DCB BANK

Development Credit Bank Ltd. Q4 FY2012 -13 Earnings Conference Call

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Management Participants:

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

Mr. Bharat Sampat – CFO, DCB Bank

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

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

Moderator Ladies and gentlemen good evening and welcome to the Development Credit Bank Ltd. Q4FY13 Investor Conference Call. Joining us on the call today are Mr. Murali M Natrajan – MD and CEO, DCB Bank and Mr. Bharat Sampat – CFO, DCB. As a reminder for the duration of the conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone 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 everyone welcome to Development Credit Bank Ltd. Q4FY13 Investor Conference Call. Thank you for logging into this call. I am going to talk about the fourth quarter and the full year results of the Bank. I am joined by Rajesh Verma – Head of Treasury and Corporate Banking, Ms. Meghana – Head, Investor Relations and Mr. Bharat Sampat – Chief Financial Officer of the Bank. I want to give you about 10 minutes of highlights, and then we will open for questions. We will try to wrap it up by 4:45. If I am unable to answer any of your questions, please feel free to call/email us and we will definitely try and address that.

Let us start. We declared a Net Profit of Rs. 102 crores for the full year 2012-13, last year in comparison our Net Profit was Rs. 55 crores. For the fourth quarter of this year we declared Net Profits of Rs. 34 crores and last year same time it was Rs. 17 crores. Our Deposits grew by 32%, reached Rs. 8,364 crores and we also grew our Advances by 25% and reached Rs. 6,586 crores. We crossed the Rs. 10,000 crores Balance Sheet mark and we are now at Rs. 11,279 crores, a growth of 30% for the year. Absolute CASA we grew by 12%, SA by 15%. The CASA ratio dipped to 27.16%.

In terms of Net Interest Margin the full year margin was at 3.34% as compared to 3.25% for the previous year. Our Total Income grew by 22%. Net Interest Income grew by 25%. Our expenses were in control, we grew that by 13% that resulted in the Operating Profit growth of 51% for the year. Our provision for full year was at Rs. 24 crores as compared to Rs. 29 crores for last year. We are still at very high Provision Coverage Ratio of 85.71%. In terms of CD ratio we ended at 78.74% for this year as compared to 83.41% for last year. Our yield improvement was a result of improvement in yield in investments. The equity inclusion that happened twice last year, once at the end of last year which is almost like beginning of this year and another Rs. 40 crores that we got in the December 2012. Priority Sector lending we did a lot more of direct lending that improved the yield. We throughout the year maintained the Cost of Funds and did not allow the yield to create challenge. The total number of restructured account that we have is 5 adding up to Rs. 30 crores so we do not have a large restructured book. Capital adequacy was at 13.61% with Tier-1 of 12.62%. We plan to raise Tier-2 of approximately Rs. 200 crores depending upon market conditions this year.

We grew our branch network by 10 branches so we went from 84 to 94. We plan to open at least 20 to 30 branches this year. The ROA was at 1.06%, it was 0.68% last year. ROE crossed 10% mark and stood at 11.13%, it was 8.38% last year. We had a substantial reduction in Cost Income Ratio to 68.6% and compared to 74.5% for last year. The idea is in 2 years' time despite increasing the number of branches we need to bring it down to less than 60%. CRISIL upgraded us to A1+ for CD issuance and A-/Stable for long term. This is also going to help us to improve our Cost of Funds and liquidity. In terms of book growth Mortgages grew by 55%. That resulted in entire Retail growing at about 47%. Our SME/MSME grew by 6% primarily because we changed our strategy mid-way in SME instead of originating loans at Rs. 6-7 crores average we started originating loans at Rs. 2-3 crores average. So, while the number of loans was same or higher than last year but the absolute value was much less. So we did not see massive growth in SME/MSME. We hope to do much better this year. Corporate book we did very well. If you remember in FY 2011-12 we exited a lot of Corporate Loans, slowly we have rebuilt that book to grow by about 31% from a small base. So currently 36% of our book is contributed by Mortgages, 23% by SME/ MSME and Corporate at 24%. The balance is Agri Inclusive Banking.

