DCB BANK

Development Credit Bank Ltd. Q1 FY2013 -14 Earnings Conference Call

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Management Participants:

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

Mr. Bharat Sampat – CFO, DCB

Ms. Meghana Rao – Head – Investor Relations, DCB

Moderator Ladies and gentlemen, good evening and welcome to the Development Credit Bank Q1FY14 Earnings Conference Call. Joining us on the call today is Mr. Murali M. Natrajan – MD and CEO, DCB Bank and Mr. Bharat Sampat – CFO, DCB Bank. As a reminder, for the duration of the conference all participants' 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 assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note this 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 and thank you for joining this call. In the first 10 minutes or so I will give you some key highlights of the performance and we will take questions. If I am unable to answer any of your questions, please feel free to write to us and we will revert back to you.

So first of all profits for the quarter was Rs. 43 crores. Underlying profit if I back off the treasury gains which I think is one time, would be Rs. 35 crores. The previous year's quarter i.e. fourth quarter of last year was Rs. 34 crores. In this quarter we have also added seven new branches and we also as usual have given salary increase to staff. So that has also reflected in the cost. Also reflected in the cost is that we have already taken the Rs. 1 crore penalty that was levied on us by Reserve Bank of India about two or three days ago. We have also taken that account into our cost for this quarter itself. Year on year Deposits have grown by 22% and Advances by 19%. If I look at year on year Balance Sheet growth it is 21% and there is a small decline in the Balance Sheet from the previous quarter and there is a small decline in the Advances as well from the previous quarter. First quarter was particularly weak for Corporate and SME Banking, whereas our Mortgages and Agri and Inclusive Banking continue to perform well. CASA ratio stood at 27.5%. Savings Account growth year on year registered 16% growth, mind you we have neither spent a lot of money on advertising, nor are we giving higher interest rate on Savings. I would say we are getting decent amount of traction in our Savings balances. Net Interest Margin (NIM) as compared to the previous quarter has declined slightly and at 3.44%, we are confident of maintaining our NIMs at 325 to 330 basis points. In fact, at the moment we are doing slightly better than that. That is primarily because we have had a much better success in originating Priority Sector Lending ourselves last year rather than do buyouts. Also I would like to inform you that CRISIL has given us an A1+ rating for Rs. 1000 crores of CD whereas in February'13 it was only for Rs. 500 crores that they had given. So based on our application they have increased it to Rs. 1000 crores. So that should also help us to kind of manage our Cost of Funds. Capital Adequacy Ratio under Basel II was 13.89% and 13.75% under Basel III. If I look at the Income, Interest Income grew by 30%. There are no one offs in Interest Income so it is 30% underlying growth that we had year on year. Other Income has grown by 64% and Total Income has grown by 40%. But if you adjust for the first quarter Treasury gains, the Total Income has grown by 31%. Operating Profit has almost doubled. Provisions have increased. We have also made Provisions for this quarter for what we call as the Floating Provisions to the tune of Rs. 1.4 crores. We have taken some additional Provisions on existing NPAs and also provided for the fresh slippages. So the Provisions are steady and NPAs so far remains in control. We can give more details on that. Cost Income Ratio underlying is improving. Although the first quarter looks dramatically better but if you back off the Treasury gains even then there is improvement as compared to last year in Cost Income Ratio. What we found is that action that we are taking in terms of reducing our rental cost in some of the locations and then deploying it for new branches is yielding results and we are confident that whatever we have made commitment in terms of reducing our Cost Income Ratio to 65 odd by end of the year and 60 odd by next year, we should be able to achieve that. Although, we are still planning to grow our branch network, by 7 to 8 branch every quarter. So all in all, that is the highlights of the current quarter performance. I am happy to take questions.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Saikiran of Espirito Santo Securities. Please go ahead.

Saikiran Pulavarthi Just a couple of questions. In the press release you suggested that there are certain one offs and you said for that PAT is low. You also mentioned that in the cost also we have some one offs. If you can quantify that would be of great help.

Murali M. Natrajan About Rs. 8.5-9 crores of Treasury gains and about a crore of rupees in cost is one offs in the first quarter.

Saikiran Pulavarthi Okay. And sir on the second thing in terms of Asset quality side, if you can just explain how has been the trend specifically on the SME side and then how do you see this panning out for he next few quarters considering the current economic scenario?

