DCB BANK

DCB Bank Limited – Q4 & FY2013 -14 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 & Corporate Banking, DCB Bank Ltd.

Mr. Sridhar Seshadri - Financial Controller, 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 Q4 FY 2014 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan MD & CEO, DCB Bank Ltd. and Mr. Bharat Sampat, CFO - DCB Bank Ltd. As a reminder, all participant lines will be in the listen-only mode. 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: Thank you. I welcome all of you to the investor call for the full year results of 2013-2014. Let me spend a few minutes to give you some highlights. I hope all of you have received the Investor Presentation and Press Release that we sent out a couple of days ago. After I give the highlights, we will open for questions.

Let me talk about Deposits. On the Balance Sheet side, year-on-year Deposit growth has been 23.4%, the bank crossed Rs. 10,000 Crores total Deposits this year and approximately the Deposit growth between last year and this year is about Rs. 2000 Crores. CASA growth has been 13.6% and Savings Account growth was 18%; please remember that we offer only 4% on our Savings rate. We have not increased the Savings rate in the last couple of years, since the new regulations came in place. 77% of our Deposits are in the Retail and top 20 depositors contribute 17.2%, it is slightly down from the previous year, which was 18.3%. Non-resident Indian Deposits continue to perform well this year. We crossed Rs. 800 Crores of Deposits in Non-resident. We also created another category of Retail Deposits, which is actually in the Interbank side. We created a large number of relationships with Cooperative Banks and started getting Retail type of Term Deposits from them. We have over 80 Cooperative Bank relationships and that has contributed to the Balance Sheet about Rs. 1500 Crores this year.

Let me move on to the loans side. Advances growth has been 24% compared to last year. In the last week of March, we sold Rs. 100 Crores worth of PSL through IBPC - Interbank Participation Certificate, since we were somewhat excess on PSL. If we had not done that Advances growth would have been 25%. The Advances compositions is Mortgages - 38%, Corporate - 26%, SME and MSME - 16%, AIB - 14% and balance in other Retail at 6%. We focus on secured loans. The only pure unsecured loan that I can see in our portfolio is the Term Loans that we extend to Microfinance institutions. 44% of our Advances are in the Retail segment. We continue to rely more and more on our own sourcing of PSL, this is helping us to achieve not only the PSL target on time but also helps in our Yield on Advances. Another point I want to say is that since the environment has been quite challenging we have been focusing on derisking SME and MSME especially and always looking to see if there are some risky accounts that may not fit our risk appetite in Corporate as well, so approximately Rs. 250 Crores worth of loans we exited in SME, MSME this year and about 250 Crores worth of loans we exited in Corporates which we did not find to be suitable to the Banks risk appetite, as defined by our strategy. AIB, Agri and Inclusive Banking did a pretty good job, AIB actually has multiple products in it, so that also did quite well and we achieved strong growth in Retail, Agri and Corporate segments.

Let me talk about portfolio quality. I will talk about the slippages for the full year. Slippage for the full year was Rs. 97 Crores of which SME, MSME is Rs. 53 Crores, Mortgages at Rs. 23 Crores, Corporate - Rs. 10 Crores and AIB at Rs. 7 Crores. Recoveries and upgrades for the full year was Rs. 48 Crores. Write off and sacrifice is Rs. 125 Crores and that is how we came to closing gross NPA of Rs. 138 Crores. Provision coverage is 80%; underlying provision coverage if you take off the technical write off comes was at 47%. In Q4 FY 2014 we had a large Corporate account which had to be restructured which was Rs. 64 Crores, there was no sacrifice in this restructure as of now, so we did not have to take any provision on that. The total restructure standard is Rs. 77 Crores consisting of three accounts. In FY 2015 that is the coming year looking at our portfolio, I do expect two or three more loans that may come up for restructure over a period of time. We believe that a lot of SME, MSME portfolio has been derisked, so incremental risk should be limited going forward, however obviously we need to be very watchful given the continuing not so strong environment. Since the SME and MSME loans are secured, we expect that over a period of time we should be able to recover 60-70% of our gross NPA in SME/MSME. If we had not done the write off in the last quarter, the gross NPA without the write off, would have been 3.16% as compared to 3.24% in Q3 of 2014. Net NPA was 0.91% that has slightly moved up primarily because the new NPA provision is still not been built up for us to reduce that NNPA.

