DCB Bank Limited Q1 FY17 Earnings Conference Call

July 15, 2016

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Moderator: Ladies and Gentlemen, Good Day and Welcome to DCB Bank Limited Q1 FY17 Earnings Conference Call. Joining us on the call today is Mr. Murali M. Natrajan – MD and 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 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Murali M. Natrajan. Thank you and over to you, sir!

Murali M. Natrajan: Good evening, thanks for joining this call. I will speak for about 5 minutes - 7 minutes and after that we will open it up for questions. We plan to take this call approximately 45 minutes - 50 minutes. We will try to answer as many questions as possible during this call and for any reason we are unable to answer the question, please do feel free to write to us.

So we are in first quarter of 2017 FY, I am sure you have received Investor Presentation which we have put on the website and also the highlights that we have put in the Press Release. So I am not going to repeat any of those details. Rather I would just give our point of view on where we see the performance of the bank in the last three years. We of course started this journey in first quarter of FY 2009-2010. So it has been seven years, since we have been following this strategy and making a few changes here and there as we move along.

So if I look at our Balance Sheet Page #6 in Investor Presentation, our loan book on 31st March 2013 was Rs. 6,586 crores that is Net Advances and as of 30th June 2016 we are at Rs.13,337, which is basically double in three years, right. If we look at our number of branches March 2013 we were at 94 branches, we ended the first quarter at 205 branches, more than double.

Operating income was Rs. 401 crores for the year FY2013, as against Rs. 840 crores in FY-2016, , so even if were to exclude some one-offs in that we still have doubled the income as compared to FY 2013. However cost is not doubled cost, it's slightly less than double. Our profits have gone up from Rs. 102 crores to Rs. 195 crores although we did not pay any tax in FY-2013 but the tax rate was approximately 25% in 2016.

Margins have improved, our NPAs have been in control, there has been improvement in the underlying cost income ratio. The work in progress items obviously we see one CASA ratio went down from 27 to 23, although with the increase in branches we have been able to stabilize the cost in CASA ratio. So cost productivity and cost-to-income ratio is second work in progress item ; most of the cost-to-income ratio problem is coming new branches that we are adding and of course the fee income momentum could obviously be better and even in previous call as I explained as to what we are working on those items.

One other point I want to say is that we are unlikely to put new branches in a uniform month on month, we have found out that it is better for us to do it in bunch because that helps us from admin execution also focusing on a particular area and adding a few branches rather than trying to use up our resources in various places. So we are still very much on plan to open 150 branches in two years as we had said in October 2015. We actually started the journey somewhere I think by end of November or middle of December of 2015, so it has been about six months and in six months we have added approximately I think about 50 odd branches. We were at 116 branches in 2015 October and today we are at 205 , about 45 branches we have added and our plan is to add another 30 branches - 40 branches for sure this year by the time we finish this year and try and finish up 300 plus branches by October or December of 2017. That's the plan we are working on and have identified the locations. We are making some minor changes in those locations, as we find more information about the locations. So that is pretty much how we are proceeding.

So I am happy to take questions specifically on this quarter or any other strategy or any other information that we are able to disclose to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Nilesh Parikh: So the question is around the fee income trajectory, just wanted to understand you had spoken about this in the Q4 call; but in terms of specific if we can just get in terms of what we are aiming in terms of percentage of assets because currently that is one of the things that is actually keeping the revenue probably below what we see compare to the peers. So just what is the plan going forward.

Murali M. Natrajan: I do not know who are our peers, who pursue exactly the same strategy as we are doing, I do not exactly know what fee income some people are selling. For example, ULIP, we do not sell ULIP in our bank. So I do not know what is the exact comparison with peers, but I will tell you what we are doing on fee which is same as what we said last quarter. Underlying fee income at least in the first quarter, if you back off the treasury income from last year Rs. 22 crores and this Rs. 10 crores, I think, is upwards of 16% or 18% growth on quarter-on-quarter. And that is a granular fee income we are talking about backing off the one-time treasury gain. Our target is to try and grow the fee income core fee income at about 15% to 17%, what we are working on is ATM fee, CASA related fee, we have a product team that has been continuously training for the last six months to eight months on mutual fund distribution. We have a bank assurance product from Birla Sunlife and HDFC where it is much safer, we believe in much more safer product then ULIP for our customers, we have tied up with ICICI Lombard on health insurance which we are distributing. We have created small trade team which is training almost every new branch and old branch on generating trade fee income from SMEs and Retail Banking. We have put couple of FX experts who are generating FX income on a retail and SME basis. We are not referring to treasury; we are referring to merchant fee income. All of them have been implemented they are all at various stages of success some have moved ahead, some have not fully taken of as we had expected, so but we expect the fee income to proceed at about 15%-17% per annum.