Murali M. Natrajan First of all I want to tell you that the situation is quite challenging for the industry as a whole and we also faced some of those challenges. If I divide my portfolio into Retail, SME-MSME, Corporate and AIB, which makes the bulk of the portfolio, I think our Retail portfolio is in pretty good shape. I do not expect any stress in this portfolio. Our AIB portfolio is also in pretty good shape. The fact that we took some action last year itself on SME of cutting exposure that is the new exposure that we are taking, we cut down from almost 7 crore average to about 3 crores have helped us to kind of gain control over that portfolio. So quarter on quarter slippages should not be a concern according to me in SME in the coming year as compared to the previous year but we are obviously watching that portfolio very closely. Yes, there are some three-four accounts which are delaying payments and paying us on 75th day and 80th day and things like that. On the Corporate portfolio, again largely the portfolio is in good shape but similar to every year there are one or two accounts which are showing stress. At the moment it seems okay but we have to watch the situation. So I would say that if at all we will have any challenges it may happen to us in either Corporate or SME portfolio.

Saikiran Pulavarthi Okay. And sir just on the Provision Coverage, in the last few quarters actually it is deteriorating, how do you see this Provision Coverage and the second question is whether the Floating Provisions are used as a Tier-2 or got netted off while calculating the net NPAs?

Murali M. Natrajan We are using floating provisions as Tier-2 and obviously our Provision Coverage we want to maintain as high as possible. Please remember that when a SME account goes into NPA, usually we have a minimum coverage of hard collateral of 60% to 65%. So if we provide 40% of that portfolio that should be sufficient enough for us to cover the loss given default. But it was our unsecured portfolio we would always look for trying to make a 100% provision as soon as possible if we find that the recovery efforts are not yielding any result. So instead of answering your question on what is the overall coverage ratio, what we do is we go actually in account by account and assess as to what is the provision. We always try to keep the Provision slightly higher than the RBI minimum required for that time period. For example, if it says one year 15%, two year 30%, three years 60%, four years 100%, we try to be ahead of that as far as possible by making a very true assessment of what would be the recovery potential of that NPA.

Saikiran Pulavarthi Got is sir. Just a couple of data points, what will be the gross slippages during the quarter and then outstanding restructure advance?

Murali M. Natrajan Restructure I do not think we did anything this quarter. So restructured is still five accounts totaling to approximately Rs. 28.5 crores. I have always maintained that we do not do too much of restructuring. On NPA Fresh Slippages are approximately Rs. 21 crores, so we had one big account of Corporate Rs. 9 crores that went into NPA and we are holding active collateral worth about Rs. 20 odd crores of this customer, even if I put a realizable value it is easily about Rs. 20 crores. So we are confident that we will either come to a settlement or some other way in which we will get out of this NPA. The rest were some 2-3 small accounts of around Rs. 2-3 crores like that. So those over a period of time should get recovered.

Saikiran Pulavarthi Any write offs during the current quarter sir?

Murali M. Natrajan Write off of Rs. 1 crore and Rs. 9 crores of upgrades and recoveries.

Saikiran Pulavarthi Thanks a lot sir and congrats on good set of numbers.

Murali M. Natrajan I am not very thrilled about the numbers of this quarter, so let me be very honest. We would have been lot happier if we had little bit better performance on the underlying basis. So we are making much more efforts in the coming quarter to kind of have a better Balance Sheet growth, but I just have to be very mindful of the environment and not do something that might affect the NPA situation. So we have to do a balancing act at the moment.

Moderator Our next question is from Clyton Fernandes of Anand Rathi. Please go ahead.

Clyton Fernandes Sir my question is more on your business growth now, the growth in this quarter has been a bit lower than if you look at the past four quarter average for Credit as well as for Deposits. The Deposits actually we have done is a little bit better which is understandable. Sir but what would be your assessment now for the rest of the year? Are you looking at the 20-25% band or do you think you can exceed that band if the situation improves?

