

DCB BANK

“DCB Bank Ltd. Q3 FY17 Earnings Conference Call”

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DCB BANK

**MANAGEMENT: MR. MURALI M. NATRAJAN – MD AND CEO, DCB
BANK LTD.
MR. BHARAT SAMPAT – CFO, DCB BANK LTD.**

Moderator: Ladies and Gentlemen, good day and welcome to the DCB Bank Ltd. Q3 FY17 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan, MD and CEO, DCB Bank Ltd., and Mr. Bharat Sampat, CFO, DCB Bank Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you, Sir.

Murali M. Natrajan: Good evening. Thanks for logging into this call. I have Bharat Sampat, Mr. Rajesh Verma, Gaurav Mehta, and Meghna Rao. I hope all of you have received the results, investor presentation, press release, etc. We will dive right into the question straight away. We will start with the first question.

Moderator: Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.

Prakash Kapadia: Murali if you could give us some sense, how are SMEs and self-employed adjusting to changes post-demonetization, what is the sense you get from the ground, are they more prepared for GST whenever it comes, if you would give us a broad thesis or roundup or idea, what is your sense?

Murali M. Natrajan: All our information at the moment is anecdotal, so we have not kind of done any focus group or survey to get some sense of what is happening. These are all based on our meetings at the branches and so on. First of all, for the first about 20 to 30 days of demonetization most of the SMEs were all busy sorting out their issues whether it be the working capital that they had in cash or whatever, so hardly any activity we saw. We also immediately did commission an analytics in our own database to see what is the input and output of transactions in various SME account. We have got a lot of SME account who have OD and CC, and we started looking at week by week what is happening, comparison to last year, comparison to previous month and so on. Across the various SMEs, we did see slow down in terms of throughput anywhere between maybe 20% to even some cases 50%, but by the time we came to say the third week of December, we started seeing some changes, for example, we saw more use of RTGS, NEFT and less cash in some of the accounts. We saw some increase in cash back again in some of the accounts which actually were dealing in cash transactions. By the third or fourth week of December, we saw that there was some normalcy returning back in terms of the impact of demonetization. Also the loan proposal login started improving towards the end of December, and with respect to GST, there are different views we are getting, for example, some of the SMEs that we had met in our office said that if customers are looking for cheaper price then obviously they are unable to give them a bill, but if the law says that we have to issue a receipt and we have to pay GST, then ultimately the customer will have to pay the price and we will do it with receipt. I think it is very early to say exactly how the SMEs will adjust.

All I know is that having worked with the SME as a segment for last several, several years, any SME who has done three or four years of business and has a business model and varied clientele, usually survive challenges and we do not have any reason to believe that all of a sudden all these SMEs will be eliminated and some big companies will start getting into this business and so on. I do not have any reason to believe that a massive transformation will all of a sudden happen. I think SMEs create jobs in India, of course in other countries as well, so it is a very important segment for all countries especially India.

Prakash Kapadia:

Secondly, if you could comment on bit of the CASA we seen it across banks, what are we doing to ensure some of these CASA stays with us, how do we ensure stickiness assuming remonetization comes through, so we have seen a good uptake, but is this sustainable, not sustainable, any sense you could give us?

Murali M. Natrajan:

There is no historic kind of data to compare this to see whether it is sustainable or not. All we can look at is some of the surrogate that we see of sticky accounts generally. Small-ticket accounts are generally sticky. Large-ticket accounts usually flow out seeking higher returns. For example, in our bank if an RM brings in (and nothing to do with demonetization), when RM brings in a large account, we give him credit only for a very small part of it because we know that month on month these amounts vary and then we do not want any RM to game the system to show achievement of their target, so that forces RMs to bring in small ticket items which show much lower attrition than large ticket, so when we look at our data again, we put our analytics team right on day one to see not just from a point of view of stickiness, but also to make sure that we do not have any AML, KYC issues, so we kept analyzing the data on where the cash is coming, who is depositing, what type of customer it is and all, some of it obviously, we will not able to discuss in this call, but what we figure out is that most of the deposit that have come in small ticket into savings account seems like whether remonetization or whatever, it is likely to stay. Of course, we have to do all that we normally have to do for retaining an account like, for example, increasing our cross sell, making sure that the customer uses other channels so that they become used to the bank account, not mess up any service, all that has already started bearing fruits for us. I would wait for some more time to declare whether it is a sticky CASA or not. At the moment, small ticket, savings account and current accounts seems like they will remain with us. Even assuming that part of it was undeclared income, once it has come into the bank account, it is somewhat like declared income only, so I do not think there is much of worry that they will immediately now withdraw it because anyway it is in record of the bank now.