Nilesh Parikh: So this will be lower than Balance Sheet growth, right?

Murali M. Natrajan: To start with, till we acquire enough customers, it will be lower than Balance Sheet growth. You cannot start a branch by selling fee, it is not possible. Some banks do it but we are unable to do that. We concentrate on either selling a loan or deposit product as an entry before we actually sell. Once we reach a customer level of 1,500 customers to 2,000 customers in any particular branch, we find the fee income is much more easier for us to generate from that branch.

Nilesh Parikh: Sure. The other question is on the capital consumption, so the Tier-I from Q4 FY15 where it was about 14 odd percent, 14.21 has actually come off to about 11.9, right and the pace at which the RWA is going obviously this quarter given the operational risk as kicked in the consumption has been higher but that is trending down at a pace given that the return ratios are quite subdued so….

Murali M. Natrajan: What return ratios are subdued?

Nilesh Parikh: ROEs because the pace of…

Murali M. Natrajan: Absolutely, it is as per our guidance on October 2015. So, I think you should go through our guidance again . As far as we are concernedm we are following that guidance, we are trying to match guidance or do better than that .

Nilesh Parikh: No, what I meant was, the consumption is faster because the RWA growth is far…

Murali M. Natrajan: Did we give guidance on capital consumption in that communication? I do not think so.

Nilesh Parikh: No, that is a question I am asking.

Murali M. Natrajan: Yeah,. Operating risk have contributed about 40 basis points it happens every year because the first quarter the old income drops the average increases so, obviously that increases the operating risk calculation as per the Basel III, correct. And we are planning to raise our Tier-II capital of about 200 crores, where I think we already have an AGM approval, which we are going to do. There are other ways also to improve capital efficiency by looking at the ratings of various loan books especially any large ticket loan book. So at the moment we do not think that we need any Tier-I capital till say about September 2017. If there is any change to it, we will definitely inform the investors.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Actually the question pertains to slippages. Can you just give some sort of breakup of the slippages into what sectors it is coming from?

Murali M. Natrajan: There is no sector and all. If If you see our Investor Presentation you can see some increase in gross NPA on Mortgages and some increase in gross NPA on AIB. The rest of it I think is pretty much in the same level as compare to the previous quarters, is it correct?

Abhishek Murarka: Yeah.

Murali M. Natrajan: So kindly see the page then I think you will probably appreciate my point. I will tell you the page number also, please open the page. Yeah, page number 12, can you see that?

Abhishek Murarka: Yes.

Murali M. Natrajan: Yeah. Can you see Mortgages, SME, corporate like that?

Abhishek Murarka: Yeah, sure. Yeah, got it.

Murali M. Natrajan: So if you see that there is Mortgages and there is AIB which has gone up, okay. So let me reiterate, our concentration is on trying to do as many loans as possible at a ticket price of below Rs. 3 crores. In Mortgages for example, we find that approximately Rs. 3 crores and above portfolio for us is just about 7% or 8%. The rest is all below Rs. 3 crores average ticket price. When I look at the slippages for this quarter, the first item in the slippage in this quarter in Mortgages is Rs. 2.35 crores, okay. The next one drop down to something Rs. 1.5 crores then it drops down to Rs. 1 crores and after that it is all basically some Rs. 50 lakh - Rs. 25 lakh that type of slippages, okay. So there is no specific sector. The first slippage is for Catering company. Its from Chennai because of Chennai flood he has been struggling. Chennai flood happened in December 2015, since then he has been struggling to restore his business which got wiped out because of the flood. So he is unable to repay. Now he has offered property to us saying that, please sell the property and take the money whatever is due to us. That is the action we have taken on this particular account. There is one SME account which slipped; he is into advertising and publicity he thought that he is going to get a lot of contracts, he has gone bought a lot of space, all of sudden some of the contracts have got pulled, he is in cash trouble, so he has gone into NPA. He had said that he wants to do a sale of his property and try and settle our dues as soon as possible. So like this there are different-different reasons for each of this, there is no sector nothing.