Let me talk about Income. Full year income grew by 26.3%, Net Interest Income grew by 29.5% and full year Fee Income grew by 18.5%. We ended the year at 3.56% NIM, Cost of Funds was 7.78%, same as last year, however Cost of Funds for the fourth quarter was 7.93% and this may put some pressure on NIMs in the coming months. Like I mentioned in my previous calls, our business model is based on 325 to 330 basis points, so at the moment we are doing better than our target. We met PSL target and of course this is subject to review by Reserve Bank of India, prior to that from our own classification and our own performance we believe that we have met priority sector lending and we also sold 100 Crores worth of PSL, since we were somewhat excess, through IBPC participation. The Board has given us approval to raise upto Rs. 300 Crores through QIP/Preferred Allotment. We will plan for capital rising in 9 to 12 months time if everything goes well.

Let me talk about cost. Cost increased by 15.9%, this includes network increase of 36 branches this year. This probably would have been the highest number of branches put up by the Bank in the last many years. The branches are expected to break even in 18 to 22 months. Every year, if we find that our branches are performing as per our expectation we are likely to add 30 to 40 branches, majority of those branches in tier 3 to tier 6.

Before I end my call let me talk about two important changes in the regulatory side. I think there is some discussion paper on more transparent pricing and removal of pre-term penalties. This may have a negative impact on NIMs and fees for the Bank. We have not yet estimated because it is not very clear as to what the final guidelines would come out to be. The second one is on the regulatory change that has happened in February where there is a Framework of Revitalizing Business Assets, a new guideline that has come which seems to indicate that the ability of Banks to directly deal with consortium borrowers or multi-banking borrowers to have any bipartite type of arrangements to resolve stress loan, the ability to do that may be limited because of the new circular, again it is very early days. We have to see how these things are going to pan out in the coming months, so those are the kind of highlights I wanted to share with you. In terms of Profits we did Rs. 151 Crores which is Rs. 50 Crores more than last year. The fourth quarter Profit was about Rs. 39 Crores which is about 15% better than the last year fourth quarter that is what I wanted to share with you. I am open to questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rajatdeep Anand from ICICI Prudential Life, please go ahead.

Rajatdeep Anand: Hello Sir, congratulations on a good set of numbers. I think net NPA is something which we could not understand and there seems to be a spike in that, so if you can help us understand how exactly Net NPA has moved up and calculated coverage has fallen more than the reported coverage, so both of these issues if you can address. That is one, and secondly in your opening remarks you talked about how you opened 36 branches and maybe will open 40 more this year, I have seen that you have managed to do it, while still reducing Cost to Income Ratio, I am just trying to understand how profitable these branches are or there some Opex losses which next year they mature and you get a benefit on those and how you will be able to maintain next year Cost to Income and still open as many branches, I am just trying to understand.

Murali M. Natrajan: First of all we have never opened so many branches in the past, so I guess at the moment the branches that we have opened throughout the year seem to be performing as per our month on month expectation in terms of the Balance Sheet that they are supposed to deliver and when I say Balance Sheet it means Balance Sheet of Savings, Term Deposits, Gold Loans, depending upon the catchment area of the branch. In some branches of course we sell Tractor, Housing Loans, so depends on where we put that branch, so it is a very branch specific kind of a target we are doing before we actually even implement the branch, so most of the branches that we put so far, not even a few months have gone, on an average not more than six months have gone on these branches. In fact some of the branches have come up in the last quarter, so therefore we will learn if there are issues that come up. We will learn and adjust our model, but as of now we feel that we can handle 30 to 40 branches every year. If we find that those branches are not performing, we would not rush in to anyway opening those branches and mess up the Cost to Income ratio, we would be very careful obviously with that.