Prakash Kapadia:

Lastly on core fee income, it has grown decently given the challenging environment, what has driven this because I guess some of the card and the other fees would not have been driving this, so what is?

Murali M. Natrajan:

First I would like you to look at nine-month, nine-month comparison of fee. If you see core fee income nine months, we have grown by about 16% or 17% and overall fees has grown by 19%. If I am not mistaken, even in the previous calls, I have guided that we are targeting 15%-16% increase in fees year-on-year. Hopefully, as we build the number of customers, we will

step it up higher. On a quarter-by-quarter, sometimes fees do change. This quarter, we did not make too much headway in processing fee because the loan disbursal was weak. We did not make any headway in getting more ATM fees because almost all ATMs were shut till December end or so. So most of the transaction fee that we get on ATM is of the transaction, so we could not make that fee. On the other hand, our bank assurance team did a pretty good job because now that the deposits have come in, they were having time to focus on bank assurance and mutual fund where customers were happy to kind of conserve proposal. Also, we think that if we continue to do a pretty good job in having more PSL asset than 40%, then we see opportunity under this new scheme of Reserve Bank of India called Priority Sector Lending Certificate where you can actually give out that PSL without reducing your advances or passing on the risk where you get a decent fee. We believe that every last third and fourth quarter, we should see some uptake on those fees which is also part of our fee income in this quarter. We have shown it in the below, not in core fee income, but below because we want to see two or three years of performance before considering that as core.

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

Dhaval Gada: As you mentioned in your earlier comment that this was like a windfall gain on the CASA side, so do you like to sort of revise the margin guidance or would you like to sort of pass this through to the customer, so how do you see the margins post?

Murali M. Natrajan: I do not think we have much choice. First of all, the MPLR formula takes into account your CASA ratio. I do not think there is much choice in trying to retain that, etc. The only way I believe in a MPLR situation that one may be able to improve the margin is by two or three things, having a much finer segmentation of customers where you may be able to charge slightly higher interest for segment that you may perceive to be a higher risk, but again I do not think there is opportunities more than may be 25 or 50 basis point in that particular segment. Secondly, when you do mix of products, for example, I think I mentioned in one of the calls that we are embarking on personal loans again because we feel that lot of customers who are banking with us paid personal loan from some other bank and then we seem to be losing the main relationship as well, so we decided that at least for our own customers, we should market personal loan and personal loan normally is higher than 12% in terms of yield which is our average yield. I do not think this CASA will immediately help us in terms of NIM. What I can say is that MPLR will start reflecting our CASA ratio. Our aim is to try and reduce the attrition of this CASA that we have got. I think this has put us ahead by at least six to nine months. On loans, I think we have been set back by at least 60 days because of the way situation was in November and December, but on CASA, I think we have at least an advantage of six or nine months and more importantly, the new branches and the AIB branches that we put in the last 12-18 months, I think we saw a very decent traction in terms of customer inflow because they go to a public sector bank or another bank, find a lot of crowd and find that there is a new branch which has got less crowd, so we got lot of walk-in customers who opened accounts. We implemented something called E-KYC, which on the spot customer's KYC is verified with his biometric, so we were able to kind of verify the KYC for us to be able to open account, so lot

of things that we did and those branches that we put recently also got about three-month advantage in terms of CASA.

Dhaval Gada: Secondly sir, as you mentioned on credit growth fund, so I just wanted to understand, have we seen the worst in terms of asset quality on the LAP side and if so, how do you see growth coming back from?