Murali M. Natrajan No, I think we will probably do quite well on Retail Advances. If you see year on year we are at least 40% there, I mean 40% type growth. So I am quite confident that Retail would continue to do well for us. Essentially Mortgages and the various products in Mortgages, whether Home Loans or Loan against Property, etc. We are doing quite well on low ticket SME-MSME. So may be I will take an anecdotal example to explain to you what exactly is happening on the SME-MSME portfolio. We took a decision last year somewhere in June of last year that we would not give high ticket SME loans. We will restrict ourselves to average ticket size of Rs. 3 crores. When we say Rs. 3 crores you actually end up having Rs. 1.5-2 crore type of averages as opposed to even Rs. 3 crores. Then what happens is if we allow a customer comes in and says he wants enhancement and we say that we do not want to expose any further to this particular customer they will exit our book, so assume a 7 crore customer exits our book I have to make it about 3 loans of Rs. 2-2.5 crores to make up for that loss of Rs. 7 crores. So that is a dynamic happening. And one live example is one customer who has been with us for almost four years not willing to give us more collateral, growing their phase massively. They are already at an exposure of about Rs. 11-12 crores, they are asking for another Rs. 10 crores. We are refusing so most likely I will lose that account to some other Bank this quarter but I am not worried about it because it does not fit in with my strategy of wanting to expose myself to such low collateral coverage loans in this kind of environment. So that is the dynamic that is happening in the SME-MSME portfolio. So my confidence of doing that change is very high but growing it dramatically is not so high because the mix change will continue to happen throughout this year. Corporate Loan we have always been very careful. We will continue to be careful. AIB will do well this year because we are finding those opportunities of decent yield, good business yet PSLs because of our branch expansion strategy in those Tier-2 type of location. So all and all I would say we still are targeting anywhere between 20% to 25% growth.

Clyton Fernandes Okay. So that is helpful. So your branch network would probably increase say by another 20-24 branches in the next 9 months?

Murali M. Natrajan Every quarter we are aiming for about 7 to 8 branches. We are going to approach RBI for fresh licenses for Tier-1. I do not know how long it will take and when it will come but we are not holding our breath on that. We have enough work to do on Tier-2 to Tier-6 branches so that we are continuing.

Moderator Our next question is from Prakash Kapadia of iAlpha Enterprises. Please go ahead.

Prakash Kapadia Sir I wanted to know, given the current environment if you can share your insights what are we doing to mitigate Corporate and SME risk? Are we doing more client visits? Are we tightening market intelligence? Are we selling down portfolios? That is my first question. Secondly on Mortgages, is there a plan to move behind the current 11-12 locations, that is the second question?

Murali M. Natrajan Second question is easier to answer. Yes, there is a plan to move beyond 11-12 location. While that is not new for the market it is definitely new for us. So what we are trying to do now is to understand what type of properties, what type of customers, what type of issues, time taken to process, registration all that stuff we are sorting it out at the moment. Our long term dream is that if you are at 100 locations you should be doing Mortgages at all 100 locations subject to quality of property and customer segment etc. So as we speak yes, we are working towards that. How fast we will go will depend upon how well we execute, but we have confidence and that is the way we are proceeding. Hope that answers your second question. Now come to your first question, apart from doing everything that you said market intelligence, etc., prayer always helps so because the environment is such that it is quite challenging. When customers come to you for enhancements, only because their debtors are stretched or inventories are piling up that is not a very good sign at all. And I am sure other Banks are also experiencing something like that. What we are doing is that first of all we are not resorting to any restructuring and things like that. Wherever the accounts are about 3 or 4 accounts which are showing some signs of difficulties and some of these customers have been with us for – one of the customers has been with us for almost 10 years. So we are trying to figure out what is the best way in which we can work with this customer to see if there is some other way in which we can assist, so that the loans are, I mean the interest servicing continues as per schedule. And many of these loans are in consortium so I am sure other Banks are also trying to help in finding a way. Having said that as of now we are in control. Hopefully we should remain in control.

Prakash Kapadia And sir one more thing if you could share your thoughts, are we okay with slightly lower NIMs for lower risky assets

Murali M. Natrajan What makes you think that I am doing risky assets?

Prakash Kapadia Sir obviously we are not but on a risk adjusted basis are we okay with the slightly lower NIMs per better quality of assets?

Murali M. Natrajan Our yields are usually in Retail about 13% plus and in Home Loans it will be at 11-11.5% may be even lower, whereas in Loan against Property it could be even 13.5-14%. Again it depends on the customer segment. Just because I am charging a higher yield does not make that customer segment riskier. And one of the other reasons also why our NIMs have improved is because we have been able to keep a decent control on Cost of Funds and the third reason is four years ago we did not meet Priority Sector Lending target so we were carrying very high level of RIDF and NABARD bonds. There also the yields have improved as subsequent years we have done a decent job on meeting priority sector lending.

