DCB Bank Limited - Q1FY2015 Earnings Conference Call

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Management Participants:

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

Mr. Bharat Sampat – CFO, DCB Bank Ltd.

Mr. Rajesh Verma - Head - Treasury and Corporate Banking, DCB Bank Ltd.

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

Moderator Ladies and gentlemen, good day and welcome to the DCB Bank Limited Q1 FY2015 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan, MD & CEO DCB Bank Limited and Mr. Bharat Sampat, CFO DCB Bank Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 everyone. Thank you for logging in to this first quarter results call. I am joined here by Mr. Bharat Sampat, CFO, DCB Bank Ltd, Mr. Rajesh Verma, Head - Treasury & Corporate Banking and Ms. Meghana Rao, Head – Investor Relations. I will speak for about 10 to 15 minutes and then we will allot the rest of the time for Q&A.

So let me start by giving you some highlights. What I am going to do is I am going to start dealing with the Balance Sheet items first then go to P&L, since there are some one-off items that would need some explanation. The Balance Sheet growth on a year-on-year basis is 17%; CASA growth has been also 17%. The Savings Account underlining growth has been approximately 19%. CASA ratio stood at 25.4%. We continue to be relying on Retail Deposits, including Term Deposits and about 79% of Deposits are in Retail. Advances growth year-on-year was 28% and Total Deposits growth was 27%. Our CD ratio remained below 80%. The contribution of Mortgage was about 40%; Corporate 24%; SMEs 16%, and Agri Inclusive Banking (AIB) 14%.

Of course quarter-on-quarter we do not expect the Balance Sheet or Advances to grow because usually the first quarter is a very slow. However, our plan for the next three years remains same that we want to double our Balance Sheet in three to three-and-half years. The composition of the loans that is Mortgage, Corporate, SME/MSME and AIB is also likely to remain in the same ratios.

Now let we go to the P&L. First let me talk about the underlying. Underlying Interest Income year-on-year growth is 31%. Commission Exchange Brokerage within the fee income is up 16% driven primarily by Balance Sheet growth, however, total underlying Non-Fund Income is flat. Last year, same quarter we had a one-off Treasury gain of approximately Rs. 11.7 crores. Costs are up 20% primarily driven by new branches also many new branches were installed in last quarter of FY 2014 and as you know salary increases are also affected in first quarter so that also has pushed up the cost. Overall we do seem to be having some pressure on Cost-to-Income ratio due to branch expansion and sales staff increase. We are aiming to break even in 18 to 22 months for every new branch. We are still targeting below 60% cost-to-income ratio in FY 2015. This year our Total Cost also will go up by at least Rs. 4 crores on account of change in depreciation rates under the new Companies Act.

Let me talk about credit provisions. We have made a total of Rs. 23 crores in this year of provisions. Out of this Rs. 5 crores is for NPAs; additional provisions of Rs. 5 crores on restructured advances. We had very little restructured advance in this quarter and I will talk about it a little later. Floating Provisions increased by Rs. 2 crores. Over and above this, we have also made an additional provision of Rs. 10 crores for specific standard assets. In comparison to the trailing quarter the provision was Rs. 11 crores in the last quarter. Last year same quarter the provision was Rs. 9 crores.

We had a onetime Interest Income of Rs. 30.43 crores on account of Interest on Tax refund and there is a corresponding Tax expense of Rs. 8.59 crores which is what I wanted to mention. Now in terms of just to get a comparison of pre-tax Profits because we have put in some taxes in this year. Pre-tax profit I would say if you back off the Rs. 11.7 crores in the first quarter of 2014 then that would be about Rs. 31 crores and this quarter if we back off the one off that becomes Rs. 39 crores. So approximately 25% is the growth in the pre-tax profit.

Let me explain a bit about Tax. The Tax rate works out to approximately 23.4% however; there is a previous year's impact of Rs. 3 crores taken in this quarter, which should not get repeated. Therefore underlying tax rate comes to approximately 18.2%. Slippages - Opening NPA was Rs. 138 crores; fresh slippages was Rs. 24 crores we do not have any Corporate loan slippage in this quarter. We had made additional provision for already restructured accounts for about Rs. 5 crores. So the fresh slippages were all in the SME and some in Retail and Agri Inclusive Banking. Recoveries and upgrades were Rs. 13 crores. Closing NPA - was Rs. 149 crores. Slippage ratio on an annualized basis is about 1.2%

So, the Profit for this year considering the entire one offs and everything was Rs. 45 crores which compares with the reported Profit of about Rs. 43 crores in Q1 of 2014. Restructured asset we have five accounts adding up to Rs. 74 crores

Bharat Sampat In previous quarter we had two accounts adding up to Rs. 77 crores. So, three small accounts have slipped with hardly any amount there.