Murali M. Natrajan: Please do not assume that there is some problem with LAP or anything like that, I have never said and we do not have a problem with our LAP portfolio. We have also put it on stock exchange some brief guideline in terms of what our LAP portfolio looks like. As far as the demonetization impact is concerned, we had supposing every month from the time I have started working with SME or self-employed segment, that is I am talking about way back in the 1990s, customers in auto-loan or any loan normally bounce their cheque, you should expect 10% to 12% bounce rate in self-employed segment, then the collection person will take that cheque, he will collect cash as installment and the account will be kept in good order. That is a very normal practice most NBFCs also, you can ask them what their bounce rate is and what their cash collection is, that is how it happens. Unfortunately, in November and December, customers did not have cash to pay off for their bounce cheque, so that created quite a lot of challenge in our collection process because lot more intensity had to be done and so on. At the same time, in the frontend bucket that is customers who are one day past due or 30 day past due, we found lot of cash coming in on their own and depositing in whether it be in SME account or in mortgages account. So far as demonetization is concerned, yes, there were some delays by customers, but looking at their business model especially I looked at only above any large-ticket items where we may have some channel, we do not see is an issue and some of those businesses seem to be slowly coming back to normal and for your information, RBI had said first 60 days, then 90 days for loans below 1 crore. We allowed customers on a case-by-case basis to avail of that facility, but as far as our results are concerned, we have recognized all those as NPAs, we have not taken shelter under that regulation at all, so the NPA that you see improved below Rs. 1 crore NPA for which customers who were supposed to pay in November and December may not have paid.

Dhaval Gada: That quantum if I understand correctly is about 30 crores?

Murali M. Natrajan: About Rs. 33 crores.

Dhaval Gada: Final question from my side, can you sort of explain the ARC sale. I understand that there was two parts, one was the GNPA which was sold and one was the return of accounts, so just wanted to clearly understand and the segment also?

Murali M. Natrajan: Segment is across AIB, mortgages, SME, lots of accounts, very small-ticket items. This is the third sale that we have done, so the thinking behind is very simple. We feel that given the capacity that ARCIL has, they are able to do a much better job on the legal front instead of us building the entire legal arm and follow up and so on. We feel that once we have attempted to collect for maybe six, nine, 12 months depending up on the customer, we feel that it is a good

idea to pass it on to ARCIL. We sold Rs. 87 crores of gross NPA and about Rs. 21 crores of written-off accounts. We got Rs. 52 crores of compensation from ARCIL, out of that 20% in cash, balance in SR. It is same amount as what was existing in our book as net NPA, so we do not have to make any provision in the coming quarters because of this sale.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: In terms of RBI dispensation of 90 days, in the books of accounts you have mentioned that you have taken that as NPL, but while you report to CIBIL?

Murali M. Natrajan: Wherever customer has asked for time, we will not report it, obviously we will have to keep the customer out of this.

Amit Premchandani: The customer credit history does not get impacted due to this?

Murali M. Natrajan: In some insolvent loans, you actually report the number of days. You do not report it as substandard. The data from Finacle goes if it is 90 past days as substandard, so we will have to change that and report is as standard if I am not mistaken the technical aspect, so we decided that customers should not be impacted by this, but from a books of account, we thought we should be very conservative.

Amit Premchandani: Sir, you mentioned about you being ahead by six to seven month as far as CASA deposit and behind for loan, how will you classify the same on asset quality?

Murali M. Natrajan: Asset quality, I was very worried in the first week of November. It is very difficult for me to explain as to what all activities and how all we face all the challenge for 50 days. Someday when I retire, I might even write a book on that, beautiful challenges we faced on those 50 days. Initially, I was very worried and our team was also very concerned, then as we started moving into it and we started settling down with all the issues that were coming up, we felt that there could be delays but there is no major issues, so towards the end of December I would say that things started improving, but I would wait for one more quarter before saying that there is any issue or not. I am just keeping my fingers crossed. Initial feedback from collections team in January seems to be okay, but again we have to wait for the full month to be over before I can say that it is okay or not.

Amit Premchandani: In terms of SR outstanding book, what would be the balance for December, September and last year December?

Bharat Sampat: SR as at December 31st is Rs. 70 crores, September 30th is Rs. 29 crores. Incidentally, what I would like to mention is that from the sales which we did in March 2015, we have actually started getting redemption of SR by way of payout from asset reconstruction company and a small amount has also come for assets sold in March 2016, which we think is really encouraging as compared to the industry.

Moderator: Thank you. The next question is from the line of Avinash Singh from Jefferies. Please go ahead.

Avinash Singh: I would like to just understand more on that RBI provided NPA relaxation, you have not applied, but you said that an 30-crore customer asked, because the RBI guidelines say that due between November 1st to December 30, in this case I mean customer not amounting to fault, it means that on November 1st, the customer was already sort of 30 DPD at least?