NPA we started the year at Rs. 242 crores of NPA. We had fresh slippages of Rs. 75 crores. We had upgrade and recoveries of Rs. 36 crores. And then the balance is accounted for write- off. The incremental slippage that we are seeing in the last three years of the new book that we have built is remaining in the range of 1.4% to 1.5% of the opening book. While there is some stress here and there we expect the book to be in good shape even in the coming year. So that is what I wanted to share with you in terms of the performance. I am happy to take questions.

Moderator Thank you very much sir. Participants we will begin the question and answer session. Our first question is from the line of Mr. Rajatdeep Anand from ICICI Prudential. Please go ahead.

Rajatdeep Anand I think DCB Bank had a target of achieving a certain return metrics and they seem to be well on track. So I was just trying to understand what is the path going forward, that is one. Secondly, I think CASA you addressed some bit but may be you can tell us more and how you are going to improve that. Also, what are the DCB specific things that you would be concerned about. So I am just trying to understand what are the non-systematic risks that your Bank still faces. So if you can help us with these.

Murali M. Natrajan Firstly, environment is very pretty challenging. Simply stated customers are finding difficulty in getting back their money from their own customers on time and also the suppliers are not giving them too much credit. So a lot of them are getting squeezed from both sides, whether you are talking about a large or a small customer. There is some tension, so you have to manage your portfolios quite carefully in such environment. We have been successfully doing it so far. As you can see we do not even have a large restructured portfolio as of now, that is one. Second is that in terms of CASA there is no change in our scorecard for the branches. The branches scorecard is still very much skewed towards Deposits. We grew SA by 15%. CA was kind of muted so the end result is that we had CASA growth of 12% but our overall Deposits grew quite rapidly, therefore, our CASA ratio is lower. However, you would notice that we did not let that impact our NIMs. In fact NIMs has actually improved. Reason for NIM improvement is that we see while there is absolutely no let up on generating new CASA we see value in making sure that we lend directly to Priority Sector Loans so that we do not end up giving, conceding the yields to the NBFC from whom we used to buy the portfolio. So that strategy seems to be really helping us and we are also getting better at managing our Treasury yields, few basis points here and there all adds up to quite a lot in totality. The other thing is the we used to have a lot of RIDF because of not meeting Priority Sector Lending so just some reference point on that is that let us say three years ago that was yielding us 3.25%. As we are getting better and better at meeting Priority Sector Lending, those penalties are coming off and the yields are also improving in that. So even there the yields have improved substantially since the last three years or so. So all that is also creating value for us in a NIM sense. Even then I would say we are quite confident that we can maintain NIMs between 300 to 325 basis points and not let the NIM go below that level. Now your question on what is the outlook – outlook is that we want to make sure that our Income growth is 20% or above and Cost growth does not exceed 10%-11% year on year. Put new branches sensibly such that it does not impact Cost to Income ratio far too much negatively and lastly keep a good control over the portfolio. So if you are able to do that we are confident that we should be able to achieve the targets that we have set for ourselves.

Rajatdeep Anand Okay. So you were saying that branch growth will be in line with your costs, that is how you will be taking care of it. So how many branches does that work out to be for FY14?

Murali M. Natrajan We have not done that calculation so scientifically but we are confident that if we had another 30-35 branches the branches that are already performing would help us to offset the negative impact of new branches, which usually happens for about 18 months or so. We think we can breakeven in new branches in about 18-24 months.

Rajatdeep Anand And how much is the portfolio buyout for this quarter as in I am just trying to understand and is it all PSL related?

Murali M. Natrajan PSL related portfolio buyouts I think has come into securitization this time. It has not come into Advances as per the new guidelines

Rajatdeep Anand Yes, it will go into Investment.

Murali M. Natrajan So it has gone into Investment. I think if I am not mistaken the end of the period would have been about Rs. 150 or Rs. 160 crores outstanding on Investments.

Rajatdeep Anand So what percentage of your priority would you have done yourself and what you would have like bought?

Murali M. Natrajan 40% is what you are supposed to target. I think we probably reached 41% or 42%. That is of course subject to Reserve Bank of India review which would finally tell us whether we have completely met or not. Every year they do a review like that and then each of the previous years we have been able to meet after the review as well. So you can do the math on that. Much of what we do in SME/MSME and Mortgages also qualify as Priority Sector Lending automatically.