Now, coming to your point on Cost to Income ratio, we had committed that we will come below 65% this year, we have committed saying that we will try and be below 60% next year and then come below 55% in the following year that is how we are planning our work. We think that if we grow our Loans and Deposits like the way we are doing at about 25 odd percent without destroying NIMs and not messing the credit losses we should be able to achieve that. This year we had also done work on some existing branches, few existing branches were looking to be in a high cost location and when they came up for renewal we actually took that opportunity to slightly shift that location and save some cost so that we can actually recycle those costs and put it in the new branches. We are of course continuously looking at our cost to see what else can be reduced, which may look like unproductive or there could be a better option, for example we are looking at whether we should move part or whole of our operations to another cheaper city from Mumbai which might release some cost to us, so those are all work in progress, I cannot give you any definitive answer on that but that is something which we do continuously, so like I said I am not going to put all the branches just because I have said it in this call. Our aim is to put 30-40 branches and we know where to put those branches, but if we find that our branches are not performing then obviously we will take a couple of steps back, rework it and then move forward.

Rajatdeep Anand: How do you identify these 36 new locations or the 40 new ones?

Murali M. Natrajan: First of all, there is a guidance from Reserve Bank of India which we have to meet in terms of unbanked, under-banked, semi urban, rural etc., so to that extent whatever we identify have to fit in that particular guidance. Secondly we look for areas which are more SME/MSME type of location. We found that we are not very good at executing the branch business if we are in some location where there is too much of salaried kind of segment. The other thing we have noticed is that if we are putting a branch in a location where there is not more than one private bank we seem to be able to kind of quickly ramp up our volumes, so we are focusing on Chattisgarh, Odisha, Madhya Pradesh, Rajasthan. We have opened a few branches for more like Deposits in Punjab and we find ourselves to be facing the toughest kind of situation in Tamil Nadu, I will say because in Tamil Nadu when you open a branch, it is not as easy as it is in say any part of North to kind of dislodge or grab business from some regional players, that has been so far our experience.

Rajatdeep Anand: Sir, on net NPA I think there has been a bit of spike this quarter?

Bharat Sampat: We had four SME accounts which slipped during the quarter and since they are collateralized assets the extent of provisioning which we did was commensurate with that, which is the main cause of increasing in net NPA.

Rajatdeep Anand: What kind of collateral do you have?

Murali M. Natrajan: Always in SME we will have either residential property or commercial property or both and in very rare instances we will have industrial property but usually not without either a residential property or commercial property.

Bharat Sampat: Your second question was related to coverage. What happens is when you write off numerator and denominator both drop by 100 and we have written off significant amount in last two quarters, that has what has resulted in underlying ratio coming off, also a function of the fact that now whatever NPA are there, new ones, would have been provided to a slightly lesser extent, so as they mature then more provision comes in.

Rajatdeep Anand: Any of the four SME accounts that slipped, any of them you are sure will get upgraded or it was like they are downgraded only for technical reasons but probably otherwise healthy?

Murali M. Natrajan: No, if the customer does not service his due in 90 days, it becomes NPA, so before it became NPA obviously the collections unit would have tried very hard to get the customer to pay the money, sometimes customer services only one month interest and pays at 60 days past due and I think one of the account was restructured one year ago and it has slipped to NPA. One of the accounts that have gone in to NPA is I think last March or before that we had restructured and the customer has not met the restructuring covenants, so therefore we downgraded that account.

Rajatdeep Anand: Sir if you can give us what was the slippage, what was upgrade and what was recovery?

Murali M. Natrajan: I will say for the whole year if you like. I have the whole year number. Slippages for the whole year is Rs. 97 Crores, out of that SME, MSME is Rs. 53 Crores, Mortgages is Rs. 23 Crores, Corporate is Rs. 10 Crores which happened in the first quarter of this year and AIB Rs. 7 Crores. Now, without even looking at all these individual accounts of these I can tell you that in Corporate like I mentioned before we are fully collateralized on this Rs. 10 Crores, AIB is always collateralized, so I don't think there is any issue, Mortgages is of course. Mortgages, SME/ MSME, like I mentioned in my call a few minutes ago, we think that any of these can be recovered at about 60-70% over a period of time.