Abhishek Murarka: There is no concentration as such in this?

Murali M. Natrajan: No, what you mean by concentration.

Abhishek Murarka: As in no big accounts there at least from Corporate.

Murali M. Natrajan: Not in this quarter. So when I look at it there are some 300 odd accounts contributing to approximately Rs. 50 odd crores slippages in various items, all in the range of Rs. 25 lakh - Rs. 30 lakh and all, okay that is our strategy. We want to be small ticket, so some would be because of some flood in some location that has happened. Some three - four accounts have slipped because of some commodity price challenges that will have to be recovered in this quarter. So there is no concentration on any sector or anything like that. We are into Retail, SME, Agri business, wherever we find that the customer has a good business model irrespective to what sector he is in, if we like his cash flows and we like his business we will lend to that customer.

Abhishek Murarka: Okay. In AIB is there any specific trend or anything which is contributing to it? There has been a slight increase in your GNPA there.

Murali M. Natrajan: Yeah, most of it has gone into with either some commodity or some tractor and things like that, there is no trend or anything like that so, too many accounts and we are pretty confident and these are all secured book that we are talking about. We do not have any slippages in MFI and all. We are not into MFI business; we only do business through BC, only to the extent of what we need to do for fulfilling our priority sector lending obligations.

Abhishek Murarka: Sure. And just lastly, what would be the outstanding in that MFI through the BC route total loan book?

Murali M. Natrajan: That I do not think we are disclosing. But all I am trying to say is that, our intention of being in BC or MFI space is purely for fulfilling our PSL target which will be talking about agri and weaker section and so on, okay. Other than that, currently there are not too many options available in the market. If there are other options available to achieve the same goal, we will definitely try and pursue that.

Moderator: Thank you. We will move to next question which is from the line of Anurag Mantri from Jefferies. Please go ahead.

Anurag Mantri: Just one question actually regarding your Mortgages book. Just wanted to understand how much of this is pure housing loan, how much is LAP and what has been the trajectory?

Murali M. Natrajan: Same answer I will give you what I have been giving in the last several quarters, 70% to 75% of our book is LAP balance is Home Loans. Our main target market is self-employed segment. We have very little salaried segment exposure.

Anurag Mantri: Okay. And how has this percentage changed if at all say you look at…

Murali M. Natrajan: Last three - four years I believe it has been the similar position and many home loans later on move into LAP as the customer who repays quite a lot of his home loan, he converts that sometimes into LAP so it has been the same. So what is your concern?

Anurag Mantri: Sure. No, not a concern at all just a broad understanding of how it works

Murali M. Natrajan: Yes and our average ticket price is consistently has come down, what I noticed our average ticket price is now somewhat like Rs. 30 lakh - Rs. 35 lakh, it used to be Rs. 50 lakhs - Rs. 60 lakhs about three years ago, so we are becoming more and more granular and more and more I would say broad based in a geographic sense.

Moderator: Thank you. The next question is from the line of Shubranshu Mishra from Anand Rathi. Please go ahead.

Shubranshu Mishra: Sir, I have two questions one is with regards to your OPEX it has been pretty high in this quarter, what could be your guidance going forward?

Murali M. Natrajan: When we presented our numbers of fourth quarter people asked me that you have increased the branches you cannot see the OPEX, OPEX will come because when you put branches then we start hiring the people into the branches OPEX will come. Now, the question is why the OPEX has come? So let me answer, we are following the guidance please go through the October 2015 guidance where we have said that we are likely to have cost-to-income ratio of about 63% or what you say about 3% to 5% higher than what we were. So as the branches start getting rolled in it takes about 18 months - 22 months for branches to breakeven. So we incur a cost of approximately Rs. 50 lakhs - Rs. 60 lakhs per branch and those costs will come and our aim is to try and achieve the guidance that we have given on 30th October 2015 or improve upon it, that is exactly where we are working at the moment.

Shubranshu Mishra: So my next question is with regards to your loan book, now most of your loan book has been driven by Mortgages and like you put it Mortgages is being driven by LAP and if you look at your NPAs for the LAPs mortgages they have been going up, so do you think you are going to remain on a similar trajectory further on?