Murali M. Natrajan So that is what I wanted to share with you. I am happy to take questions.

Moderator Thank you very much, sir. Participants, we will now begin the question and answer session. We have the first question from Mr. Nilesh from Edelweiss. Please ask your question.

Nilesh Parikh If you can just repeat the entire tax adjustment which has taken place and how should we look at the tax rates for the coming quarters?

Murali M. Natrajan So Bharat, would you like to explain that?

Bharat Sampat Nilesh, as mentioned by Murali the tax provision which we have made of 13.65% includes the one off approximately Rs. 3 crores which relates to the earlier tax assessments which got completed. So on completion of multiple year tax adjustments we did plus, minus and we found that we are short on provision of Rs. 3 crores. This relates to the Income which we had of Rs. 30 crores in Interest Income. So that Rs. 3 crores was provided that is what Murali referred to as one offs which is not repeat in rest of the year. If you take the effective tax rate basis that number we see that our effective tax rate is in the range of 18.2%.

Nilesh Parikh But Murali mentioned about this Rs. 8.59 crores, so the 30 is the Interest on Income Tax refund and there was this Rs. 8.59 crores impact on Tax because of this?

Bharat Sampat Nilesh, on Rs. 30 crore if you take 18.2% it will be around 5.5 crores and plus this 3 odd crores of prior year liabilities that is 8.59 crore. And then on the other than Rs. 30 crore also if you take 18.2% you can work it out.

Murali M. Natrajan So underlying we have taken 18.2% on Rs. 30 crore we have taken 18.2% then we have added the 3.06% which pertains to the 30 actually.

Nilesh Parikh The other thing is just wanted to get your views now SME is a segment that we have been and you have articulated earlier also that given the environment you wanted to be a bit cautious. So that book more or less remains flattish on an outstanding basis. Now what is the outlook going forward on this segment?

Murali M. Natrajan So if you notice between last year and this year I think it is down by almost Rs. 150 crores. I think we were at about Rs. 50 crores under.

Nilesh Parikh This is Rs. 1,487 crores as on FY13 which is down to about Rs. 1,340 crores.

Murali M. Natrajan But in the last two quarters it is almost stable.

Nilesh Parikh Yes, it is stable.

Murali M. Natrajan So just for our understanding let me repeat what we were doing. We had actually de-risked our portfolio we reduced the exposures per account exposure to Rs. 3 crores and that is almost like two years ago now. So slowly, we have kind of exited. Of course we have also faced pressure on NPAs. I think we are at about 6% or 6.5% gross NPA on SME and MSME. So this year I do think that we should be able to grow this book about 5% to 7% because I feel that there is a lot of stability that is coming in to the book. Yes, some 3-4 accounts are still showing stress but we have confidence that we will be able to manage that.

Nilesh Parikh But not increase in the ticket size, right?

Murali M. Natrajan No.

Nilesh Parikh Still not getting that?

Murali M. Natrajan No, we are not working on the ticket size. We have not changed our ticket size even in Mortgages. Mortgage is actually our ticket size would be in the average of may be Rs. 45 lakhs or so. We do not prefer big tickets. Now it is almost two years that we do not prefer big ticket. Very rarely we do big tickets. I am not saying we do not do at all but it is more of an exception than a rule except in Corporate and in some rare instances in Agri Inclusive Banking we do not do big tickets.

Nilesh Parikh Just one data point. Have you made any provisions on the un-hedged forex exposures?

Murali M. Natrajan Yes, very small provision we had sent out formats to various companies we have collected the data. It is a very painful exercise we went through but we do not have too many of these kind of exposures. So based on that I think we have made a provision of less than a crore in around Rs. 45 lakhs.

Nilesh Parikh And there in no amortization the entire thing has been taken off?

Murali M. Natrajan No, that represents 25%.

Nilesh Parikh So even if you take the impact it is about Rs. 2 crores?

Murali M. Natrajan Yes, but I think we need to kind of reset it every quarter.

Moderator Thank you. The next question is from the line of Karthikeyan P from Cholamandalam Securities. Please go ahead.

Karthikeyan P Sir, I need the outlook on Corporate loan book

Murali M. Natrajan The Corporate loan book our plan is to grow by about 15% to 20% every year.

Karthikeyan P And which segment do you see much growth coming?

Murali M. Natrajan We are not focused on particular segment, we are trying to focus on good companies, we add about 20 to 25 accounts every year. Last year also I think we added about 26 odd new accounts. And we are trying to make sure that we go for good companies; better security structure; better product structure, etc.. So we are not focused on any one segment and we try and avoid any infrastructure type of loan. Yes, we do have some infra loans which has been with us for quite some years now. Other than that we just kind of avoid that segment.