Murali M. Natrajan: The way I understand that regulation is that his payment should be falling due on either November or December that is what the regulation says, so those rights should be given. First, I thought it was 60 days, then I think it was revised to 90 days, because of that he has not paid and customer some of them sought actual time in our meeting and some of them never approached us for this thing, but I can tell you one thing there is a lot of calls that we got in our call center where customer said that we have read this Reserve Bank of India circular, so therefore, we will be not able to pay and so on. We as a matter of making it very conservative, it is possible that out of the 33 crores, may be 7-8 crores or something may have become NPA in the normal course of business, I do not know. We decided that give the customers who have asked for time etc, whosoever not paid, we will give them time and make sure that their records do not get disturbed, but in our books, we will recognize as NPA.

Avinash Singh: As a follow up, my understanding here is that if a customer was due in somewhere in November, anyway 90 days' period still not over, so if the due was falling between?

Murali M. Natrajan: Your 60 days in November, by December 90 days is over.

Avinash Singh: Any other payments which would be due in November, December, still this relaxation will flow into the next quarter as well?

Murali M. Natrajan: To the best of my knowledge, if their installment is due or falling in November and December only then dispensation is there, I do not think if it was falling in January it is there. Of course, we will seek clarification if there is any. We have at the moment applied it like this.

Moderator: Thank you. The next question is from the line of Sohail Halai from Motilal Oswal Securities. Please go ahead.

Sohail Halai: I just wanted to know your branch opening strategy?

Murali M. Natrajan: No change in branch opening strategy. Even in a quarter where everyone of us were working on all force, trying to deal with all the situation, we opened 20 branches and let me tell you that was not easy at all, just to give you some texture to this. We opened across many locations, not just in one location. The contractors all work only in cash, the ultimate carpenters and the people who deliver these masonry, the plumber, all these people work on cash, so we as a team got together and said that even because of demonetization if they are cribbing and there are delays, we cannot allow it. We will go ahead and make sure that these guys deliver on

those 20 branches, so we got the 20 branches then. Nothing is going to change unless there is any force majeure - situation, we are going ahead with our 150 branches expansion.

Sohail Halai: Can you explain how do you want to go through the expansion plan?

Murali M. Natrajan: We are at 248 now. If I understand your question, how am I planning to do that?

Sohail Halai: Yes.

Murali M. Natrajan: By October 2017 or November 2017, we will open another 62 branches. We have three quarters to do that, but that does not mean that you will uniformly do 20, 20 every quarter, I am just saying that we have three quarters to do it.

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

MB Mahesh: Three broad questions. One, if you look at December over November, have you seen this cheque bounce and ECS defaults declining and in January if there has been any broad change to this.

Murali M. Natrajan: It has been same, not much difference and I would call like a 1% to 2% drop as any change because that even in normal situation was happening like month-on-month there could be 11%, 10% there something like that could happen.

MB Mahesh: The 30-day DPD also showing the same thing?

Murali M. Natrajan: I do not see any difference in that at the moment. Like I said, let all the cycles, there are some four or five cycles of payment that gets over, only then I can see whether there is any issue, but cheque bounce as of the last week when we checked, there is no major difference.

MB Mahesh: Second question is you initially remarked about it. The utilization rates have they dropped, if I look at your portfolio which is the SME portfolio, which is growing about?

Murali M. Natrajan: Absolutely because in the first seven-eight days of the demonetization, customers who had cash as their working capital simply came and deposited that in their loan accounts, so at one point in time, the loan account, loan book of SME and MSME took a major contraction. By the time we reached November 21st or something, there was a major contraction in SME book, and then from there as things started, the utilization started picking up, so the true amount of new case that we did in December is not fully reflected in our December book because of that cash deposit by customers. We are happy with that actually because we feel that depending upon our more deeper looking at the customer, if customer's deposit more sales in the account, it is far easier for us to give them more limit. Trouble comes when customer sale is Rs. 10 crores, but actually we can see only Rs. 4 or Rs. 5 crores. That is where it becomes very difficult to assess how to give more limit to the customer.