Prakash Kapadia And that also may be with a direct PSL..

Murali M. Natrajan Yes, with direct PSL reducing our dependence on buyouts etc. Third thing is that now recently CDs have, capability of issuing CDs have come in, that is helping us to do that. So it is not that we are taking any undue risk to put up some NIMs.

Moderator Our next question is from Manish Agarwalla of Phillip Capital. Please go ahead.

Manish Agarwalla I have two questions sir based on your low cost Deposits, I have seen that your growth on the CASA side has been below the industry average so how do you intend to improve that growth that is #1. Second is if I look at the Asset side you have a lot of retail assets larger than the mortgage side and if I see your one year ALM bucket the mismatch has actually increased. We have not seen much accretion on the CASA side that is #1 and secondly at the same time we have been adding long debted assets. So how do you explain this mismatch? Do you see any kind of risk going forward in this segment?

Murali M. Natrajan We have an ALCO meeting obviously every month where we review the various gaps in this bucket. I think few months ago we saw some gap, Bharat correct me, it was like greater than 3-year bucket, so we looked at some gaps that were more than what we wanted to see. Immediately we put a new product of Term Deposit which was greater than 2 years and targeted some X amount of money in that bucket to close the gap. So we have a very dynamic management of these gaps. At the moment we are not uncomfortable with any of the gap that is there, okay, first thing. Second, in the past we never used to get refinance from some of these agencies like NABARD, NHB etc. We are able to tap those now. That is helping. Third point, CASA growth, SA growth year on year is 16%. CA has been very volatile; I am not sure how the market has behaved, but my guess is the market also has been very volatile on CA. So while it increases dramatically in the middle of the month it somehow kind of drops off by the end of the month. And I also want to tell you that we do not do any such thing as trying to show a bigger CASA number in the quarter. We just let CASA be as it comes, we do not do anything to show a point to point growth in CASA. So we are quite comfortable at this stage on the gap and as far as CASA growth is concerned the scorecard remains very firmly with the skew towards CASA with the branches. They are confident of consistently growing this number.

Manish Agarwalla So do you have any short term and long term target for CASA specifically?

Murali M. Natrajan What are you looking at? The amount?

Manish Agarwalla I am looking at percentage wise, where do you want to see this CASA in may be next 1-2 years

Murali M. Natrajan We simply do not want to drop it below 27%. We initially wanted to keep it at 30%. As our Balance Sheet has grown it seems somewhat difficult but as this branches settle down we may retarget at 30%.

Moderator Our next question is from Susmit Patodia of Motilal Oswal Securities. Please go ahead.

Susmit Patodia Sir I have a couple of questions. One obviously what has happened with RBI day before yesterday if you can just explain how it impacts us and what are the game plan on that? And my second question is we have obviously benefited from the drawing down of the Operating Cost to Income Ratio. So how much leeway do you see there and what do you think will be your stable cost to income ratio?

Murali M. Natrajan On the RBI side whatever letters we receive or correspondence we exchange with RBI is confidential. So I am not able to tell you anything beyond that. But I suffice to say that RBI has issued a penalty for us of Rs. 1 crore on certain violations of AML/KYC. Of course, we have presented our viewpoint to Reserve Bank of India. Some of it has been accepted, some of it has not been accepted and so therefore the net result is that there is a penalty of Rs.1 crores and we are going to use that opportunity to reflect upon our controls and processes and see what best we can do to make sure we do not have such a violation in the future. That is our response. How it will effect our growth, I do not think it should. I do not believe that it is likely to affect our growth at this point but if I do understand that something is going to affect our growth I will come back to you guys. Now comes to Cost Income Ratio. We had said that we will come below 65% this year. We also have to grow branches because without branch growth we will miss out on our PSL targets and we will miss out on growing our Deposit base and Advances. So that has to be done without losing control on Cost Income Ratio. So we are trying to do a lot of efficiency on our premises cost and also people cost so that the new premises plus new people coming do not kind of dramatically increase the Cost Income Ratio. We think that we will be below 65% by the end of the year and below 60% by the end of next year. That is the target we are pursuing and that I have been consistently maintaining as our target. Hopefully, we will do better than that but at the moment we definitely want to achieve those targets.