Karthikeyan P And how do you see the NIMs going for the FY15, sir?

Murali M. Natrajan For Corporate or for the whole bank you are saying?

Karthikeyan P Corporate?

Murali M. Natrajan Corporate yields have definitely dropped in the last four, five months. As we are targeting better quality companies and there is a lot of competitive pressure which has caused I think easily I would say may be 50, 60 basis points have reduced in Corporate.

Moderator Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri Just a bookkeeping question. Can you give break up of provisions of about Rs. 23 crores?

Murali M. Natrajan Yes, we have Rs. 23 crores out of that Rs. 5 crores is for NPAs; Rs. 5 crores additional provision we made on restructured advances which is already there in our book. Floating provision we made Rs. 2 crores and specific standard assets provision we made Rs. 10.3 crores.

Kashyap Jhaveri And you have mentioned floating provisions at Rs. 2 crores?

Murali M. Natrajan Rs. 2 crores.

Kashyap Jhaveri And what is the total outstanding balance in that or is this is the first time we have done?

Murali M. Natrajan No, we have been making this provision for many years, I do not think we published that number but it should be approximately Rs. 8 crores.

Kashyap Jhaveri Total till date?

Murali M. Natrajan Yes, approximately . I am talking about only floating provision.

Moderator Thank you. The next question is from the line of Kaushal Patel from India Nivesh. Please go ahead.

Kaushal Patel Sir, I would like to know we have made additional provision of Rs. 103 million against standard assets. Sir, I would like to know like what is your outlook on that. Do you expect we are going to have more slippages in the near future or so?

Murali M. Natrajan No, basically the process works like this for the last many years now we have been following a process of identifying loans which we will categorize as Anxiety, Problem, Watchlist, etc. usually in SME, MSME and any higher ticket size in Agri Inclusive Banking. In these three categories we have been having this process of looking at accounts which are divided in to Watchlist, Anxiety and Problem. Recently of course RBI has also introduced a new category called SMA1 and SMA 2, we have been having this process for almost 5 years now. So we do review these accounts. Now what we have chosen to do in this particular quarter is that loans in SME and Corporate which have been consistently been in Anxiety or Problem for the last many months and they have not become NPAs and have faced delays in terms of servicing interest or installment. We have chosen to make a provision of Rs. 10.33 crores as a specific standard asset provision for this category.

Kaushal Patel So basically they are in to SME and Corporate?

Murali M. Natrajan In the current review these loans are in the SME and Corporate.

Kaushal Patel One more question, sir. In the NPA breakup there is an increase in Others. So can you give?

Murali M. Natrajan The Others is in AIB - Agri Inclusive Banking there are many small loans like some gold loans, may be three or four tractor loans, sometimes what happens is that they come in to NPA and then gets recovered the next quarter because usually they are all very secured kind of loans. We will try to give the breakup of AIB, but AIB loans have been in very good control for us in the last five years.

Kaushal Patel Because in this quarter considerable increase like almost 50%, 60% increase?

Murali M. Natrajan I mean percentage wise it is like that but it is about Rs. 4 crores odd

Kaushal Patel Yes, the amount wise I know it is quite low.

Moderator Thank you. The next question is from the line of Siddharth Chaudhary from Mata Securities. Please go ahead.

Siddharth Chaudhary My question is if we back off this one off Other Interest Income then what would be our NIM?

Murali M. Natrajan This NIM has been reported backing off this income. If we put this Income our NIM would have been 5%.

Moderator Thank you. The next question is from the line of M B Mahesh from Kotak Institutional Equities. Please go ahead.

M B Mahesh Sir, just a first question from this Mortgages book. Is it possible for us to get a broad break up between the LAP book and the core housing book?

Murali M. Natrajan I think it is approximately 60:40; 60 would be in LAP and 40 would be in the Home Loans. Since we are focused on self-employed as the segments like I have always mentioned that our Bank's main focus is self-employed. With self-employed segment more LAP loans are sourced and less home loans are there. Over a period of time LAP has increased when we started the business it was more Home Loans. In the last 2-3 years I think LAP has become almost like 60%-65% of our book.

M B Mahesh From a disbursement perspective it will be north of 80% is it?

Murali M. Natrajan Not necessarily, why?

M B Mahesh I am just asking to understand it better.

Murali M. Natrajan In terms of number of loans it could be right and what we have done is over the years we have actually consistently reduced the ticket size so we do not prefer high ticket sizes in Mortgages be it Home Loan or LAP.