Murali M. Natrajan: We have maintained or we have internally based on the risk appetite that we have defined for our self and based on the target market and the products that we are pursuing, we believe that in this kind of environment if our gross NPA is below 2% and our net NPA is below 1% with no significant deterioration in coverage ratio we believe that that will be quite an acceptable outcome for us in the way we are expanding and we have been able to achieve that so far that is number one. Number two is about 49% of our book is Mortgages, it is granular book, the question we have to ask our self is in Rs. 57 crores we rather have two accounts of Rs. 25 crores going NPA or you want some 200 item adding up to Rs. 50 crores as going NPA I would choose the later because it has much more probability in terms of improving although there is some operational work to be done but there is a lot more probability of recovering a lot more and improving your book rather than expose yourself to large tickets that is our philosophy and that is exactly what we are following. So I do not see any major concerns in our portfolio whether it be a AIB or Mortgages at the moment, we have looked at lagged indicator, we have looked leading indicator there does not seems to be any major issues. Yes, from time to time any program that we have done would show some results that are not as per our expectation then we actually take a corrective action either exit that program or we will fine tune that program so that we do not further make similar kind of loans.

Shubranshu Mishra: Right. So if I read it correctly, your loan book growth would be again focused on the LAP mostly driven by…

Murali M. Natrajan: The loan book could be, can you please refer to the pie chart that we have given, page 10. We are pursuing a diversified portfolio like this so, our loan book should look similar if not exactly the same even if we double the loan book in three - three and half years, that is how we have been pursuing our this. If any, our Ccorporate book has shrunk actually I would say.

Shubranshu Mishra: Sure, sir. And any guidance on the loan book growth for this year.

Murali M. Natrajan: So our aim is to double the loan book in three years to three and half years so which means that we possibly would hit a 23% - 25% every year. Currently, this quarter has been 28% but that is also because first quarter of last year was not such a great quarter. So that is where we are right now.

Moderator: Thank you. The next question is from the line of Siddhesh Mhatre from Dimensional Securities. Please go ahead.

Siddhesh Mhatre: Just wanted to know sale of ARCIL you did so….

Murali M. Natrajan: There is no sale of ARCIL in this quarter.

Siddhesh Mhatre: Okay. Any security receipts, nothing?

Murali M. Natrajan: Nothing in this quarter, what we did in the fourth quarter of last year it is in our Balance Sheet and also was disclosed in our last call.

Bharat Sampat: It is there is in the Annual Report.

Murali M. Natrajan: If you see the Annual Report all the details should be available to you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, why not you go for securitization of transaction for priority sector lending?

Murali M. Natrajan: What does that mean?

Ravi Naredi: You had given the money to NABARD or other peoples for not giving the priority lending so why not you go for securitization of transactions?

Murali M. Natrajan: So the bonds from RIDF have NABARD and they do not have any pattern in terms of how they come to any bank including our bank, okay. I guess it depends on budgetary allocation by Government of India based on that every bank gets some allocation and we also keep getting those allocation. Primarily the allocations come because of missing out as I understand, I mean I do not think the calculation is perfect but as we understand primarily the allocation comes because of missing out on weaker section and agri which is very tough targets to meet in any case. So irrespective of whether we sell our PSL book or not if there are any gap in the what you call as weaker section or agri we are going to get those NABARD or RIDF bonds. The good news is over the last few years since we have been achieving those targets closer to the required target the penalties are not so big and more than that the interest rate that is being paid by the government on those are much better than what we use to have on our book, I remember when we started this journey it used to be some 3% or something and I think it is probably now above 5%. Now coming to the securitization or something, the new process started by Reserve Bank of India is this PSLC on the E-Kuber platform which is basically Priority Sector Lending Certificates, so that would obviously be an opportunity for us to explore in the coming months.

Ravi Naredi: Okay. Because I think in securitization of transaction the bank will get more rate of interest in compare to lending to this other institution of government.

Murali M. Natrajan: Yeah, possible also if we do any transaction in the priority sectors there may also be some fee income. Anyway that is all depends on demand and supply at that point in time.

Ravi Naredi: Okay. But that thing is in your mind?