Moderator: Thank you. The next question is from the line of Abhishek Kothari from Networth Stock Broking. Please go ahead.

Abhishek Kothari: Sir congrats on a good set of numbers. You just mentioned on the call that you have another 2-3 accounts in pipeline for restructuring.

Murali M. Natrajan: No, I did not say that there is some pipeline in restructuring, what I said if I recall is that, we keep looking at our portfolio on SME/MSME and we have divided into categories like Watchlist, Anxiety, Problem, etc. this was being done for the last five years even before the new circular of Reserve Bank of India which requires you to do things like that. Looking at that and looking at how some of the loans are behaving, I am saying that I may expect two or three accounts out of this to come up for restructure in the coming year that is what I said.

Abhishek Kothari: I just wanted the total amount of these two or three accounts.

Murali M. Natrajan: No, I do not thing I am at liberty to share with you those numbers.

Abhishek Kothari: Ok, Sir in the write-off that you have done of Rs.125 Crores is there any doubtful debts, which have been written off?

Murali M. Natrajan: Can you give me the reason why you want to know that because they are all 100% provided? See as far as we are concerned we are following guidelines of the Board in terms of write-offs. There are some Board policies, which we follow to write-off, which we discuss with the Board. Write-off does not mean that the Bank has completely given up on collecting these and I think that appears separately as some sacrifice or something, but I do not think that number is separately published. So even if it is written-off, we continue to collect those balances.

Abhishek Kothari: Sir I just wanted two data points one is what is the head count at the end of the year and also if you could give what is the breakup of interest on Deposit and interest on Borrowings that have been paid for the year?

Murali M. Natrajan: I do not think we release that numbers. We only give you Cost of Funds. Interest on Borrowings will always be higher than interest on Deposits, just to let you know I do not recall us being in the market this year for Deposits beyond February 28 in any active manner, we thought we should just finish up our Deposits work prior to March and so in fact I would say our Borrowings have come down from previous year. Head count is approximately 2700. With every new branch, you should assume that head count could increase by about 8 to 9 people.

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

Sandeep Jain: Sir we have written-off somewhere around Rs. 88 Crores in this quarter and if I get your presentation most of them are because of the Corporates, right.

Murali M. Natrajan: I have written-off Corporates.

Sandeep Jain: If I look at the Gross NPA breakup of your presentation your Corporate Gross NPA has come down drastically from Rs. 54 Crores out to Rs. 15 odd Crores. So is my assessment right that we have written off many of the Corporate loan portfolio.

Murali M. Natrajan: It may not be many, it maybe one or two loans there which would have gone into write-off.

Sandeep Jain: So are these vintage old accounts or new accounts?

Murali M. Natrajan: First of all in 2012-13, I do not recall a single loan of Corporate that has gone into NPA in 2013-14 like I have said in my all previous calls one loan about Rs. 9.5 Crores, that is why I said Rs. 10 Crores has gone into NPA which is fully collateralized it is unlikely that we will write-off that amount. Even if we do write-off any loans we continue to collect on those loans. So this year our Corporate loan slippages have been quite good I would say just one loan, I mean in this kind of market one loan and one restructure we have done in the fourth quarter.

Bharat Sampat: Sandeep just to elaborate what you asked for whether there were any recent loans which were written off.

Sandeep Jain: Right.

Bharat Sampat: In last two years we had only one account which went into NPA and that is still on our books.

Murali M. Natrajan: Just wanted to say recent, past everything is ours, we only have to work on it.

Sandeep Jain: Can I get a breakup of your Gross NPA in terms of the standard doubtful one, two, three category?

Murali M. Natrajan: No we do not publish that.

Sandeep Jain: Under Basel III we need to publish it, that is why I was asking.

Murali M. Natrajan: Then it should be on our website but I will ensure that if that is to be public we will give it to you not a problem.

Sandeep Jain: Sure.

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

Kashyap Jhaveri: Hi, I have two questions one is on your MSME portfolio, if I look at GNPA at the end of this quarter is almost about 6.5 % now.

Murali M. Natrajan: Yes it has.