M B Mahesh You have mentioned that ticket size is about Rs. 40 lakhs to Rs. 50 lakhs, right?

Murali M. Natrajan Rs. 40 lakhs to Rs. 50 lakhs, yes.

M B Mahesh Is construction a very big exposure in your Corporate Banking?

Murali M. Natrajan No, in fact we feel that it is hardly about 3-4 accounts and these customers have been known to us traditionally for several years. So far we have never had a problem with any of these customers. We personally believe that given our Balance Sheet size that we could actually consider having some top category construction loans but we have not embarked upon it as a business as yet. If we get some good proposal with the Corporate or yes, largely in the Corporate only we do evaluate it but not as a special focus.

M B Mahesh Sir, just one again on the Mortgages side. Your average yield in this particular portfolio will be about 13% or is it?

Murali M. Natrajan 13% plus.

M B Mahesh So if I do the numbers is it a fair assumption that the Corporate Banking is generating a yield lower than 13%?

Murali M. Natrajan Definitely it must be lower than 12%.

M B Mahesh Then how do you reconcile 12.8% Yields on Advances I am just trying to match?

Murali M. Natrajan Because we have lower yield on Agri Inclusive Banking.

M B Mahesh SME, MSME will be in north of 14%-15%?

Murali M. Natrajan No, now that we are actually because there is a lot of competition in SME/MSME because they as PSL so we have to do a lot we have on a daily basis we get quite a few requests for re-pricing on SME/MSME. So it would be below 13% now actually.

M B Mahesh I am just trying to reconcile 12.8% the Yield on Advances and the split across the various books. If Mortgage is about 13% and Corporate Banking is around 12% and SME/MSME is close to about 12.5% to 13.5%?

Murali M. Natrajan SME, MSME will be about 12.5% something, yes.

M B Mahesh And Agri will be at what?

Murali M. Natrajan Agri will be probably below 12% because there are so many products there.

Bharat Sampat Agri has gone to (+12.5) because of tractor book

Murali M. Natrajan Yes, now that we have a little bit of tractor book it has gone to some 12.5 something.

M B Mahesh And you are broadly comfortable with this margins? Is there a downward pressure that is likely to come in the next couple of quarters?

Murali M. Natrajan There is consistent downward pressure on yield because of the competition that is there in the market. I somehow feel that whatever may be your base rates every customer is approached even in, say in smaller towns all customers have many options. So there is a constant pressure on yield. So that is why we have to keep working hard on the Cost of Fund and if you see this quarter improvement is on Cost of Funds because we have been able to repay some of the Borrowings by taking Retail Term Deposits.

M B Mahesh No, the reason I am asking this question again is that if there is pressure on margins how much can you control costs which is probably in your hands to report slightly better Cost-to-Income ratio because costs are now have started to kind of track this 20% mark?

Murali M. Natrajan No, I have always said in this meeting that we are targeting 330 bps, if NIM starts to go below 330 basis points I will be having a bigger worry for sure because I feel that our model is of growing the loans book on a quality basis keeping the credit cost in check and achieving better productivity in the branches that we are trying to install. So cost-to-income ratio would come under pressure if our yield drops no question about that.

M B Mahesh Now the point is, would you invest continue to invest in branch network if margins are coming under pressure or would you say that it is okay to let go off branch expansion and focus a little bit more on ROE? Just trying to understand which of the two are you broadly looking at?

Murali M. Natrajan We do not have a big ambition at the moment on branch expansion it is about 30-40 per year and we can actually calibrate our branch installation based on performance so we are not like committed to saying that we need to definitely install. We can achieve a reasonable growth with the branches that we have already installed. But in order to be able to continue to perform well we need to have those branches in those locations that we are planning for. We do not want to be in a situation where we struck for PSL for example that we do not have those branches we do not want to be buying portfolio and actually that will put even more pressure on NIMs because we do not want to be ending buying. So it is a fine balance that you ask me.

Moderator Thank you. The next question is from the line of Shreedhar Rao from IIFL. Please go ahead.

Shreedhar Rao I wanted to know is there any color on the NIMs going forward as well as the slippages over the entire loan book going forward?

Murali M. Natrajan I just answered Mahesh saying that there is pressure on yield and fortunately there is less pressure on at least the Term Deposit rate in the first quarter. How it will pan out in the second or third quarter I am not so sure. But we are growing SA at about 18% and we are confident that we should be able to achieve that 18% kind of growth to kind of moderate our cost of funds. I do not think second quarter NIM would be greatly affected but full year NIM, I personally do not think we should be able to get more than 350 basis points in fact.