- MB Mahesh:** In your corporate book, the exposure that you have towards NBFCs, any color on what are they in that portfolio?
- Murali M. Natrajan:** As soon as the demonetization happened, we looked at all our NBFC exposure to see whether there is any challenge to that because of their on-lending to whatever segment they are doing and so on. Their capital position, their promoters, their strength, weakness, etc., and within a week or 10 days, we came to the conclusion at least to the customers that we have lent, we do not have a challenge.
- MB Mahesh:** Any color on what they are, it is predominantly housing, MFIs, which segment?
- Murali M. Natrajan:** Part of it is MFI, part of it is housing, part of it is two-wheeler lending, so I go by their capital strength and their number of years in business and their management team and promoters, so when I look at it and we have discussion with one or two of them saying what is the, none of them were in any less challenge than others. Everyone had some challenge, like for example, let us say we have a lending to Fullerton, so they also felt that there was some delays in cash coming and so on, so like that with every one of them we had a call to see what exactly is their situation and we have not seen any delays in their payment and we do not see because subsequent discussion also does not indicate that we have any challenge and plus we ensure that the ticket sizes that we have with all of these are quite limited.
- MB Mahesh:** My last question in last year you had indicated that you would want to end this year at cost-to-income of 63, ROA of 10, do we still hold to that or because we are currently doing well above that in terms of numbers?
- Murali M. Natrajan:** The guidance that if I am not mistaken given is on March '19.
- MB Mahesh:** There is a FY17 target right, you would want to end cost-to-income at 63 and ROA close at?
- Murali M. Natrajan:** Sometimes it is so confusing so many calls happen, Yes, we have said cost-to-income ratio below 63% and ROA close to 10% towards end of, at the moment it looks doable.
- MB Mahesh:** You are already better than that, so I am just trying to ask, we are 60 on cost-to-income ratio currently?
- Murali M. Natrajan:** It could be possible, but again I want to see all those 20 branches whether they have all the costs have come in because some of the people might be joining like we would have had four to five people joining, may be three more will join, I want to see all that. Hopefully, we will not miss this guideline.
- MB Mahesh:** Just clarifying this because the only reason I am asking this question is that you have seen a steady acceleration in cost growth over the last few quarters, which is an expected outcome of the entire expansion which is going through, we are at 33 today and the reason I am asking is that does this 33 go to 35, 38, 40 before it starts sliding off or does it remain at these levels for sometime, that is the whole point?

- Murali M. Natrajan:** I think this quarter we may also have spent quite a lot of cost to deal with demonetization, for example, we had to recalibrate all our 500 ATMs, that was expensive. We had to put a lot of additional security guard and security in all the branches where there was rush, to transport so much of cash between branches to facilitate customer withdrawal, we had to use a lot of cash vans and security guard, we had to take additional insurance. We had to pay bank charges. You must understand that we do not have currency chest, so all currency that we got had to be offloaded to other currency chest and in normal course of business that is a very small cost, but now that all banks were having currency, many banks which had capacity in currency chest were ready to charge an arm and a leg for banks like us for offloading the currency. Then there was the impounding of CRR was 15 days, ATM fees income, this is a very unusual quarter Mahesh, that is the reason I do not want to project any trend on that basis.
- Moderator:** Thank you. We have the next question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** What is your average ticket size on SME books, I just want to understand if there is any sizeable difference between your average LAP ticket size and average SME ticket size?
- Murali M. Natrajan:** I will say this again. We have an internal policy that we should not do loans beyond 3 crores. Our maximum ticket size is 3 crores, so very few loans we do which cross the 3 crores and quarter-on-quarter that above 3 crore loan as a percentage of total loans have actually come down. The average ticket size that we operate in SME which is at 11% book that you see in that pie chart is about Rs. 40-50 lakhs, LAP book and mortgage book actually is slightly low and may be in the Rs. 30-35 lakhs kind of range.
- Roshan Chutkey:** How exactly do you differentiate one from the other, LAP and SME in terms of?
- Murali M. Natrajan:** Mortgage book has several products like one would be a very simple looking at the customer income and balance sheet and giving, and another could be a very small ticket could be actually looking at their VAT receipt, bank statement, personal interview and so on, I am talking about two ends of the spectrum. In SME, what happens is that you assess the customer's future requirements for CC and OD because most of the loan that we do there is CC or OD, so you assess the customer requirement for future and you set up a limit which based on his performance, he can draw that limit. The limit he cannot draw immediately, but as he shows performance of sales he can draw that limit. One is very future oriented based on the path, another is a simple what can he service as an EMI is that kind of loan.
- Roshan Chutkey:** One is a working capital loan and other is a term loan broadly speaking?
- Murali M. Natrajan:** All are working capital loan only for SMEs. The way it is assessed for LAP is a very simple manner of what is their ability to repay so that amount is given whereas here it will be in terms of what is the sales projection, how much of the sales has he achieved in the past, so you have to take an experience kind of a guess on what exactly will we give. You might say I will give

you Rs. 50 lakhs limit, the guy will say no, you need to give me Rs. 60 lakhs, that kind of conversation can easily happen in these business.