Kashyap Jhaveri: So and about a year back that number would have been slightly less than about 4%. Now what are the different reasons that you are seeing in this SME portfolio, is it that cash flows are getting sort of shrunk over there or whether the business demand is not up to the mark what exactly are the reasons that you are seeing over there, more to do with your clients, how is their business, any reason particularly that you have seen for defaults?

Murali M. Natrajan: First of all, we do not have any skew towards any particular industry or anything in our SME/MSME book nor in the Corporate book. What we have noticed in the slippages either last year or this year is that some of the customers have built up capacity but there sales are down and when the sales are down their receivables are also ballooning. In the meantime, there are some customers who thought that since their base business is not doing okay, let us divert the money and do some real-estate business or some other business. So there also they have got stuck. Generally in SME/MSME without any consideration for lets say economic factors there are other challenges come into this business because the proprietor may not be well, proprietor might have a problem with his family, they may split up, he may be dependent on some 4-5 customers or a particular product that might get impacted, so some of the regular issues also have come up which gets exacerbated in a more difficult economy. So my short answer is that part of the story is obviously the economy, part of the story is some over enthusiastic SMEs who try to expand in the wrong time.

Kashyap Jhaveri: And exactly the reverse has happened on your large Corporate portfolio that your GNPA from about 5% has come up to something like about 3% in the previous quarter of course this quarter there has been significant write-off over there, but I would presume that they generally about 3% if we exclude the write-off.

Murali M. Natrajan: That is because, I do not know if you have been able to see my transcript of previous calls every year actively we have exited loans that do not fit in our risk appetite. This year also earlier in my call I said almost Rs. 250 Crores worth of loans we have exited from our book when I say exited means the customer has repaid and we have not given the money back to the customer or we have chained a structure and they had to repay our loans after which we did not reinstate that limit. Like that we did some in fact our Corporate Bank portfolio fell from some Rs. 1800 Crores to 700 Crores some 2.5 – 3 years ago from there we have built up this book. So we actually look at derisking our portfolio, also I think we have been able to do a lot of hard work in terms of collecting from some of the loans that may have been stressed. So we hope to maintain that track record but like looking at the portfolio I always feel that there are 2-3 loans that come under some stress or the other at any point in time.

Kashyap Jhaveri: And in this Mortgage this will be largely loan against property or are there residential Mortgages also in that portfolio.

Murali M. Natrajan: Much of the loans that we do either Loan against Property or Home Loans are residential property.

Kashyap Jhaveri: No I am saying Retail Home Loans versus…

Murali M. Natrajan: They are all Retail Home Loans our maximum ticket size is Rs. 3 Crore our average ticket size is about Rs. 50 lakhs or something like that we do only Retail. We do not do builder financing, we do not do large ticket loans, in our Bank if some Mortgage person, sales person wants to do a large ticket loan he has to come with a lot of conviction and that kind of hard collateral security to get it approved..

Kashyap Jhaveri: And just last question your tax rate in this quarter is also virtually almost zero so it has been about now about 12-14 quarters that we have had zero tax, when does that tax shield actually go.

Murali M. Natrajan: First of all I want to say for the benefit of all, our unabsorbed losses are about Rs. 140 Crores now and we do not know we do not exactly plan when the tax will come in but I think by second or third quarter or maybe fourth quarter it should come. Third or fourth quarter is what Bharat is saying it should come.

Kashyap Jhaveri: Okay sure that is it from my side thank you so much.

Moderator: Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe: Thanks for taking my question. Sir, two questions, can you just explain the improvement in Yield on Investment?

Murali M. Natrajan: Improvement in what.

Amey Sathe: Yield on Investment.

Murali M. Natrajan: What is the answer you are expecting on that?

Amey Sathe: No any specific reason for that because it has been going up for the last 3-4 quarters.

Rajesh Verma: It is because the rates have gone up, if you notice in the last one year the average yield on the G-Sec has increased, so naturally whatever the marginal investment we have done that has been done on the improve yield, overall it has increased, overall Yield on Investment has increased.

Amey Sathe: What is the duration of investment book?