Shreedhar Rao And anything with regards to the slippages going forward?

Murali M. Natrajan Slippages we are seeing some pressure of course, we see the pressure in the last two years we have always seeing some pressure in SME and MSME and also in Corporate 2-3 accounts. We are managing those quite well. The customers have been responding and have been servicing their interest and any other installments on time. But having said that I think we should be able to manage within that 1.2% to 1.5% kind of slippages of the opening balance.

Moderator Thank you. The next question is from the line of Prakash Kapadia from I Alpha Enterprises. Please go ahead.

Prakash Kapadia Sir, two things. If I look at the Advance growth this quarter it has been 28%, so is that the low base of last year where we had seen an 18%, 19% Advance growth that was the first question. Secondly, can we just get some color on the competitive scenario apart from Banks which were already offering LAP these days NBFCs like Bajaj, Chola, Magma have all started entering this space. So are we seeing more time in terms of client closure or some pressure on yields on LAP and currently how many branches do we sell LAP in over the next two years how many do we intent to take this LAP selling in to?

Murali M. Natrajan Okay so let me answer your last question first. Intention is if you have 134 branches at least then 70% of the branches we should be able to provide business loans/LAP loans/home loans in those locations. But the challenge here is two or three. One is to be able to train the resources to pitch this product to the customer because it takes a lot of effort. Second, sometimes the property that they want to Mortgage have some issues in some of these locations and third is to execute the whole process in time so that the customer is not disappointed with the cycle time of the Bank. These are the three basic issues.

Prakash Kapadia And currently sir, it would be what at may be 40%, 45% of our branches?

Murali M. Natrajan Every month I am seeing new branches coming up and contributing to Mortgages. Overall in the Mortgage book, let us say we get Rs. 100 – 20% is coming from branches and about 80% is coming from dedicated Mortgage sales teams. I see this becoming about 40%- 60% in about two years time because there is a lot of activities happening in the branches and we really do not want to have a separate sales team if we can help it. But at the moment all branches are not equipped to or trained to execute this well. In terms of competitive pressure whether we are talking about 1,000 kilometers deep inside India or in main metro there is enough and more competition that we have to deal with whether at the NBFC or some local Bank or Co-operative Banks everyone is not just in LAP in every product. It is not easy and you asked about the loan growth. Now we are targeting to double our Balance Sheet in 3-3.5 years. That would mean loan book growth of about 23% to 25%. Last year first quarter was quite low, but I think full year last year we grew by 24%.

Prakash Kapadia On an overall trend basis we should be there 20%- 24%.

Murali M. Natrajan I feel that we should be but at least the pipeline and the stock that we have added and the productivity numbers that we are seeing we feel confident that about 23% to 25% growth is possible.

Prakash Kapadia And sir, if you could just allow me one more. Given that mining activities have commenced, rupee being stabilized, the new government coming in. So are not we seeing more lucrative opportunities in SME or ancillaries on a risk return basis?

Murali M. Natrajan Not yet. I mean we have not seen a visible (change) of course the mood is changing and sentiment is changing. Sentiment is easy to change I guess. So sentiment is changing but on the ground we would be very cautious. We will see couple of more quarters. Yes, I mean when you talk to some people we do find that there are some changes happening but not enough for us to get completely excited.

Moderator Thank you. The next question is from the line of Sweta Seth from Stewart & Mackertich. Please go ahead.

Sweta Seth I just wanted to have an update on the dilution of shareholding by the promoters. Do we have any update from the RBI?

Murali M. Natrajan Not yet. We have represented to RBI requesting them for a new road map. The last road map we were supposed to dilute to 10% by March 31, 2014. So we are awaiting the RBI guidance in the matter.

Sweta Seth And sir, are you having any dialogue with the promoter and do they want to dilute or anything of such?

Murali M. Natrajan My boss, Chairman of the Bank, has been having dialogue with the promoter. I do not think generally promoters want to dilute but there is a guidance of RBI that needs to be followed.

Sweta Seth Sir, I have just been following whatever you are guiding on NIMs but it has been some like 2-3 quarters you are being saying that your model is works on 325 to 350 bps, right? But every quarter you are outperforming that. So should we be changing the guidance for FY15 or FY16 as a whole?

Murali M. Natrajan No, looking at the competition you see every time the NIM gets published by the finance the Financial Controller comes and says that you have been saying 330 and we are at 350, 370 like that. So even he is not very excited by my statement. But what I want to say is that I have seen NIMs change quite drastically, for example if the liquidity increases in the system, Banks start to compete with each other. Today what is happening is that Public Sector Banks are slightly because of their NPA problem I think slightly muted I would say, right? So I am saying that our model works on 330 basis points. And we are not going to work towards reducing the NIM somehow to 330 basis points but I feel that may be second quarter would be alright but third and fourth quarter there will be growth pressures and some amount of NIM will come off.