Susmit Patodia Just on the NDTL restriction of RBI.

Murali M. Natrajan What is NDTL, I mean the latest one?

Susmit Patodia The LAF window restriction.

Murali M. Natrajan Okay, I will tell you what couple of impact is. One is we always remained liquid. So we maintain very high levels of liquidity, although it costs us a bit of money. As a Bank we have a policy in our ALCO to remain high level of liquidity. So therefore we are not affected by those borrowing windows and things like that. On the contrary we might actually in the last couple of days we might have actually gained something on lending into the call market because the rates were much better than what it was before. On the other hand we have a very small AFS portfolio. I think probably Rs. 60 crores or something. So we have the mark-to-market losses but we will have to crystallize it only if it lasts till September. So on the whole I do not see but I do see that there will be increase in interest rates. At any cost there will probably not be decrease in interest rates.

Moderator Our next question is from Geetika Gupta of Kotak Institutional Equities. Please go ahead.

Geetika Gupta I have a few questions on the Mortgage portfolio. How much of the incremental growth in this quarter come from portfolio buyout?

Murali M. Natrajan I do not think there was any portfolio buyout or if it was see, I have maintained that this portfolio buyout which we do has become part of our BAU and I do not know if every quarter some portfolio buyout happens. If it had happened it is not material, may be Rs. 60-70 crores or something. I do not have that number Geetika at the moment. But on a monthly basis we originate almost Rs. 70-80 crores of portfolio ourselves.

Geetika Gupta So the incremental growth I think is close to 180 crores in this quarter, on the mortgage.

Murali M. Natrajan So you can say that may be some Rs. 60-70 crores something like that would have been the buyout. See the buyout also we do if there is an opportunity, also we are originating the loan. Like it is just imagine in one shot I am getting so many loans because the due diligence is exactly or almost the same as how we would do a new loan.

Geetika Gupta How much of your total portfolio is LAP and how much is home loan?

Murali M. Natrajan About 55-60% will be LAP.

Geetika Gupta And that is where most of the incremental growth is coming from or..

Murali M. Natrajan Always the growth for us coming mostly like the ratio will always be about 60-40 type of ratio.

Moderator Our next question is from Ajitesh Nair of Premji Investments. Please go ahead.

Ajitesh Nair Sir I just had one clarification on the mark to market risk on the investment book. Our presentation shows actually in HFT and AFS book of about Rs. 800 crores roughly. So what will be the interest rates on certain investment?

Bharat Sampat See Ajitesh the combined modified duration, these are short term deployments so combined modified duration for AFS plus HFT is only 0.72.

Ajitesh Nair So across book will be what Murali was saying about Rs. 60-70 crores.

Murali M. Natrajan No, I know that I have looked at that trigger in the last couple of days and all. At the moment I am not, I mean whenever you lose money you are unhappy but I am not alarmed is what I am saying.

Moderator Our next question is from Gautam Jain of KBS India. Please go ahead.

Gautam Jain Sir any plans to raise capital?

Murali M. Natrajan We want to raise about Rs. 100 crores to Rs. 200 crores of Tier-2 capital. We are working on it. No plans to raise Tier-1 capital at the moment at least for the next 12 months.

Moderator Our next question is from Prashant Shah of Vantage Securities. Please go ahead.

Prashant Shah Most of my questions have been answered but I just wanted to get your sense on the latest actions that have been taken by the regulator to tighten liquidity. Do you believe there is much scope for Banks to raise interest rates in this environment?

Murali M. Natrajan See first of all I want to tell you Retail Deposit rates have not come down at all in the last 3-4 months.

Prashant Shah No, I was talking mainly in terms of your lending rates.

Murali M. Natrajan I am coming to that. Bulk of your Deposit always is from the Retail Term Deposit and Term Deposits, right. And we have not seen any let up in rate on that, on the contrary I still get MIS on deals that we lose, where even like a 5-10 basis points sensitivity is making us lose. So that means there is definitely firm as in interest rate. So to the best of my understanding I do not see interest rates coming down. It may even go up. We are not planning to raise any interest rates. We have not changed our base rate in the last couple of years. But we will look at Cost of Fund on how it is panning out in the next month or so and take a call.

Prashant Shah And sir just wanted to ask you sometime back RBI also came out with another notification on the bank's unhedged Corporate Borrowings exposure. So do you see this impacting our asset quality in general?