Moderator Our next question is from the line of Mr. Sri Karthik from Espirito Santo Securities. Please go ahead.

Sri Karthik My first question is on the Asset quality particularly the Others portions which you have mentioned which is displayed within the gross NPLs in the presentation. The Others have seen a substantial increase, may be if you could give us some understanding as to how the behavior is because that would primarily include the SME portfolio.

Murali M. Natrajan We have Rs. 75 odd crores of NPA slippage this year. Much of the slippage has come from SME/MSME and little bit from the Mortgages. The upgrades are Rs. 36 crores. If I look at the opening book, opening book must have been Rs. 5,300 crores. So you take 75 over 5,300 is about 1.4%. If you see the previous year also it will be something similar to that. And all the slippages that have happened this particular year are all secured Advances, we will either have a commercial property or a residential property or a combination of these plus sometimes even industrial property in all these slippages. Much of the slippages are on account of essentially the slowdown that some of these SMEs are facing. I will give you an example. This time we had to ourselves collected huge payment of say about Rs. 1-1.5 crores from a government agency because the SME was not getting the payment and we had to support him to get it because if that payment had not come these accounts which have been a good performing SME, would have become an NPA. So there is an all-round type of stress that we are seeing. So this is the reason why you see the Others portion which includes SME, Mortgages and AIB.

Sri Karthik One of the question on the SA mobilization. We have noticed the SA ratio to actually come down from around 19% as of FY 11-12 to currently about 15%. So do we see SA de-regulation having an impact on the SA mobilization for DCB Bank?

Murali M. Natrajan SA growth has been 15% this year for us in absolute amount. We have a unit called Attrition Calling. When we see a customer substantially reduce their Deposits with us in CA or SA or even Term Deposits, that unit would call independently i.e. independent of the branch banking to understand what exactly is the issue resulting in the customer dropping that Deposit. It is like a very simple service call. And we have not come across any instance where the Deposit has reduced because of new saving rate. We also track customers shifting Deposits to other Banks. Again, we have not seen any meaningful shift in that. Our new customer acquisition continues to be high but the important thing that we have to notice is that Term Deposit rates throughout the year were at 9-9.5%. So customers prefer to keep their money in Term Deposits rather than leave it in SA at least that is the behavior that we are seeing with our own customer base. I am not sure how the industry is behaving but I can only comment upon our own customer base. So the CASA ratio is lower primarily because total Deposits have gone up, however CASA has not kept in pace with that 30% ratio.

Sri Karthik One last question, finally the impact of the CRISIL upgrade on the margin, because I can see a substantial jump in the other Deposits from third quarter to fourth quarter, so what could be the possible impact of that in next year?

Murali M. Natrajan We hope it is a positive impact and that is the whole intention. It is very hard to say but we are very thrilled with that rating upgrade and we are confident that that will also help us to, if not improve the NIM but sustain the NIM at levels that would make it a lot more profitable for us.

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

Prakash Kapadia Sir, if I look at our Advance book has doubled from around Rs. 32 billion to Rs. 65 billion from around FY09 to FY12 and our Other

Income has not grown in the same period. Going forward we have plans to double our Advances over the next three years. What kind of growth can we see in the Other Income that was my first question and secondly sir, if you could give us some color on the advances within Retail - Mortgages has been growing for us at a rapid pace. Any slowdown we are seeing or is reverse Mortgage growing for us and was this also contributed by some bought out portfolio that was on Advances and lastly on the SME if you could give us some sense, is this not growing SMEs mainly because of the current environment and we have been cautious and that is why our book is not grown and going for what kind of growth we see there?

Murali M. Natrajan What is reverse Mortgage if you can just elaborate then I will clarify that first.

Prakash Kapadia Where somebody is Mortgaging the property with you and you are giving them loan or at an old age home, an old couple is taking loan at an old age for a fixed period of time.