Sweta Seth So full year basis 350 basis points is?

Murali M. Natrajan I feel that 345 to 350 is achievable, at the moment.

Sweta Seth Sir, next question is on your restructured assets I understand the book is very small but going forward do you see a pipeline as such in currency?

Murali M. Natrajan In the last conference call also I have mentioned that I see at least 2 to 3 accounts looking like candidates for restructure in both SME and Corporate put together. Ideally we would not like to restructure but if the customers are facing real difficult in terms of servicing the loan we have no choice but to restructure the loans.

Sweta Seth Sir, what would be the size of the accounts?

Murali M. Natrajan I do not want to comment on the sizes at the moment.

Sweta Seth Is it actually something big or small?

Murali M. Natrajan If you talk about Corporate loans the average would be about Rs. 25 crores to Rs. 50 crores, right?

Sweta Seth Yes sir.

Moderator Thank you. The next question is from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

Chandan Gehlot I just wanted to have more color on your CASA. I have seen the CASA percentage has been continuously declined year-on-year. Now we have stood at 25.38%. So what is the view forward by end of FY15 where this number is going to be?

Murali M. Natrajan So how we work on CASA let me explain, then I will come to the number also. Whether it will be a new branch or an existing branch we have a score card. The branches are divided in to two parts. There are branches which are dedicated to Agri Inclusive Banking business and there are branches that are dedicated to Retail Business. The Retail business there is a score card every employee in the branch who have this score card has to achieve the CASA new acquisition and CASA existing book growth for them to qualify for any level of a low performance pay out. So if you see our SA growth I think has gone up from some 14-15% to 18%. CA have been very volatile and it has been very difficult to manage. CA, in fact I would say CA has been more or less flat in the last two or three years for us. I believe that if the economic activities increases there will still be some more flow in to the CA because our account acquisition on CA remains pretty robust. Having said that our term deposit have been growing much faster to support the balance sheet growth. Therefore CASA ratio have been coming down from some 30% to 25%. I believe that there will be pressure on it even this year and as the new branches starts to become more productive we should bounce back to a 25% may be by next year and then start to grow from there to a 27%, 28%. That is the plan that we are working on.

Moderator Thank you. The next question is from the line of Yash Mehta from Equirus Securities. Please go ahead.

Yash Mehta I just wanted to get a sense on the Cost-to-Income outlook over a certain time period so less than 60% for this year. So how does it work going ahead?

Murali M. Natrajan We are working towards in fact last year we said that we want to be below 65% I think we ended at about 63%. This year we are targeting to be below 60% and following year we are trying to target below 55% type of level. First of all I want to tell you it is the big challenge but we are working towards that and the way it has going to improve is not because there is going to be any cost cuts but making the existing and the new branches productive and growing our Balance Sheet. That is the plan that we have in terms of achieving those ratios. We have examined our cost threadbare we do not see any level of wastage, at the same time we do not have any big ticket costs other than front line hiring and to support the front line, some operations hiring and the project expansion costs. Other than that we do not have any major costs coming up at least for the next two years.

Yash Mehta And sir, any one-off kind of costs this quarter which?

Murali M. Natrajan Some minor amount may have been there but nothing significant.

Yash Mehta And sir, just coming on the sequential decline in the Corporate loan books?

Murali M. Natrajan First quarter is always a challenge for Corporate and in fact I am quite happy that the Agri book has actually slightly increased in the first quarter. Retail loan is growing month-on-month but Corporate loans usually at least we have not been ever able to grow the Corporate book in the first quarter in the last at least three years if I remember.

Yash Mehta Any observance of Provision Coverage Ratio which have been showing some decline?

Murali M. Natrajan It is 79% and if you remember the last quarter of last year we had 100% provided accounts we took a write-off. So that automatically kind of put a pressure on this. What I can tell you is that we are making provisions based on not just on what is statutorily requirement but even over and above that whatever provision is required, based on our experience of collections and recoveries. And even in SME for example, while our gross NPA is higher I would say that we have consistently making provisions and taking a call on loan by loan looking at the underlying security recoverability, etc., and making more provision. So

I do think that unless some major slippage happens we should improve our coverage ratio from here.

Yash Mehta And sir, the specific provisions on standard assets you made this quarter so if it is an ongoing activity of evaluation so what kind of an incremental stress could be possible there?