Rajesh Verma: AFS +HFT is 0. 34.

Bharat Sampat: Yield partly has also gone up because our RIDF book which floats between Rs. 375- 380 Crores type of number, yield has gone up by nearly 50 basis points over the last one year.

Murali M. Natrajan: As we continue to achieve PSL and come very close to say the sub targets of agri and weaker section, so the new RIDF that is imposed on us is coming at a better rate and the older RIDF of the lower rates are falling out. So that is why there is slight improvement in our RIDF which is approximately Rs. 380-390 Crores something like that, it hovers around that range.

Amey Sathe: Steady state basis what is the ROA expectation once the tax rate kicks in?

Murali M. Natrajan: I can only tell you about what we are aiming for, first of all the year in which the tax fully comes in would obviously be a dip both in our ROA and ROE could partly happen this and maybe fully happen in next year. I am talking about some four or five quarters it might have that impact. We have always stated that we want to deliver run rate basis on fourth quarter, we are aiming for 14% to 15% ROE by fourth quarter of 2015-16 and whatever that translates to from an ROA point of view, which will be about 1.25%.

Amey Sathe: Last question on Tier 1, what level of Tier 1 after which we will be looking to raise capital.

Murali M. Natrajan: We do lot of working on both Basel III projection and ICAAP, what we think is that we may have to raise some capital in the fourth quarter of this current year that is 2014-15, if it does not happen by fourth quarter even if it happens by first quarter of the subsequent year it is still okay.

Amey Sathe: So probably say 11% kind of a Tier 1 after which you look at raising capital that kind of our strategy.

Murali M. Natrajan: Our ICAP model suggest at 10.6 or 10.7 we may need the capital.

Moderator: Thank you. The next question is from the line of Sneha Kothari from Shubhkam Ventures. Please go ahead.

Sneha Kothari: When are we planning to raise capital via QIP?

Murali M. Natrajan: I thought I just answered it, what we are looking at is fourth quarter of FY 2014-15 or first quarter of FY 2015-16 so somewhere between January of 2015 to June of 2016 depending upon market conditions and what exactly happens.

Sneha Kothari: Could you give the outlook on the margins and provisioning breakup for NPA? How much is the provision for the sundry assets?

Murali M. Natrajan: This year we have made a provision of Rs. 37 Crores in our P&L and in that we have included floating provision, standard asset provision and the provision for slippages that have happened either this year or previous year, so the model that which we are working is that our total credit cost should not exceed 50 basis points of average loans that is what we are aiming for, so our risk appetite is that we should not loose more than 50 basis points on credit losses. Now your first question was on the capital raising, which I think I answered already right.

Sneha Kothari: Yes, and sir on the margin front.

Murali M. Natrajan: On the margin, currently we are at a margin of about 356 basis points, we intend to not loose it, but our thinking is that as we build our book our NIMs will go down to 325–330 basis points although we are doing better than that right now.

Moderator: Thank you. The next question is from the line of Sai Kiran Pulavarthi from Espirito Santo. Please go ahead.

Saikiran Pulavarthi: Hi Sir, just quickly what is your outlook on the CASA growth, I understand that you have opened lot of branches this year, while the CASA growth was lower than the overall Deposit growth do you think this should get back to the Balance Sheet growth or rather the Deposit growth levels and then CASA improvement can happen from here on?

Murali M. Natrajan: When the branches come in it takes a while before they can contribute to CASA and our focus is SA our SA growth is 18% this year and I am not sure where the market will be on SA growth and we should exclude these banks which are paying more than 4% out of the equation, I just recently looked at a bank which has got 12% total deposit growth and they are showing a very high CASA growth. So I am not able to kind of really reconcile those numbers. As far as we are concerned we are saying that as the Balance Sheet builds up there will be some dip in the CASA ratio the scorecard of the branches and our focus from the top management of growing CASA has not diminished in the last five years even one bit. The Balance Sheet growth is much faster than our ability to grow CASA at the same level so I expect it to dip further maybe in about 12-18 months when these branches are matured we should get back at 25% - 26% type of CASA.