Murali M. Natrajan It might be but from our portfolio I am not able to tell you that we have any issue on that.

Prashant Shah So how much exposure would you have in such kind of companies?

Murali M. Natrajan We do not have that number readily available, but all I am saying is that it does not seem like a problem for us at the moment.

Moderator Our next question is from Jignesh Shial of IDBI Capital. Please go ahead.

Jignesh Shial Just two questions, one on a data point side. What would be now on the total accumulated losses with us now?

Murali M. Natrajan So you want to know about the accumulated losses?

Jignesh Shial Yes.

Murali M. Natrajan Since the current results are unaudited let us talk about the accumulated losses as of March 2013. As of March 31, 2103 it is Rs. 249.47 crores.

Jignesh Shial And one other question would be on this branch expansion side. Now as we discussed earlier you were of the opinion that DCB wanted to grow in the areas Tier-2 to Tier-6 basically and #1 bank in the private sector space. So now how is the strategy going on?

Murali M. Natrajan It is how it is going on. All the areas that we are identifying we are trying to be either #1 or #2. The exception to that would be where it is location which is kind of hub location or a location where we find that it is a location where it is market players or mandi where even if we are fourth or fifth Bank we can still succeed in our strategy we will put there. Otherwise all locations that we are identifying are either #1 or #2 location. You also have to do unbanked location which is I think about 25% of that. There you have to necessarily be the only bank, so there also we are trying to make sure that it is a viable location. It is not easy but yes we are trying that.

Jignesh Shial So any geographical location that you are right now targeting or something like that?

Murali M. Natrajan We are targeting Madhya Pradesh, Orissa, Gujarat, Maharashtra and Andhra Pradesh. So these are five major locations in which we are targeting.

Moderator Our next question is from Subramaniam PS of Sundaram Mutual Fund. Please go ahead.

Subramaniam PS Sir I had three questions. Firstly on your SME book if you could just give a breakup of how much would be the larger SME that is more than Rs. 5 crores and how much would be the smaller SMEs of our current mix?

Murali M. Natrajan I do not have that number with me but about 7-8 accounts would be greater than Rs. 10 crores in SME book and that is what I monitor more closely at the moment but since the last time when it undertook this exercise of trying to de-risk, I do know that almost 10-12 accounts of Rs. 50 crores has been exited in the last 3-4 months from this. Exited in the sense the customer has gone to some other Bank and we are quite happy with that because our collateral coverage was low so we have decided not to pursue that loan.

Subramaniam PS So out of those Rs. 1400 crores of SME/MSME we would say that almost 95% of it today is very granular

Murali M. Natrajan 90% would be and it is getting more and more granular as we are getting more and more smaller customer to come in.

Subramaniam PS Which means you know incremental growth, I mean this repayment risk would not be as high as it has been during the last 12-15 months for us.

Murali M. Natrajan Yes, so what we are trying to do is make it even more granular than – see we thought Rs. 7 crore average would be good, but we decided that the collateral coverage becomes weak because customer gives you 60-65% collateral at Rs. 7 crore for example, right. And then when they come before enhancement our collateral coverage suffers even more unless he gives me more collateral. So we decided that we should try to operate at 100 plus type of collateral so that automatically it becomes smaller ticket.

Subramaniam PS Sir my second question is on the impact on cost because of this branch expansion, you highlighted this quarter that despite opening 7 branches your cost has gone up only by 14-15% because you have been able to save on rental cost at a lot of places. Just wanted to understand is there some more potential for you to actually save on costs and keep opening branches or do you think lot of the cost saving is already behind us, therefore incrementally your OPEX might grow at a slightly faster pace than what it has been actually growing at?

Murali M. Natrajan Incrementally the OPEX has the full impact of branches coming. Obviously the OPEX might grow. Our aim is that always grow income by 20% plus and cost not more than 11% to 12%, that is what we are trying to come to. So that keeps giving you breathing space of at least 8% to 10%, that is what our aim is. I can never say that we are through with cost saving. For example, last quarter we identified one process which we could do internally as opposed to outsourcing by using some newer technology and we were able to save almost Rs. 30-40 lakhs in just one change. Now Rs. 30-40 lakhs will account for one branch for us. So I would never say that cost efficiency we are done with or anything. Yes, sometimes there are low-hanging fruits and sometimes it is harder to achieve cost save, so that process continues.