Murali M. Natrajan We do not have any such product. We have simple Mortgage for Home Loans and Loan against Property. Mortgage and Loan against Property is largely given to the SME, self-employed segment at very decent LTVs. We look for cash flow. It is not collateral based lending, you look for cash flow and collateral is a limiter in fact, if the cash flow does not support, even if the property is 10 crores we would not end up giving a large ticket loan to that customer. Average ticket sizes are about Rs. 50-60 lakhs. Once in a while we do buy portfolio if that is available. I have not tracked it separately and we do not report that separately. But even if we do buy a portfolio it is like we fully own the portfolio, we do a complete due diligence and take the portfolio. There are not too many portfolios available for sale in any case. And we try to stick to our credit criteria even if we do buy the portfolio. So Mortgage would continue to be a strong business for us for the simple reason that it is (a) targeted at the self-employed segment, (b) it is secured lending, we have decent margins on that and we have decent performance on credit costs as well. Now coming to SME/MSME, somewhere in the middle of early part of last year, we saw some stress in SME/MSME portfolio especially where customers are having Rs. 6-7 crores of outstanding with us and their collateral coverage is say about 60-70%. And what we decided was that we come down in terms of average ticket size from Rs. 6-7 crores to Rs. 3 crores and below and with a lot more collateral coverage then, 60-70%. So like 80-90% type of coverage. So that resulted in what? It resulted in many customers asking for Loans but I cannot give because under the new strategy they would exceed our Rs. 4-5 crores of type outstanding, so we let them simply go. There are customers who were under stress. We worked out with them to them to shift their portfolio to Banks that have much more different risk appetite than us. So those also exited our book. And we still have a few accounts to exit like that. Now the new Loans that we sourced, even though the number of Loans might be same or higher but because the average ticket size is dropped, therefore, the portfolio growth is muted. I still think that there is no let up in our focus on SME or MSME. Hopefully this year we would do a slightly better job than what we have done in this year, but having said that yes, that whole segment has got some challenge.

Prakash Kapadia And sir if you could give some sense on the Other Income.

Murali M. Natrajan The Other Income we focus on Bancassurance. We focus on distributing capital protected Mutual Funds. We focus on Trade across Retail SME and Corporate. We focus on CASA related fee that naturally comes and then we get some fees in ATM plus of course any Income that we get from Treasury Operations. Our aim is to cover at least 100% of our increase in cost through increase in Fee. So while there has been a slight increase in Fee, we have not been very successful in rapidly growing our Fee Income. We hope to grow the Fee Income by at least about 12% to 15% in the coming year and we have made plans for that, so let us see how that goes. The focus is there, it is just that I think we have had challenges, either there has been a regulatory change for example in Bancassurance that wiped out some income or there has been some other change like for example, we found that the ATM fee structure has been changed by regulations that kind of wiped out some Fee. So things like that happened in the last couple of years.

Prakash Kapadia Sir lastly if you could give us some sense Agri Inclusive Banking book has not grown for us over the last few years. When do we see that returning in absolute amounts or not?

Murali M. Natrajan The AIB book is for meeting the PSL and that I think is about Rs. 700-odd crores or something plus Rs. 150 crore lies in securitization. So this year what has happened is some of the portfolio that we bought had to be actually classified as Investments and not as Advances. So that is about Rs. 150 crores. Having said that we try to do much of what we do in Mortgages and SME which already qualify for PSL. So we try to do the residual part in the Agri Inclusive Banking. If we find that Yields are not good, there is no compulsion to grow that book. Having said that we have launched Tractors Loans and Commercial Vehicles Loans in a very-very small manner, so that also slowly got into our PSL.

Moderator Our next question is from the line of Mr. Hatim Broachwala from Karvy Stock Broking. Please go ahead.

Hatim Broachwala Sir, wanted to understand something on the Asset quality front, how much of it relates to older accounts or some legacy accounts because I do understand that we had some of the older accounts which have slipped so if you can throw some more color on it.

Murali M Natrajan And the reason you are asking is to get a sense of what?

Hatim Broachwala Because I have heard that the gross NPA on the new accounts are somewhat closer to 1.5%.