Saikiran Pulavarthi: So in the near-term it might go below 25%.

Murali M. Natrajan: Actually it has dipped, if you see last year it was 27% and this year it is 25%.

Saikiran Pulavarthi: Sir I missed your movement of NPAs to slippages and another thing?

Murali M. Natrajan: I will give you full year NPA movement, slippages Rs. 97 Crores, recoveries and upgrades Rs. 48 Crores, write-off and sacrifice Rs. 125 Crores and closing NPA Rs. 138 Crores.

Saikiran Pulavarthi: The other question is on the Other Income, actually the growth has remained tepid, and how do you see this shaping up for the next couple of years what could drive that?

Murali M. Natrajan: The Loan growth drives processing fee but I would not put a caveat on that I am waiting for the new regulation of RBI regarding transparent pricing, and pre-term penalty etc.. what is going to be the final shape of that circular that might actually have some negative impact on the Fee Income because if you put any pre-term penalty it actually goes into fees. We will, for the time being not look at it. I think branch growth along with the loans growth would definitely have a positive impact on our fee growth. We have suo moto changed our focus on Insurance and Mutual Funds. We operate on a more safer we do not try to sell ULIP we try to not sell any equity oriented Mutual Funds. So those have actually reduced our Income over a period of last 18 months or so. So our aim is to grow fees at about 15% year-on-year and try to offset as much of the additional cost of new branches through fee growth. That is the way we are thinking about it.

Saikiran Pulavarthi: Sir in this also do you foresee any kind of a growth, which is not, related to the Balance Sheet growth. Any new initiatives?

Murali M. Natrajan: I have not seen any item in our Fee Income except for some Treasury gains either on FX or on SLR trading that has got probably no link to the Balance Sheet. Other than that everything is Balance Sheet linked, Deposits and Advances.

Saikiran Pulavarthi: Anything you can foresee the growth from hereon which is not linked to the Balance Sheet?

Murali M. Natrajan: No we do not have anything other than Balance Sheet related plans on fees.

Moderator: Thank you. The next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: Quick question and it is a slightly qualitative one. More on the SME/ MSME businesses of yours, which was your growth engine in the past and which I think is the core DNA of the Bank and for the past few years and rightly so that book has been grown as a proportion of the overall Advances book that has come off. If I were to ask you how you feel about this business today, is the worst behind you, do you feel comfortable in lending in this space again, can we expect this business to grow ahead of your overall Balance Sheet over the next one or two years?

Murali M. Natrajan: My answer is like this, the core segment of the bank is self employed, so when I look at the Loans that are coming through the door in the Mortgage area or in the Agri Inclusive Banking area and obviously in

SME and MSME area, I find that 75% - 80% of what we originate is self-employed segment and when I say self-employed segment it could be from a small businessman or trader of any kind to even up to say Rs. 75–100 Crore type of turnover customers. So self employed has been our segment. It has not changed in the last five years. We do not intend to go into the salaried segment because we do not see ourselves as being able to compete with the large banks in the salaried segment. Second point, which I would like to say is even when we actually install any new branch we look at spots where we feel that there is a self employed kind of opportunity for us to put the branch because we feel that we have a much better chance of succeeding in the branch in those kind of locations that is point number two. Much of what we do in Mortgages origination our average ticket size is about Rs. 50 lakhs we do not do large tickets and I can tell you that much of those originations are all businessmen small traders, small factory owners, all those kind of people, so I have a lot of faith in SME/MSME segment, self-employed segment it consists of almost 70% of our country's GDP, if I am not mistaken. However what has happened in SME/MSME is that, I think when we started growing this book in FY 2009 end or so, we looked at average ticket size of Rs. 7 Crores maximum and we also allowed a few loans where we may have had instead of 100% collateral we may have had some 70% collateral or 65% collateral. Given the economic condition we found that situation was not very good for large ticket SME exposures so we started backing off from that and redefining our target market as Rs. 3 Crores and below and fully collateralized kind of lending, simultaneously we also started exiting many of these loans, like I mentioned this year alone we have exited about Rs. 250 Crores of loans, no Bank will ever give up a loan in March so easily, in March we have given up a loan large some Rs. 14 or 15 Crores, where we were not happy that the customer was not giving us additional collateral, so we said let him take his loan to another Bank so we have derisked, so part of the issue is derisking, when the loan portfolio is reducing and you have NPAs coming naturally the Gross NPA looks slightly exaggerated. I have full faith in our SME/MSME, but to get back to higher pace in SME/MSME I think we need another maybe 12 months and that is because a lot of derisking has happened some little bit more derisking will happen but we are also doing very well on sourcing SME/MSME loan, small tickets through the branches which has been very encouraging for me in the last six months. I do not know if I have answered your question but that is my response to your question.