Murali M. Natrajan: Of course, yeah.

Moderator: Thank you. The next question is from the line of Vikas Agrawal from Prokens Financial. Please go ahead.

Vikas Agrawal: First of all congratulations as I was seeing on your last pages technologically enhancement you are doing.

Murali M. Natrajan: We are the first bank and as of now the only bank which has a Aadhaar based Biometric ATM.

Vikas Agrawal: Yeah, sir, so how does it work whatever account I have I need not carry any ATM, I just go give my biometric, put my Aadhaar in, and I can take the money out?

Murali M. Natrajan: Yes, so what happens is as of now we have 11 ATMs that have been installed with biometric, we have 442 ATMs which will be in the next six months converted to accept the biometric this thing. So the way it works is you have to be a DCB Bank customer, so if you are not a DCB Bank it will not work for you at the moment. If you are DCB Bank customer all you have to do is just give us your Aadhaar number, we will link your Aadhaar number with your account number, once it is done all you have to do is you come to our ATM put your 12 digit Aadhaar number and put your finger print; any of your 10 fingers you can put and you can withdraw cash, you can do balance enquiry, whatever ATM transactions you normally do, you can do those transactions.

Vikas Agrawal: And if I have two bank accounts with you, it will also give me option from which bank account…

Murali M. Natrajan: Yeah, you have to link both those accounts.

Vikas Agrawal: Okay. Now coming to these numbers on the Slide #11 when I look at the net interest margin and the cost of fund and yield on advances, all these numbers look pretty good to me 4.05 kind of net interest margin; but when I come to your Slide #4 and see the ROA or ROE, one thing you have already told that you have already given the guidance because of new branch opening these numbers are on the little lower side. So my question is to you is the kind of Retail Bank you are what will take these ROEs or ROA up to the level of may be ROA or ROE of 16-17, even if you are done apart from this cost pressure that you have if you just take it out then how much you feel that efficiency has to come in or what is the way out?

Murali M. Natrajan: Yeah, so we can only tell you about what we are aiming for in the three-year timeframe that we had given when we came out with this 150 branches in two years in October 2015, okay. Where we have said that by fourth quarter of FY2019 we are aiming for more than 100 basis points ROA and 14% ROE. So we are currently not able to give you any guidance on what is our outlook for 2016-2017, ofcourse internally we have a much bigger target but given what kind of experience we have had, we believe that all these cost that we are incurring plus the momentum that we are building in business we should be able to reach at least that is stated intention at the moment FY-2019 4th Quarter greater than 100 basis points ROA and 14% ROE that is what we are aiming for. Any fresh set of guidance on that we are likely to give after March of 2017 provided we have enough data points at that time.

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

Kaushal Patel: I have one question only and that is related to NPA, NPA in Agri. I know NPA in Agri has been increased sequentially quite significantly. Now I would like to know how you see NPA over FY17 especially on Agri side when have a good monsoon once in this year. So how do you see that will be in this year?

Murali M. Natrajan: So this Agri portfolio has been a pretty steady portfolio for us for the last few years. Of course we have faced some monsoon issue, some drought issues all these things in various states. In our country some state has drought, another state has a flood. So we have to be prepared to deal with all those eventualities. At the moment, the NPAs that we are seeing in the first quarter mostly relates to small ticket commodity funding which has caused some challenges, there is no worry for us because we have enough margins on those commodities and we are pretty confident of resolving those. I do not see any major issues in our portfolio based on the trends that we have seen so far in Agri Inclusive Banking and it is a pretty diversified portfolio because we have farm equipment, we have agri commodity, and we have some gold loans. So we have various products in those so it is unlikely that all products are can deteriorate in any particular this thing, I do not think that should happen.

Kaushal Patel: All right, sir. Apart from NPA so we will continue to focus on Agri portfolio on Advances side?

Murali M. Natrajan: We have to do that because otherwise we will not be able to achieve our priority sector lending.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Two things, given our focus on AIB which has been there since the last few years, is there a positive surprise element on cost-to-income because I would guess cost-to-income would be lower for the AIB branches because I think it will be lower than the bank average.

Murali M. Natrajan: No, why would cost-to-income ratio will be lower in AIB? Out of the 200 odd branches so out of that all the unbanked locations which we opened in the last say three years, all fall under AIB. I mean unbanked locations are one of the most challenging branches to break even and make profit, okay.