Murali M. Natrajan No, I said slippages is 1.4% to 1.5%. So if you see our slippage, gross slippages of 2011-12, 2012-13 you will find it is in the average of 1.4% to 1.5%. The difference between what we do now and what we used to do prior to FY 2009 is we do very secured lending, so even if there is a slippage we are confident that whole amount can be recovered or much of the amount being recovered through the property sale. Usually the property sale does not happen. It is just that when the Sarfaesi Act starts to get implemented for the customer, the customer comes for a settlement and then we kind of recover much of the amount. That is the way usually it works. So if you look at our Gross NPA is about Rs. 215 crores as of March 31, 2013 out of that Personal Loan, i.e., Retail, is about Rs. 62 crores and about Rs. 25-odd crores is old Commercial Vehicle/Construction Equipment/Small Ticket Vehicle Loan and Corporate is about Rs. 47 crores. And then you add the fresh slippages that we have had in the last 12-18 months.

Hatim Broachwala Sir I also wanted to know how much is the loss set of under Income Tax is still left?

Murali M. Natrajan About Rs. 220-odd crores is still left.

Hatim Broachwala Sir on the Gold Loan portion wanted to know what kind of LTV do we have?

Murali M. Natrajan We have very good LTV, there is no problem with our Gold Loan portfolio. Anyway it is only about Rs. 60-odd crores at the moment.

Moderator Our next is from the line of Mr. Clyton Fernandes from Anand Rathi. Please go ahead.

Clyton Fernandes You mentioned your CV book is around Rs. 25 crores currently.

Murali M. Natrajan No, CV book the old NPA, he asked me the question on what is the Gross NPA composition?

Clyton Fernandes Okay, so the Gross NPA is on the CV book of Rs. 25 crores.

Murali M. Natrajan Yes, Rs. 25 crores including CV/Construction Equipment/Small Ticket Vehicle Loan, that is the book which we generated before FY 2009. Now currently our CV book, we bought small CV book for Priority Sector Lending in FY 2011-12. After that we are doing our own CV for the simple reason that it is giving us a better yield and helping us to cover the PSL. The book must be at about Rs. 50-odd crores.

Clyton Fernandes And this would be to your existing customers also, I guess.

Murali M. Natrajan We started with actually the customers who have terrific record with us who are Commercial Vehicle customers and slowly we are now branching out to getting their referrals and doing it. We are very conscious of the fact that Commercial Vehicle is not in a great shape in the market. But the question is that whether I want to buy the portfolio from any of these NBFCs at 6-7% or do a very careful lending of Commercial Vehicle and meet my Priority Sector Lending at say 12-13%. So that is the kind of choice we are making at the moment.

Clyton Fernandes I understand sir. So this will obviously be a focus area once economy improves I guess, the CV portfolio.

Murali M. Natrajan My main motivation of that is to replace or not having to buy any portfolios from any of the NBFCs and as long as we have a good quality Commercial Vehicle portfolio which gives us 80% as PSL, that would be very good for us to support our rest of the book growth.

Clyton Fernandes Sir, second question is just a housekeeping question – what would be your Risk Weighted Assets as of March 31, 2013?

Murali M. Natrajan I will just give it to you in a minute. I think it is about Rs. 8,000 crores.

Bharat Sampat Total Risk Weighted Assets is Rs. 7400 crores.

Moderator Our next question is from the line of Mr. MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh Just wanted to understand what is the current employee size as on March 31, 2013.

Murali M. Natrajan Around 2,220. I think we started with about 2,150 or something like that.

MB Mahesh And how do you see this increasing over the next 2 years?

Murali M. Natrajan See if I add say 30 branches, that will be 6x30=180 plus I add another 20-30 support staff so about 200-odd we should be able to add this year.

MB Mahesh But is there any reason that we need to increase employee base from current levels because if we look at –

Murali M. Natrajan In new branches we have to.

MB Mahesh No, is there any way wherein from the existing employee base we can kind of rationalize the entire thing because on every metric if you see we feel that the employee cost is one which is on the higher side, so is there anyway where we –

Murali M. Natrajan See we put a branch in Hinjilicut which is approximately 2-3 hours from Bhubenashwar, Orrisa. I cannot see how I can recycle any staff and put there. We have to have local staff there. And most of our branches are going to be opened in that kind of Tier-2/Tier-3 locations. We do not add people in Head Office. We do not add people in Operations because we try to bring in lot of efficiency through process changes, automations and other thing. We add only people in front office, sales and especially if the branches are doing well we actually give those branches more staff. If a branch does not do well we keep staff only to serve the customer and take off the non-performing sales staff. So that is how we have been operating. If you see our headcount it has been pretty stable at this level for the last almost two years.