Swanand Kelkar: You have. So a small follow up, what you are saying is I might be very narrowly focused on the SME/MSME as a sub-segment but what I need to look at more is the ways in which the Bank finances the self employed segment and that could be more through the Mortgages route as well.

Murali M. Natrajan: Yes and we will probably increase the ticket size on Rs. 3 to 4 Crores or whatever if I find that the economic conditions are such that our risk is mitigated. See I look at it like this if I give a Rs. 5 Crore Loan, I make 3% if I loose on that NPA Rs. 5 Crores I have to deal with for almost 1 - 1.5 years which is quite painful.

Swanand Kelkar: If this hoped economic recovery comes through over the next 1-2 years whatever, your guess is as good as mine, what kind of sensitivity would that have on your NIM lines and your credit cost lines?

Murali M. Natrajan: Credit cost are at 50 basis points I am not sure we can do better than that by the time the Mortgage book also would be maturing and this Corporate loans are such that even though we are very aggressive we have only Rs. 2,000 Crores of that even a ticket size of Rs. 25 - 30 Crores hits you in one quarter it is not a easy thing to deal with. So I am not sure how much it is but when economy grows NIM does get impacted negatively because the competition increases, everyone wants to build up the book rapidly so I think NIMs might actually get down by about 10-15 basis points I feel.

Swanand Kelkar: But you will still stay comfortable with the 3.25 to 3.3 number?

Murali M. Natrajan: I am comfortable at 3.25 - 3.30 and 50 basis point cost of credit.

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

Kashyap Jhaveri: If I look at our Basel III disclosures we have done total NPL provision of about Rs. 43 odd Crores, the additions to the NPL provisions is roughly about Rs. 43 Crores during this year. Is there any write-back in the provision line item, any depreciation on investments or write-back or something like that? Another question is on your loan book composition there are two components one is commercial and real estate which is about 5.5% of the total loans could you throw some light on what is the composition, is it developers loan or is it lease rental discounting?

Murali M. Natrajan: Yes we have done a few leased rental discounting and we do not do developer loans I do not remember more than 1 or 2 developer loans in the last maybe 24-36 months because we do not actually pursue these developers. There are some 2 or 3 developers with whom we have had relationship for several years and they are all small projects so we are not heavily into this thing. Lease rental discounting we have definitely done.

Kashyap Jhaveri: So this would largely be LRD.

Murali M. Natrajan: Some A category customers we have done some LRD.

Kashyap Jhaveri: Second question again in the loan book composition, NBFCs are about 6.2% of the total loans and if I look at your blended yield on the portfolio is roughly about 12.3 or 12.4 so in this NBFCs what kind of NBFCs would be there?

Murali M. Natrajan: Many of them would be MFIs and micro housing companies. Those would be where we would have given lending.

Bharat Sampat: Kashyap, regarding your question on movement of NPAs what is the issue?

Kashyap Jhaveri: Not movement of NPA, I am just saying in the P&L, total provisions are about Rs. 36 odd Crores whereas in that Basel III disclosures the number is about Rs. 43 odd Crores.

Bharat Sampat: That would be gross provisions made. If there are recoveries or upgrades the provision gets reversed out.

Moderator: Thank you, I now hand the conference over to Mr. Murali M. Natrajan for his closing comments.

Murali M. Natrajan: Thanks for your questions and for attending this call. We look forward to talking to you in the first quarter of 2014-2015. Thanks very much for attending this conference.

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