Prakash Kapadia: Coming more they will have more lower rental cost, employees would be cheaper so my guess was right.

Murali M. Natrajan: No, when you have put an unbanked location the usual population around the area is 2,000. Now in 2,000 what Balance Sheet the technology cost remains the same, the people cost almost remains the same, may be it will be cheaper than Bombay but generally it is the same. So except for rent I would say that also the second challenge I will tell you is that as banks find it difficult to say meet any agri or weaker section there is a lot of price margin compression that happens in AIB which we have to kind of deal with. I do not think so but I will tell you what has happened. From what it was a simple meet the PSL type of a unit we have been able to create it into a very full-fledged business unit. We do not simply lose money by just focusing only on priority sector but actually making into a profitable business unit that is basically what we have been able to.

Prakash Kapadia: Is cross-selling working, is marketing working?

Murali M. Natrajan: What do you mean by that?

Prakash Kapadia: In terms of AIB rather than just a PSL some of the other products working?

Murali M. Natrajan: No, when we open a AIB branch it just happens for example a AIB branch is more tractors than small commercial vehicle and commodity funding and so on. Obviously there will be cross-sell of either insurance product or some general insurance all that cross-sell will happen and does happen in AIB branches as well.

Prakash Kapadia: Right, understood. And sir, in the presentation there is slide in advances 2% is PL, is that personal loan? So if it is personal loan is there a thought and philosophy on restarting the same if you can share?

Murali M. Natrajan: I think in one of my earlier calls I explained that. Our analytics team has identified that there are situations where another bank is selling a PL to DCB Bank loan customer and we find that our customer value either decreases or remains the same. So as a team we have decided that we will do personal loan to our existing customer and we will keep the portfolio at about 5% or below to the total portfolio that is basically how we are planning to proceed.

Prakash Kapadia: Okay. So we are using all the insights which you have gained over the last few years for our set of customers and depending on risk reward you are keeping the philosophy and nothing changes.

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

M. B. Mahesh: I had three basic questions. One, just wanted to understand how should we read into the CASA momentum and Retail Deposits as the build-out of branches happened in the next one and half years? Second, if I were to look at the yield on loans by and large we understand the pressure on the Mortgage book is now coming through. How should we read into it given the fact that the margins are reasonably high today? And third one is also on house mortgages side the large part of it how much of it would be new-to-bank customer and existing customer of some kind if you could give breakup of provisions and fee income for the quarter? Thanks.

Murali M. Natrajan: Provisions and fee income Bharat are we…

Bharat Sampat: We are not releasing.

Murali M. Natrajan: When you say provisions what are you looking at?

M. B. Mahesh: The Rs. 20.5 crores a broad break-up between loan loss provisions and possibly others which could be on investment book or other content.

Murali M. Natrajan: I do not think we have any this thing in this. Of course we are creating standard asset provision floating provision on every quarter, right. So yeah, Bharat what is it?

Bharat Sampat: About 16-17 crs. is loan loss provision, balance is floating assets and standard assets.

Murali M. Natrajan: So about 16-odd crores is the provision of loan losses.

M. B. Mahesh: Sure. Fee income, non-interest income?

Murali M. Natrajan: Fee income is I think in the book, in our investment…

Bharat Sampat: Mahesh up to commission exchange brokerage level we have given that.

M. B. Mahesh: I was just wondering if you could give FOREX as well.

Bharat Sampat: FOREX, we have not broken it up we will try and break it up from next time.

Murali M. Natrajan: Because it will be both in fact for trading and merchant is there in that so, if you can probably 50-50 or something I guess.

Bharat Sampat: FOREX is at same run rate as last year's slightly uptick.