Murali M. Natrajan It is not a stress, it is a provision more from a prudence point of view I would say. So this process would be continued every quarter but at the moment I cannot tell you what we are going to do in the next quarter. It depends on how those loans that we are examining in Anxiety and Problem continued to behave.

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

Mona Khetan Sir, question on the Tax front again. So essentially if I understand it correctly we had Rs. 138 crores of accumulated Losses left for this financial year. So I just want to understand despite that we had taxes this quarter and how do we expect this to kind of over the rest of the year?

Murali M. Natrajan Okay Bharat, can you answer that?

Bharat Sampat Yes Mona, Rs. 138 crores is the accounting carry forward Loss. Tax books would have a slightly different carry forward Loss because there are some amounts which are disallowable in Tax book, whereas they may have got debited in account books, etc. So what we had guided was that we would approximately absorb all tax carry forward losses in approximately three quarters but with one-off Income coming in terms of Interest on Tax Refund we have absorbed Tax Losses at a slightly faster rate which is why the effective tax rate which we were expecting in the range of 7% to 12% has gone to 18%.

Mona Khetan So this financial year that is what you are expecting 18%?

Bharat Sampat 18.2% but it is subject to then revising the projections from as the year progresses the way our performance goes from here.

Murali M. Natrajan Actually if you ask my perspective on this we are actually happy that we will be paying Taxes. I know it affects the Profit but 12 months we are definitely going to have an impact when the full tax comes in and then we will have to build back our ROE and ROA from there. So that challenge remains. So the sooner the challenge comes the better it is for us so we will be able to work it out.

Mona Khetan Secondly sir, on the Tier 1 ratio which is around 12.8% I am assuming we have added back the profits for quarter one as such?

Murali M. Natrajan No, we are not allowed to do that. It will only be added at the end of fourth quarter after it is audited.

Mona Khetan And on the Rs. 10.3 crores of specific standard prudential provisions that you have created I just wanted to understand what would be the asset size for which we are provided Rs. 10.3 crores?

Murali M. Natrajan I told you that we have a list of accounts Anxiety and Problem, so not all of them we would have chosen and we will have a discussion in our credit committee and looked at the behavior of some of these accounts. So I do not think we can disclose the exact amount on that.

Mona Khetan And I understand your restructured book is small but would it be around Rs. 30 crores still or?

Murali M. Natrajan No, Rs. 77 crores or Rs. 80 crores it is.

Bharat Sampat Five accounts Rs. 74 crores.

Mona Khetan Rs. 74 crores so essentially we had that additions of around Rs. 30 crores to Rs. 35 crores this quarter?

Bharat Sampat No, this is previous quarter and year end we had two accounts of Rs. 77 crores now we have five accounts of Rs. 74 crores.

Murali M. Natrajan Up to last quarter we had only some you are talking about four quarters we had added substantial amount before that I think it was only about Rs. 30 crores or something.

Mona Khetan In Q4 we had some additions?

Murali M. Natrajan Yes Q4 there was one corporate account that was added I think.

Mona Khetan And it is currently stands at Rs. 74 crores?

Murali M. Natrajan Yes.

Moderator Thank you. The question is from the line of Jimit Doshi from Reliance Securities. Please go ahead.

Jimit Doshi I just got an update from the RBI that it has allowed infra status for Home Loans below Rs. 50 lakhs so just wanted to know your view on that and so in the Mr. Modi budget lot of impetus was given on the infrastructure sector so are you developing any new loan products? Do you see the infrastructure push since you are planning to double your balance sheet in three years?

Murali M. Natrajan So we are aiming to double our Balance Sheet in three to three-and-half years. We feel there is enough opportunity in the four big business segments that we are working on which is Mortgages, Agri Inclusive Banking, Corporate Banking, and SME-MSME. I do not think as a team we have had enough details on this infrastructure push to evaluate whether there is an opportunity for us to do so. Hopefully in the next month or so we will evaluate and if there is a change we will definitely inform the investors.

Jimit Doshi And sir, prima facie on the news that just came in from RBI what is your view on that?

Murali M. Natrajan Let me examine it boss, normally I do not comment on any government policy or RBI policy.

Jimit Doshi But it affects your Bank, right?

Murali M. Natrajan It does so we will evaluate that has to how it affects our Bank positively or negatively.

Jimit Doshi And in the earlier con-call you had mentioned that your CA has been flat but whereas you been also mentioned that you are adding 25 corporate accounts every year. So how does that sink in because your CA has been flat and you are adding 25 accounts every year so should not your CA increase every year then?