MB Mahesh Yes. The reason why I am asking is by very rough metric, it works out to about 20 employees per branch. Now if we look at most of the other Banks they are at a lot lower number. So we are just wondering whether we can see some improvement on this ratio. My second question, is there a need right now to actually expand branches because we are in a stage where we can actually improve productivity from the existing branches itself?

Murali M. Natrajan We absolutely have to increase the branches for three reasons – reason #1 we want to make sure that we do more and more direct lending on Agri and Inclusive Banking so that our PSL continues to have a good yield as well as we never miss out 40% target. There is a lot of value in making that happen. If you do not achieve that then there is a lot of negativity attached to that, reason #2 we put in about 6-7 branches in Tier-2 to Tier-6 in year 2013, i.e. this year and we found that those branches have done rapidly well for us. So we are quite encouraged by the speed at which those are reaching the breakeven point. And reason #3 is that we want to make sure that we have a very diversified, right now it is quite dependent on three states, which are Maharashtra, Gujarat and Andhra Pradesh. By going into Orissa and Madhya Pradesh we are finding that our portfolio also gets a little bit more diversified. So we are very clear that we want to expand the 30 more branches. These are all inexpensive branches, these are not metro branches where you pay Rs. 2-3 lakh of rent, and these are all rents of Rs. 25,000-30,000 per month. So it is quite a viable set of branches.

MB Mahesh Just one question on the Asset quality front, if you were to look at your book today, what could be the contribution in terms of exposure of the single largest one and what will it –

Murali M. Natrajan Retail and wholesale trade will be 10%.

MB Mahesh No, if we were to look at one single largest Corporate exposure how much would that –

Murali M. Natrajan One of the large exposures would be about Rs. 75 crores may be.

MB Mahesh And what was it probably two years back?

Murali M. Natrajan Those customers have been with us now for sometime. If we have any large exposure usually those 5-6 customers have been in and out in the last five years, like they will reduce and increase, like that they have been there. So we do not increase our exposure beyond those levels.

MB Mahesh And one last question if I may, on the Tier-1 ratio which you are currently quite comfortable at about 12.6%, the change in rating by the rating agency does that change the minimum requirement of Tier-1 ratio? Have they imposed any minimum Tier-1 ratio over and above what the regulatory requirements are?

Murali M. Natrajan They had imposed three years ago that we should be at about 10% or so and we have never breached that level.

MB Mahesh And post the change in rating, have they relooked at this?

Murali M. Natrajan I do not remember them mentioning anything new on that.

Moderator Our next question is from the line of Mr. Praful Kumar from Birla Sun Life. Please go ahead.

Praful Kumar Sir I wanted to get the breakup of the Provisions for the quarter,

Murali M. Natrajan Provision for the quarter, we have made Rs. 2 crores for Standard Assets Provision because the Advances are increasing so we made Rs. 2 crores and one extra crore for what we call as Floating Provision. As for RBI we are supposed to introduce a floating provision concept to increase our buffer countercyclical whatever you call it. So we made one more crore for that. So that is three .The balance Rs. 6 crores is topping up of Provision for some existing SME, Corporate loans and also for some fresh slippages.

Praful Kumar And in terms of movement of NPAs for the quarter.

Murali M. Natrajan Movement of NPA for the quarter I do not have it here. I told you for the whole year it was Rs. 214.98 crores. I think we had Rs. 21.93 crores slippages in quarter 4 the previous quarter was 19.82 crores. We had recoveries of Rs. 8 crores and upgrade of Rs. 3.1 crores. So that is where it is at Rs. 10 crores.

Praful Kumar And if I look at in terms of your Base Rates for 4-6 quarters is stable. And also if I look at on the Deposit side, your Retail Term Deposits have been coming down as a percentage of total Deposits. So wanted to understand for next 6 months - 1year what's the outlook?