Subramaniam PS So the context of just asking this question is if I just strip off this Rs. 16 crore of profit on sale on investments that we have -

Murali M. Natrajan Why Rs. 16 crores? You do Rs.8-9 crores, I mean why should you do Rs. 16 crores? Every year I have had some profit on sale of investments.

Subramaniam PS Ok Sir…Third question was on the asset quality, you have given some granular breakup of how the gross NPAs have moved. They are on the Mortgages if I look at it on an year-on-year basis, there is a pretty decent increase in the NPAs.

Murali M. Natrajan Look at Mortgages from 2010 to 2013. I have given you the data there. Rs. 16.8 crores to Rs. 21.9 crores. In no stretch of imagination one can say that in fact when it was Rs. 16.8 my gross book would have been much smaller than what it is today. The only thing if you have to worry about anything it is, like if you see SME we have had from say Rs. 12 crores to Rs. 60 crores, Rs. 59.2 crores, but this quarter actually SME has been pretty good. They did not have much of slippages. I do not expect, like I said there are some 3-4 accounts which I have to watch for. I do not expect any major issues. If we are able to resolve those 3-4 accounts we should be quite alright in SME this year. Corporate loans – nothing happens for 12 months and suddenly one or two things happen. So it is very difficult to predict. So overall yes, there is a stress in the environment so obviously somebody asked me are you feeling any stress? I do not know whether you have traveled in Mumbai local. So, if you get into the train with starched shirt in Andheri station and get off at Churchgate station and say that there is not even a single wrinkle on your shirt that will be very difficult to convince anyone. So yes, there are challenges. I am not saying there are no challenges but we are handling those.

Moderator Our next question Denil Savla of Athena Investment. Please go ahead.

Denil Savla Just wanted to understand your Priority Sector Lending moving, I mean how is the movement going on and what is the current PSL?

Murali M. Natrajan When you say movement means what?

Denil Savla In the sense like, I mean I just want to know like how it is, like what is the current PSL?

Murali M. Natrajan So last year we achieved before Reserve Bank of India inspection some 41% or 42% and obviously we did not achieve the sub-targets. Sub-targets are very difficult to achieve which is the agri and weaker section. I do not have the number as to what we achieved on that and there is an RBI inspection which usually goes through the PSL loans and on the basis of their inspection they may choose to disqualify some of those loans so the final number would be after the disqualification. We do not expect any major disqualification in that number. Now this year we have just started. So this year we have still a long way to go before we achieve our PSL so we are confident that with our focus on Mortgages and special focus on AIB, we should be able to achieve our PSLtarget.

Denil Savla And sir I just want to know your revenue per branch for Tier-2 entirely, roughly if you can give?

Murali M. Natrajan We do not discuss those numbers. All we can tell you is that we are targeting 18 to 24 months breakeven on these new branches.

Denil Savla Okay. And sir just two bookkeeping kind of question, what is current Borrowings, actually it was not there in the presentation

Murali M. Natrajan It should be there in the presentation. If you see Page #21 on June 30, 2012, we were Rs. 1,010 crores and as on June 30, 2013 we are at Rs.

1,203 crores and March 31, 2013 we were at Rs. 1,525 crores, so we have actually reduced our Borrowings.

Denil Savla Any specific reason for shrinkage in the Balance Sheet?

Murali M. Natrajan In first quarter a lot of Corporate have paid off their loans. If you see our Mortgage has grown and our AIB has been quite intact. Some large Rs. 40-50 crore type of loans have got repaid all of a sudden. So you cannot make up that type of this thing. We will try and have a better growth in quarter 2.

Moderator We have a question from Amit Ganatra of Religare Investments. Please go ahead.

Amit Ganatra Sir just one question. Now, since Mortgage has become a very important piece of the business with almost 40% of the overall Advances, just wanted to get some more information on these products. So out of the total outstanding Mortgage book you mentioned that 55% is basically LAP?

Murali M. Natrajan About 55% would be LAP and about 45% would be Home Loans.

Amit Ganatra And this 55% LAP should basically be having 13.5% kind of Yields on Advances and this 45% is having 11.25%.

Murali M. Natrajan Even in Home Loans I do self-employed segment. I do not do salaried. So my yield on self-employed segment is usually better than salaried segment.