Murali M. Natrajan So Corporate accounts usually we are a very small player in the multi banking and/or in consortium like we will have exposures of may be 1% or 2% in the entire thing. So it is not possible for us to get those large Current Accounts in DCB. Second point is that our focus is on self-employed customers who have CA of say Rs. 4 lakhs, Rs. 5 lakhs, Rs. 3 lakhs that type of customer is what we focus on. We do not necessarily target big tickets because big ticket CA comes in and goes off. It is quite volatile. It is very difficult to build the balance sheet on that basis. So what I was mentioning is the self-employed CA in the last three years have been almost flat. I mean there has been some growth here and there accounts are coming; balances are coming but in overall context and when we examine some of these accounts as to why our CA is going, businesses have closed down; business have reduced, those kind of reasons are coming up.

Moderator Thank you. The question is from the line of Sanchit Tulsian from Emkay Investment. Please go ahead.

Sanchit Tulsian Just a very quick question on Tax rates. Sir, once the losses are absorbed in the current year what is the effective tax rate we are expecting in FY16?

Murali M. Natrajan In FY16 there will be full Tax coming in.

Sanchit Tulsian 33%, sir?

Murali M. Natrajan Yes, full will come.

Sanchit Tulsian And sir, just a clarification. You do not have any write-off with NPAs this quarter, right?

Murali M. Natrajan No, we do not have any write-offs.

Moderator Thank you. The question is from the line of Nikhil Garg from BNP Group. Please go ahead.

Nikhil Garg Most of my questions have been answered just one question on ROE. Where do we see ROE moving say one to two years down the line may be 2-3 years down the line?

Murali M. Natrajan After the full tax effect comes in in FY15 we will need about a year to 18 months to build in fact to 14% to 15% ROE and 1.3% to 1.4% ROA. That is the plan on which we are working on. We will see how we are able to achieve it.

Nikhil Garg So basically you are saying by FY17 or FY18 you will have about 16-17% ROE?

Murali M. Natrajan See the FY16 the entire Tax will come in to picture, therefore, our ROA and ROE both will get dampened and then we will need about four to six quarters from there to build it back.

Moderator Thank you. The question is from the line of Vikram Shroff from Vikram Shroff and Co. Please go ahead.

Vikram Shroff A quick question. What is your plans on your future fund raising for the QIP or any other plans you may have?

Murali M. Natrajan Okay, so we have an approval from the Board and the shareholders for up to Rs. 300 crores of capital either through QIP or through Preferential Allotment. And we are at about 12.77% on Tier 1. By the end of the year we still think that we would be in strong Capital position. So for the growth plans we are actually might need the Capital say by June 2015 or so but what has happened is as in a matter adequate caution we have got this approval and because these it takes some time to get these approval so have got that all approved. If the opportunity is right we may raise that capital before March.

Vikram Shroff So you do not have any timeline exactly like you might raise it in this quarter in the current quarter or something?

Murali M. Natrajan No, we have not made any plan like that. Of course as a matter of since we are a listed company we continue to talk to interested investors. But we have not any firm plan at the moment.

Vikram Shroff And if it is a QIP will it be fully fresh equity issuance or will the promoter be selling some his stake also?

Murali M. Natrajan To the best of my knowledge in the last five years I have never heard from the promoter wanting to sell any part of his stake.

Vikram Shroff Because the RBI has been wanting out to reduce so?

Murali M. Natrajan No, we have represented to Reserve Bank of India requesting them for more time we are yet to hear from them. So if a QIP is raised or even preferred is raised and promoter does not participate they automatically get diluted.

Moderator Thank you. Ladies and gentlemen, we are going to take the last question from the line of Sameer Bhise from IDFC. Please go ahead.

Sameer Bhise Sir, what was the movement in NPAs for this quarter?

Murali M. Natrajan Movement in NPA is opening NPA was Rs. 138 crores; slippages Rs. 24 crores; no big ticket slippages happened this year in this quarter. It was all small balances in SME-MSME and some in AIB. And these loans are usually fully secured on hard collateral and recoveries and upgrades were Rs. 13 crores.

Sameer Bhise Okay, no write-offs?

Murali M. Natrajan No write-offs in this quarter. So that comes up with the closing NPA of Rs. 149 crores.

Sameer Bhise Then just wanted the break up between SA and CA?

Murali M. Natrajan No, we do not provide that.

Sameer Bhise Any comment on growth rates for both?

Murali M. Natrajan No, I mean we are targeting SA growth of about 17% to 18%. I think last year also we had a decent SA growth. So I think we are confident that with the new branches and all coming in we should be able to achieve 17% to 18% SA growth. CA I am unable to comment.

Thanks a lot I thanks all of you for joining the conference call. Hope to keep in touch with you and talked to you again next quarter.

Moderator Thank you, sir. On behalf of DCB Bank Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.