Murali M. Natrajan 3-4 years ago when I took this job I said we would be at Retail Deposit of 70%. We have always maintained that 80-82%. Now if my rating improves I do want to look at the opportunity of reducing the Cost of Fund, not have all of it in Retail

Praful Kumar Right. So the strategy would be to get more into the short-term and get the advantage –

Murali M. Natrajan That depends on all the buckets, so if you are doing Mortgages there are buckets to be managed in terms of long term as well. So it is not as simple as that to explain on this. So we have ALCO process that decides on what is the amount of long Term Deposit we have to take, etc. We are very clear that bulk of our Deposits will always be of Retail, which means that what I said four years ago I am saying now 70% minimum we will keep in Retail till the Bank's financial position strengthens to a great degree may be double or Rs. 25,000 crore type of

Balance Ssheet we will see again right now. So that is where we are. We have been able to keep our Cost of Funds quite well and the rating improvement not just improves the ability to borrow Wholesale but it also helps in Retail because if you have a Rs. 5 crore kind of a Retail customer or a Rs. 2 crore kind of a Retail customer they also look at the rating and kind of accept little lower Deposit Rate.

Praful Kumar Have you reduced any lending rates for any of the target segments or it is Base Rate handling then we have not passed on for the next 6 quarters anything to the –

Murali M. Natrajan Our Base Rate works on the basis of how the guideline of RBI had asked us to commute. Our Base Rate is based largely on the Term Deposit rates with some breakage for CASA, etc. Now we have not seen the Cost of Funds come down for us to be able to pass on the benefit but however, there will be case to case customer issues will be there where the customer is very valuable for us we must have kind of reduced his rate or something like that. That keeps happening on an ongoing basis.

Praful Kumar And in terms of Mortgages now, are you saying given that SBI today is very-very aggressive, so the strategy for the next year growth, rate competitiveness is very difficult. So just wanted to understand more on the next year growth.

Murali M. Natrajan The rate competition was there when we launched Mortgage, they were at 7.95%. So that time also people asked me how you are going to do Mortgage business, what you are going to do all that stuff. I really do not know how to answer the question. I think we probably are operating in different –

Praful Kumar Probably a lot of NBFCs are also getting very aggressive on LAP, which has been –

Murali M. Natrajan They were always aggressive. You talk about Religare, you talk about any of the NBFCs, all of them are aggressive since I have been in Retail business.

Praful Kumar But unfortunately everybody is putting a number of 0 or a 10 basis point credit cost on the business like we did in Gold Loans and now we are realizing that we are very late in the game.

Murali M. Natrajan Who is late in the game?

Praful Kumar Gold loans, the way that they have grown, so now everybody was describing nil credit cost for the business as a secured lending.

Murali M. Natrajan We have not put nil credit cost for Mortgages, that is what you want know?

Praful Kumar No, no, where I am coming from is the space is getting very crowded and are we pricing the products right, that is the question.

Murali M. Natrajan In self-employed customers it is always a very difficult kind of Income Assessment process. So many times it is not easy for certain company, I mean big Banks to quickly do that because they do it a branch level. We do underwriting at a centralized level so we can actually do that a little bit better. I am not saying that they are bad. I am just saying that there is a little bit of advantage here that we have on that. Depending upon that we have been able to maintain our NIMs in Mortgages. If the market becomes really very aggressive obviously there will be some breakage on yield on that and that is very natural.

Praful Kumar So what are the numbers we are looking at for the next year growth in terms of Advances

Murali M. Natrajan Our aim is to double the Balance Sheet in 3 to 3.5 years' time, so which means that we are targeting at about 25% Balance Sheet growth. As of now it looks like we will be able to do 20-25% Advances growth and a corresponding Deposit growth. We seem to be having some momentum in our business, so we hope to sustain that.

Praful Kumar And lastly on the CASA front what is your strategy now? We are down to 27%.

Murali M. Natrajan The strategy is very simple. Have 70% of the scorecard of the branches skewed towards CASA book. So SA has grown by 15%, CA has been very muted. I think it has got implications because of the economic conditions as well because CA balances are very-very muted for the last couple of years.

Praful Kumar Do you share number of accounts opened for the quarter or you the year?