Murali M. Natrajan: Now let's talk about retail deposits. First of all, I want to say that as a Bank if we open a branch we pursue all products, all branches, I mean when I say all products, obviously it depends on the kind of capabilities that we can put into the branch in terms of training people and so on. But the philosophy is that we have to have all products in all branches especially in the new branches, why? Because if I branch in a new location, I cannot just say that give me CASA because customer may have a loan need, a gold loan need or some commercial vehicle need or a tractor need or something like that, okay. So we do not want to miss out on those opportunities. So what we do is when we look at a particular new or existing branch we look at what is the catchment area, what is our capabilities that are required and accordingly we give headcount to that particular branch to grow their Balance Sheet in all the products, okay. Now our all branches are able to succeed in that strategy? Obviously not, there are many branches who are able to do much better than others. Now, when it comes to Retail Deposit and CASA there is for all the existing branches it is about 80 - 90 branches unless and until they achieve their CASA new acquisition and book growth it will be very difficult for those RMs to get their incentive so, there is a huge amount of focus on CASA and retail deposits. For example, SA growth year-on-year is 21% for us.

Bharat Sampat: It was same last quarter end as well.

Murali M. Natrajan: Yeah, if you see last year also full year we have grown by 21% so there is a huge amount of focus on Retail Deposit and I think it is about 80% of our Deposits. With respect to new branches depending upon the location targets are given in terms of what their CASA, what their Retail Deposits would be. Term deposits are largely now concentrated in metros and bigger cities rather than smaller locations because smaller location is not easy to get Term Deposits. However, there is a separate focus on getting small ticket government deposit like panchayat deposit and so on in many of the locations. Again it depends upon their skill level that we are able to build in those branches that is how we are managing the retail deposits, okay. So far we have not had too much of trouble in funding our loan book growth with retail deposits. And you can see that even our cost of funds have been largely in control. Now regarding mortgages, unfortunately, what we got into seven years ago everyone seems to be wanting to do mortgages, LAP and so on. So obviously there is a lot of pressure for example, anecdotally today I got a mail from one of our RM just to keep me informed on what is happening in the market there is a 12% loan that we have given for a small ticket home loan customer because we had to assess the risk, it is a very small ticket customer so we have to assess the risk and so and we believe that 12% is a right pricing for that kind of risk and unfortunately, some public sector bank in his locality has given 9.3% and taken that loan obviously they are not pricing for risk. So we are dealing with those kind of madness that is there and that is the reason some yield has come off. We also reduced our Base Rate, I think it is about now 10.64% is our rate, so we reduced it. One advantage we have had in this quarter is that MCLR was a kind of a benefit for us because you are able to actually compete with larger banks on the shorter tenor because our rates in the shorter tenor are slightly more competitive then the Base Rate that we had. So we were able to give some top rated companies some short tenor loan and manage our liquidity much better than how we are able to do say in the era before MCLR. I hope that kind of opportunity continues. Last point, as far as internally concerned, we never look at the margins more than 3.75% if something more we earn than that, that is fine but we look at our model and say how do we achieve our business goals on 3.5 to 3.7 type of margin. So if has become 4.05 yeah, I mean that is good but I am not so sure that it is possible to sustain those margins.

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

Gaurav Jani: Just on the Mortgages part, you just mention on account from Chennai, correct?

Murali M. Natrajan: Yeah.

Gaurav Jani: So can I quantum of that account please?

Murali M. Natrajan: It is about Rs. 2.3 crores.

Gaurav Jani: In our LAP book what would be the LTV please?

Murali M. Natrajan: Our average LTVs are running at about 70%-odd and this could be like for example, if I have given some loans say five years ago also unless the customer has taken some top-up based on new cash flows the LTV will show static at that 70 but it may have actually become better like it should have probably become 56% or 57%, I am just giving you an average its about 70%-odd. Home loans would be obviously IR I think it will be probably 75%-76%. The bigger ticket size we reduce the LTV, we do not give higher LTV on a bigger ticket size because we believe that that is a lot more risk so, yeah.

Gaurav Jani: Sure. Also sir, if you can give color on the MCLR guidance kicking in going forward that will be very helpful just a sense on how do you look at it going forward?

Murali M. Natrajan: So MCLR has comie in April 2016and we are following the MCLR and Base Rate for the existing customer unless customer wants to switch to MCLR. The biggest advantage of MCLR has been that it has more than one rate so, that allows you to structure some product especially for good quality corporate like top-rated like AAA corporate on a lower tenure like a three months' tenure at a competitive rate that has been the most helpful thing on MCLR on our business point of view, that continues I think every quarter we have to reset our MCLR to review the MCLR from next year onwards we have to review our MCLR every month.

Moderator: Thank you. The next question is from the line of Vikas Agrawal from Prokens Financial. Please go ahead.