Roshan Chutkey: The other thing is you said there was a major contraction SME book by the end of November or November 21 you mentioned, now did we see similar contractions across the asset classes or?

Murali M. Natrajan: Home loan we saw the same, gold loan also customers came and deposited. They wanted to withdraw but we were only able to give them Rs. 10,000 in the first initial days and then Rs. 24,000 later, so gold loan also we saw lot of money deposited, when I say lot of money means lot of customers depositing small amount of money.

Roshan Chutkey: How much of our disbursement this quarter is working capital led?

Murali M. Natrajan: I would not have that data.

Roshan Chutkey: I just wanted to understand if the loan that we have seen of 24%-25%, is it significantly working capital led or is it?

Murali M. Natrajan: You look at year-on-year and you see the pie chart of one year ago, how mortgage book has been and how, so you will get a sense of how we are proceeding on that.

Roshan Chutkey: How much of our other operating expenses of Rs. 85 crores is corresponding to new branch addition?

Murali M. Natrajan: No, that approximately we have always said that it is about Rs. 60 lakh per cost per annum.

Roshan Chutkey: There are some maturing branches also now?

Murali M. Natrajan: I am saying that some larger branches might even be Rs. 80 lakhs, but I am saying average we have said all new branches cost is about Rs. 60 odd lakhs.

Moderator: Thank you. We have the next question from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: You mentioned something about the less the underreporting by the SMEs going forward the better it is for you to assess their credit, do you have any sense what was the ballpark level of underreporting earlier, I know it is a very general number, but if you can give any sense?

Murali M. Natrajan: It depends on customer to customer. I mean I have said this example, I bumped into one customer just before this demonetization, he is some bakery customer in Gujarat and he was very unhappy that we are not giving him higher limit and he threatened to take it to some other bank like a cooperative bank or something, so I asked him how much is his sales, he said Rs. 18 or 20 crores, when I came back to the office and looked at the account, his sales are not even Rs. 3 or 4 crores, and when I talked to the branch concerned they did say that he has a got

a roaring business. I think it is either Valsad or Vapi, I forget exactly where this is, so it all depends on what kind of underreporting, some business are not easy to underreport. If customers of a business are mid-corporate or something like that, then invariably there will be a bill issued and there will be VAT and all this things, so likely that the underreporting will be less, but some of these examples that I gave like a bakery or a mechanic or retail trade, all these guys may have lot more underreporting.

Hiren Dasani: A related question to that is have you seen level of reporting gone up in the last couple of months?

Murali M. Natrajan: The data is too early to say, but I did see we divided that into previously cash and now cash, previously cash and now digital, previously digital now digital etc., we found that some of the cash did move to digital, and more importantly lot of sales moved into cheque. If you see even RBI data, I think the cheque writing had gone up significantly during this demonetization. I think we have to wait for three to six months before we see there is any major change in the behavior. I somehow suspect that part of it will go back to what it was.

Hiren Dasani: In that bakery example, if it is was 18 sales and reported was 3-4, it may not go to 18, but it can go to 6-7 maybe?

Murali M. Natrajan: In fact some other times, the customer actually tells you that listen I need higher limit so can I bring more sales into the bank account like that, they talk like that. We may be upset that they talk like that, but that is how they talk to RMs, can I show more sales now because I can report more sales, like that they say, so obviously they are very flexible about how much sales to report depending upon what they want to do with the rest of it.

Moderator: Thank you. The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: I have a couple of questions here, more on SME part where you talked about considerable contraction in the month of November, would it be possible to quantify how much part of portfolio saw contraction and when?

Murali M. Natrajan: Many, many customers who have CC and OD account deposited what I presume was their working capital cash since it is demonetized, it was in circulation, they just brought and put that, just like we got money in current account, we also got money in CC and OD, and gold loan OD accounts. We saw at least I would say may be 1-2% contraction, but it was like going up and down because the guy will put in the money, there may be some RTGS, NEFT. We also got RTGS, NEFT from other bank, that kind of stuff, so I do not have the exact number.