Amit Ganatra That explains the yield differential

Murali M. Natrajan And we also for example, you see when you do self-employed segment you have to do a lot more hard work in terms of assessing their income. So therefore there is a 25-40 basis point type of plain yield. That is not possible in this thing, whereas if self employed is well established self employed who has got a very good profile, he would be as good as your salaried in terms of demanding lower rate.

Amit Ganatra So when you are originating on your own you basically say you are doing more self employed. But even on buyouts basically you do self employed loan buyout or there also there is only salary buyout or something.

Murali M. Natrajan No in buyouts also it so happens that majority would be self-employed.

Amit Ganatra Okay, so basically new Mortgage is self employed and then there is LAP, that contributes to the Mortgage portfolio largely, right.

Murali M. Natrajan My entire Mortgage portfolio 70% plus would be self-employed character.

Amit Ganatra Even in new Mortgage?

Murali M. Natrajan Yes.

Amit Ganatra Okay, so 70%...

Murali M. Natrajan That is our strategy. We do not want to be fighting with others on salaried, we are only trying to do self employed.

Amit Ganatra Then on the second part is that in LAP what is the major distinction between a loan given to an SME based on hard collateral and LAP product?

Murali M. Natrajan Yes, that is a good point. First of all Loan against Property is also purely cash flow based lending. So which means customer cash flows are analyzed on Balance Sheet plus whatever the Balance Sheet is got plus his bank statements, then you minus out, I am trying to simplify a very complicated process, so minus out any EMIs that he has to already pay for his car or something else out of that and determine what the person can pay. Based on that you determine the customer's loan. Then you evaluate the collateral. The collateral is always a limiter. So collateral is not the basis for lending. So if the collateral is also Rs. 5 crore but the customer can only service Rs. 75 lakhs or Rs. 1 crore, that is all he will get. He would not get 75% of say Rs. 5 crore or something. Now the difference between that and SME is – in SME you end up normally giving a CC there to use certain projections of the customer sales. And there you have to look at a lot of track record of customers, how he has grown sales and so on. So to that extent SME has a little bit more risk because you are trying to determine a limit based on his ability to achieve those sales. And you have to ask for stock statements and debtor statements continuously to check what is the drawdown that you can allow on that particular limit because you do not want to give him a drawdown when he has not achieved those sales. So to that extent the monitoring of those accounts is a lot more intensive than Mortgage LAP.

Amit Ganatra But then in LAP basically the loan can also be for personal consumption.

Murali M. Natrajan It depends, so we actually go through an interview process with the customer and determine what he is doing with that Loan. So 40-50% of the Loans are for expansion because customer feels that a LAP is a faster product to get from a Bank than a CC/OD product or the customer may already be enjoying a CC/OD but he wants a quick expansion of something so he comes with a LAP proposition.

Amit Ganatra And in terms of life cycle, so LAP is basically a term loan whereas SME funding would largely be a working capital CC kind of a funding.

Murali M. Natrajan But LAP is a rundown product no, because every month he has to pay something.

Amit Ganatra Exactly so it is a Term Loan.

Murali M. Natrajan You see it is almost like a continuous perpetual product.

Amit Ganatra So it is an EMI kind of product, right?

Murali M. Natrajan LAP is an EMI type of product.

Amit Ganatra And CC is a revolving credit kind of product. And lastly for this new Mortgage origination do you basically rely on CIBIL or you end up creating --

Murali M. Natrajan We do CIBIL. We do actual personal interview with the customer at his office or at his factory. So we have a very elaborate process on this.

Amit Ganatra No only understanding that I wanted to gain was that do you also end up creating CIBIL in terms of – the profile of the customers are what, they already have CIBIL scorecards or -

Murali M. Natrajan Most of them will have a CIBIL. They have an auto loan or they might have a credit card, they may have some personal loan. It is quite possible.

Moderator Thank you very much. Ladies and gentlemen due to time constraint that was our last question. I would now like to hand the floor back to Mr. Murali M. Natrajan for closing comments.

Murali M. Natrajan Thanks for dialing into this call. If you have any follow-up questions please feel free to write to me or to Meghana or to Bharat and we will be more than happy to revert back to you. Thank you very much.

Moderator Thank you very much gentlemen of the management. Ladies and gentlemen on behalf of DCB Bank that concludes this conference. Thank you for joining us and you may now disconnect your lines.