Vikas Agrawal: So you have given me a guidance that in year by 2019 you see this ROA to be somewhere 100 bps and if I look in your presentation historically like year 2014-2015 all these years it has been in the range of 1.3 so, can you just reconcile that?

Murali M. Natrajan: So we did not pay tax, if you see the tax Page #8, we did not pay any tax till FY-2014 because we are absorbing our accumulated losses. Of course MAT would have been applicable even before that, I am saying just about income taxes. So tax rates have steadily gone up FY-2015 was lower tax rate, FY-2016 has been higher so, tax rate is the reason why the ROE came down. #2, we started investing in new branches which have actually pushed up our cost. These are the two main reasons.

Vikas Agrawal: So sir, even when you are done with your new branches and by year 2016, do not think that now that in the market this 100 bps kind of ROA is like for a kind of retail bank something like you is on a lower side if I am not getting it right?

Murali M. Natrajan: It depends on the timeframe in which you look at it. If on a base of 157 branches, you add 50 odd branches it is like a 33% increase in branches, it is quite difficult to make those kind of ROE. Of course we have to address our fee income momentum which is some people have pointed out that it is lower than other banks although we think our strategy is slightly different; but anyway just for accepting that for the moment. Our cost-to-income ratio is scale issue we believe and we are trying to address if you see as we build scale we did reduce our cost-to-income ratio and when you have 300 branches and you add 30 more branches or 20 more branches it is only 10% increase in branches whereas, now we are increasing it by 33% - 40%. So I am quite sure as we unfold this journey, we also should be aiming for higher ROE and ROA but at the moment this is what we are able to see.

Moderator: Thank you. The next question is from the line of Shubranshu Mishra from Anand Rathi. Please go ahead.

Shubranshu Mishra: I just want to know since you are investing so much in technology and you have these kind of ATMs where you can do the biometric signature. So how is this going to effect, what is the math behind it and how is it going to effect the costs? How much of it is going to offset your cost-to-income ratio and in case you have any mobile application going forward?

Murali M. Natrajan: Okay. Some technology we have to do because we have to be in the forefront and not lose the battle to supposedly the new banks and payment banks so I do not think I see it as a I see it what are the cost I am reducing and so on. I am seeing it as I do not want to lose this opportunity, okay. There was no compulsion for us to do Aadhaar based ATM and it did not cost us much by the way, it probably would have cost us, I do not even know must be like may be Rs. 15 lakh or Rs. 20 lakhs to do the software. The biometric pad comes in all the new ATMs anyway. The older ATMs to convert that would may be cost about Rs. 2,000 - Rs. 3,000 per ATM. So I am not very worried about the cost on that particular technology change, okay. But what is going to happen is suppose in three years - four years' time we reduce the number of debit cards and pin mailers that we have to send and the consequent issues, I am quite sure one debit card cost about Rs. 100 or something. Now what is the customer going to say? Is customer going to say I like the Aadhaar ATM yet I want the debit card? I do not know, suppose he say I definitely needs a debit card still and I will use it in the shop so send me the debit card I still have to send that. So it is not very difficult to estimate, what we are doing I will tell you. We are trying to focus on technology which improves the productivity of our front line so, we have looked at some improvement in front line software, tab banking and a lot of other companies are slightly ahead of us so, we have to do some catch-up on that. We have looked at technology whereby there may be self-service options for customer which will reduce at least one part of the cost so, all this would definitely help us. At the moment I do not have any guidance on how exactly it will come, we just do not want to lose out to any bank in this journey that is exactly how we are focused on at the moment.

Shubranshu Mishra: And sir, one follow-up question, are you also looking at having a wallet?

Murali M. Natrajan: We have almost kind of finalized the wallet but we have to see that why should we have a me-too wallet and what it is going to gain. The information that I have in the market I may be wrong, that wallets have not made too much of money. So we have to see what are the customer convenience that customer is not already getting from other existing wallet and what would be DCB Bank's wallet. So yeah, we are working on that, it is not such a big challenge to launch a wallet, so that would obviously be there in our roadmap. Okay, operator. So that should be end of our call.

Moderator: Thank you, sir. Would you like to add any concluding remarks?

Murali M. Natrajan: No, I am good. So thanks everyone for participating in this call and we hope to keep in touch with you.

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