Alok Shah: Where I was trying to come from is that despite that contraction, we have ended the quarter with 14% YOY growth. On a QOQ basis, it is close to 1%, and what all that you are talking about is accounting and everything coming in place, how do you see SME portfolio as an growth engine over the coming quarters or years in terms of overall growth?

- Murali M. Natrajan:** SME is our bread and butter, we live and breathe SME, that is all the business we like, that is all the segment we like. GST, demonetization, I am very bullish on SME. We hope to do much better than that, but again it is not easy because each of the sale takes time, you have to meet the customer, you have to assess his requirement, the sales cycle can be even as high as 30-40 days, so we are trying to improve it through some system process, digitization and so on, so we are quite bullish on that.
- Alok Shah:** We had seen 18% YOY growth for the previous three quarters before a drop of 14% in this quarter, safe to presume that we will move north of 18-20% as we get into FY17?
- Murali M. Natrajan:** We are not giving any individual segment wise growth target if I may say, we are aiming towards doubling the book in 3 to 3-1/2 years, that is what we said when we launched the branch this thing. We have so many businesses. We have tractors, we have commercial vehicle, supposing I tell you the tractors will grow at 30-35% and there is a drought, then I have to point some other opportunity to grow the book so that we achieve that doubling of the book in 3-3-1/2 years.
- Alok Shah:** Another point on the deposit front, where you talked about bucketing of deposit into the larger accounts and smaller accounts, we have seen a 400 basis points odd increase in CASA, would it be safe to say that at least 50% of that would stay back with us?
- Murali M. Natrajan:** Do not make any guesses, I am not making any guesses. I am just happy that the CASA has gone up and we will make every effort across all branches to make sure that we retain the CASA.
- Alok Shah:** Why I am trying to understand this more is because you talked about the smaller ticket accounts which have come in, some number to it what would be that part?
- Murali M. Natrajan:** Bulk of our deposit is, we discouraged large ticket in some way. There are reasons for it. The overhead of managing a large deposit is very high. Second thing is what do you do with the Rs. 500 and Rs. 1,000 old cash. We do not have a currency chest, so if you get a crore of rupees or two crore rupees in a branch what do I do with that cash, it is just lying idle and will not earn anything for me till I dispose it off. Much of our deposits have come in small ticket. Previous experience tells us small tickets are sticky, so we believe that there should be a good opportunity here.
- Moderator:** Thank you. The next question is from the line of Peeyoosh Chadda from Ocean Dial. Please go ahead.
- Peeyoosh Chadda:** I have broadly two questions. Our ROA was around about 0.9% this quarter, do we believe that we are close to that turf for ROAs or not yet?
- Murali M. Natrajan:** Please go by the guidance I have given previously. We will not give you any fresh set of guidance still we finish at least halfway through, which hopefully somewhere in June we will give you a guidance.

- Peeyoosh Chadda:** Second thing, what would you believe is your normal rate of branch opening, would it be between 10% to 15% which you could support without?
- Murali M. Natrajan:** The way we are thinking about branch opening is like this. We first have to reach 310 branches that would be by October 2017, at best by December 2017. Current indications are we should be able to meet that, but again we will see how it goes but so far there is nothing that tells me that we will not be able to meet the target, but again we announced it in October 2015, so if you are able to achieve it by October 2017 or maybe November 2017, I think that will be quite good. Beyond that, I do not believe that we will open branches that is likely to destroy the metrics that we are working towards, so we do not think that we need to open more than may be 10 or 12 branches at least for the foreseeable future from there because to make all this 300 branches perform to the degree that we want is a lot of effort and we are adding 20, 20 of them every quarter almost.
- Peeyoosh Chadda:** So your basic footprint gets established by the end of this year and from then onwards it is more filling gaps than setting up a larger footprint as such?
- Murali M. Natrajan:** We do not have any plans to open another 150 branches starting October 2017, we do not have any plans like that, also it is like this, we want to make sure that any number of branches that we open in the future after December 2017 should be funded by the good performance of the existing branches so that the financials do not get deteriorated.
- Peeyoosh Chadda:** Thanks for this clarification. By and large as a rule of thumb, branches tend to break even between 18 to 24 months, is that something that is true for you also?
- Murali M. Natrajan:** The 22 to 24 months has been our thing, sometimes it has been 18 months. There is one branch manager who came and met me recently from Delhi. She was looking very exhausted, it is a new branch that was opened about 9 or 12 months ago. I have been to that branch. It is a very, very busy area and she was looking exhausted, but extremely happy and when I found out she has that branch for us in Delhi has broken even perhaps in eight or nine months, so that was and then she gave me a proposal saying that I have told my boss that I need more space. I do not know how to increase more space there, because she can obviously, so we have had some good stories like that, at the same time we have had some stories where we have had challenges even after 12-18 months on branches, but on an average 22-24 months looks fine to us.
- Peeyoosh Chadda:** In some senses, the bulk of your branches will be alive and kicking in calendar year 2018?
- Murali M. Natrajan:** Yes.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

