines that we are implementing I feel that another 6-7 branch should come into play this quarter. It may not be the same 4-5 because Tier-2 to Tier-6 we do not need prior RBI approval.

Moderator: We have the last question from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe Sir, one question you made the comment that because of new securitization guidelines our PSL pool is not available. Can you just clarify on that?

Murali M. Natrajan See what happens is that the new securitization guideline contemplates seasoning of pool. It will be very difficult to explain the entire details in this call because it was pretty comprehensive, so its like three-month seasoning, 12-month seasoning. Which means seasoned pool in the market becomes less because till last year a lot of pool would have been already sold by many of these NBFCs. So what is happening therefore is that Banks with large outstandings, large Advances who may have some shortage in PSL, tend to kind of very keenly compete for these pools or any such advances. That is what I meant.

Amey Sathe Because the NBFCs that we interact with, they normally claim that they have got substantial seasoned pool which they can securitize. So I just wanted to understand why there is a difference?

Murali M. Natrajan Not that I need so much of pool because we are comfortable on our PSL and sometimes even if they claim to have a pool they will quote higher, other problem is I think Foreign Banks also have to do some 40% PSL.

Amey Sathe More than some branch I think there are some branches that have the requirement I think. Above that they need to do 40%.

Murali M. Natrajan So they are also into this challenging situation. So I am glad there is a pool available but pool is always to be quoted at the right price also.

Murali M. Natrajan Great. Thanks everyone. I am very happy talking to you all. So talk to you again next quarter and in the meantime if there are any questions, please feel free to approach Bharat or Meghana and we will be happy to revert to you.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Development Credit Bank Ltd., we conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.