Murali M. Natrajan We do not declare that but I can tell you that year-on-year our number of accounts of CASA has improved from the previous year.

Moderator We will take our next question from the line of Mr. Nikhil Paranjape from ICICI Prudential AMC. Please go ahead.

Nikhil Paranjape Wanted to know the breakup between Home Loans and LAP or is it MSME and SME portion completely LAP and the Mortgages –

Murali M. Natrajan MSME/SME portion has a bit of Term Loans, bit of bills purchase, bit of CC, OD, all that. It is like a full-fledged Working Capital type of composite product. It has got Trade, etc. In Mortgages we do not have the breakup but approximately you can say about 60-odd percent would be LAP.

Nikhil Paranjape And if I look at your fresh slippages, most of the fresh slippages have come from Mortgages and SME/MSME, then while on overall basis the fresh slippage could be 1.4-1.5% as you said. But on this portfolio itself which is comparatively a newer book for you which has seen significant growth. So that ratio would go up to about 3% plus.

Murali M. Natrajan Or 2.5% may be, Yes possible.

Nikhil Paranjape So do you see any stress actually here because a Mortgage has been a longer tenure product, the short term performance–

Murali M. Natrajan No I do not see stress, Mortgages the only reason so far in the last several years Banks have lost money is either because of very poor valuation of the property or fraud or combination of those. Usually, if you have given money to an end-user you do not lose money even in the worst of times I do not know of any large Banks which had trouble in Mortgages in India, LTVs are quite okay. And even in bad time property prices do go by 5% to 7% every year. As long as you do not make mistake on valuation or end up having some fraud paper Mortgage book under the present conditions does not look like a problem. Like another person pointed out there could be some yield challenges, customers could come for repricing. Since RBI said no prepayment charges for Home Loans, we have seen a spurt in people coming to prepay and shift their loans to other banks. And this musical chair seems to be continuing. But that we have not seen in the Loan against Property book. So I am not worried about the minimum slippages in our Mortgage book. I think we can count them on our finger tips, maybe three or four cases that we need to resolve. And if I remember right in one of the cases we even got the repossession order last quarter on a Rs. 2.5 crores case or something. MSME/SME there is a business slowdown. Sales have dropped by 30% or 40%. There is no intention problem of the customer, the customer wants to repay. Even after becoming NPA his business is running and we are trying to see what the best way to keep that business going. So as a matter of adequate precaution we have already reduced our exposure last year from average ticket size of Rs. 6-7 crore to about Rs. 2-3 crores. There are a few customers who are facing challenges. We are confident that we will work that out over the next 12 months or so. Environment is a challenge. I mean obviously SMEs will have some impact.

Nikhil Paranjape And sir in terms of the concentration in Deposits, how would the Top-20 Depositors contribute to –

Murali M. Natrajan I will just give you Top-20.

Nikhil Paranjape And some sense on ALM how does it look at less than one month or six months –

Murali M. Natrajan We have never had a problem in any of those buckets. On the contrary we maintain excess liquidity deliberately, so that we never have to, in fact in the month of February and March I would say that we were at times even sitting on some level of excess liquidity. That is the kind of Deposit generation we did. So Top-20 Deposits are about 18% for us. And that number has been around that for the last several quarters.

Nikhil Paranjape And sir just coming back, when you say that your average ticket size in MSME/ SME has gone down, essentially you are looking at smaller customers or similar customers and taking more cover?

Murali M. Natrajan When I say gone down means gone down for new origination. All of a sudden we cannot change the portfolio. So when I say that more and more we are looking for customers who have much more scope to grow with us over a period of time than taking a large exposure all of a sudden in the beginning and then not being able to give them enhancement and so on. So we are looking at customers who are smaller, that also we are looking at and we are looking at larger customers with smaller requirements also who have much better cash generation on their own.

Moderator Thank You sir. Would you like to add any closing comments here?

Murali M. Natrajan I just want to thank everyone for logging into our call and if there is any question that has got left out we will be more than happy. They can contact Bharat or Meghana. We will try and address that question as well.

Moderator Thank you sir. On behalf of Development Credit Bank Ltd. we conclude this conference. Thank you for joining us. You may now disconnect your lines. Thank you.