- Ravi Naredi:** Mortgage advances impacted most due to demonetization because all impact comes on small and medium businesses and those avail this facility impacted much, any strategy to reduce dependence on mortgage advances in future?
- Murali M. Natrajan:** No. I have no belief that mortgage advance is a problem, small ticket mortgage advance is not a problem and we believe that self-employed is a segment we go to. We do not like salaried segment because there is hardly any yield and we believe there is a huge amount of opportunity, there are 15 million self-employed segment in our country and we are very bullish. Yes, there will be some near-term challenge here and there and things like that, but having said that, that is the segment that generates employment for the country and I do not see any problem with that segment. Just as you have problems with some salaried person losing some job and not able to pay, self-employed also gets into some business trouble and so on, so we do not see any issue as long as you stick to small ticket sizes like Rs. 30-35 lakhs and not do some luxury property Rs. 5 crore, 10 crores to build the portfolio, we do not see any problem.
- Ravi Naredi:** How is microfinance recovery?
- Murali M. Natrajan:** I have no idea. Most people have told me that microfinance is in trouble.
- Ravi Naredi:** We have some advances to microfinance industry also.
- Murali M. Natrajan:** We have about 5-6% of it, we have always maintained that microfinance, we are doing only to meet the weaker section, Agri, PSL and in November when we heard about some of the challenges that microfinance is facing, we decided to take a very tactical retreat on those and wait for situation to improve. We have looked at the portfolio across all the states and we seem to be okay. Having said that, we have to keep our fingers crossed and see what exactly happens on microfinance. The news is quite different. Some people even say there is only 80% collection, 80% collection is very low according to me in microfinance. We always believe that the segment is risky segment, so we should have very little exposure to this.
- Ravi Naredi:** It is little, but how was our collection in the microfinance?
- Murali M. Natrajan:** We did not have much problem on this and whatever deposits we had taken from the various entities with whom we were doing business that was adequate to cover for any default. Having said that, I would be very, very watchful about this in the coming days as well.
- Ravi Naredi:** As on to-date, the branches is 248?
- Murali M. Natrajan:** Yes.
- Ravi Naredi:** In the last presentation, it was 228, so I think it is a clerical mistake.
- Murali M. Natrajan:** No, 228 was last quarter, 248 is this quarter.

Moderator: Thank you. We will take the last question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, about this cost-to-income ratio, can we say this is peaked or still it can move up from here?

Murali M. Natrajan: We have given you guidance on 63 and 10, you need to wait for only one more quarter to see whether we are going to be there or not.

Sunil Jain: The guidance which you had given for March 19, that is 55% cost-to-income and 14% ROA, that also holds?

Murali M. Natrajan: At the moment, we have no reason to revise this, either upwards or downwards.

Sunil Jain: Last question is related to your, is there any plan to dilute equity in near term may be in CY17?

Murali M. Natrajan: The promoter is allowed 15%, we are at 16.2 as far as the promoter is concerned. We believe that we will need equity somewhere in August, September 2017, having said that, we will continue to engage with investors. We definitely need patient capital because the whole branch expansion and the benefits of it we believe will play out in the coming two-three years, so we are obviously looking for some patient long-term investors, so if we do find any such opportunity, we will take care of that, but at the moment capital adequacy is strong, so we are looking at August or September 2017.

Thanks a lot, pleasure speaking to all of you. If you have any questions, follow up, please feel free to write to Gaurav, Bharat and we will be more than happy to respond to that. Thank you so much.

Moderator: Thank you very much. On behalf of DCB Bank Ltd., that concludes this conference. Thank you for joining us Ladies and Gentlemen, you may now disconnect your lines.