



DCB Bank Ltd. Q4FY2015 Earnings Conference Call

April 15, 2015

Management Participants:

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

Mr. Bharat Sampat – CFO, DCB Bank Ltd.

Mr. Gaurav Mehta – Head, Marketing, Investor Relations & PR, DCB Bank Ltd.

Moderator: Ladies and Gentlemen, Good Evening and welcome to the DCB Bank Limited Q4 FY15 Earnings Conference Call.

Joining us on the call today, are 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. 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 '*' 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. Good afternoon ladies and gentlemen. Welcome to the DCB Bank fourth Quarter Earnings Call.

I have Gaurav Mehta who is the Investor Relationship and Marketing and PR. Head; Bharat Sampat – CFO and myself.

I would like to say that DCB Bank is once again the first bank to declare annual results which we did yesterday. We are speaking to you from Chennai. We had our board meeting in Chennai yesterday.

In the first 10 minutes or so let me give you some highlights of the performance and then we will open it up for calls: First of all, Balance Sheet reached Rs. 16,132 crores, growth of 25%, Advances we crossed Rs. 10,000 crores, so it is at Rs. 10,465 crores, growth of almost 29%, Deposits we grew by 22% and we reached Rs. 12,609 crores. What is important is Customer Deposits that is excluding interbank deposit, CDs, etc., we grew by 27%. Our CASA growth has been 14% and within that, SA growth was 17% and CASA ratio is at 23.4%. The composition of Loans is Mortgages is 43%, Other Retail is 6%, so we have 49% in Retail, Agri inclusive Banking which has got a number of products, which are mostly towards meeting the priority sector lending, is at 15%, Corporate is at 23%, MSME/SME at 13%.

So again although we have grown by 29%, we have pretty much kept our strategy intact and grown as per what our strategy was. CD ratio was at 83%. As you know this year we had raised capital of Rs.250 crores, plus we got some tax refund in the first quarter. So we decided not to increase the total deposit beyond 22% that is why CD ratio is 83%, we are comfortable with the CD ratio, and I expect this ratio to come down below 80% in the next few months. Retail Deposit continues to be 80% of our total deposits.

So profit for the quarter was Rs.63 crores and for the full year Rs.191 crores. Last year same number is Rs.39 crores for the quarter and full year was Rs.151 crores. In this quarter that is the fourth quarter, we have taken the benefit of Deferred Tax Asset of Rs.10 crores as we have completely absorbed our tax losses. So if you back off that benefit of Rs.10 crores, it becomes Rs.53 crores. So Rs.53 crores in comparison to Rs.39 crores is still about 35-36% growth.

Operating profit for the quarter was Rs.68 crores vs Rs.50 crores last year and for full year it was Rs.277 crores vs Rs.188 crores last year. So income growth for the year has been 33%. If I back off the first quarter tax refund that we received, the income growth is 26%. Within that, Net Interest Income has grown by 28% and NFI growth has been 19% that is non-funded income.

We ended the year gross NPA at 1.76% and net NPA 1.01%, I will spend a few minutes to explain the moving parts in the NPA: Provision coverage is 75%. So what happened is that the full year slippage for us this year is Rs.174 crores, but in the fourth quarter we had one large Corporate account, a Shipyard account which became NPA, this account we have been holding for last 6-7-years or more, that Rs.65 crores became NPA. We are holding hard collateral against this NPA and overtime we are hoping that we will be able to recover part of the NPA. Apart from that there was no such issue in terms of NPA. We seem to have a very stable portfolio in Mortgages, SME/MSME and Agri-inclusive Banking. We sold MSME/SME portfolio worth Rs.62 crores gross and net Rs.35 crores to Arcil and they paid us Rs.20

crores, out of the Rs.20 crores they paid us Rs.4 crores in cash which is 20% and the balance in SRs. That is why you see a sharp dip in the NPA of SME/MSME.

The headcount we went up from 2,716 to 3,352. In the last 2-years our headcount has gone up from 2,220 to 3,352 almost 1,000 people we have added.

Branches we increased from 130 to 154. In the last 2-years we have gone up from 94 to 154.

NIMs for the fourth quarter was 3.75% and for full year 3.72%. In comparison to that, last year fourth quarter was 3.59% and full year was 3.56%. I think raising capital of Rs.250 crores has given us a benefit of 6-7 basis points on the NIMs. Provision for the full year is Rs.69 crores and as compared to that last year was Rs.37 crores, we are totally holding about Rs.15 crores of floating provision so far, this year alone we have made Rs.9 crores of floating provision and we also made Rs.3 crores of unhedged foreign currency provision and specific standard asset provision of Rs.5 crores. Capital adequacy was at 14.95 and Tier-I at 14.21. Restructured standard asset is five major customers at Rs.50 crores. New branches installed since 2013, we believe as per our own estimates, it's about Rs.30 crores is a total cost that we have incurred in this year. So our total cost of Rs.396 crores includes Rs.30 crores of the new branches and we are tracking 18 to 22-months breakeven on these branches.

Those are some of the highlights I wanted to share with you. I am happy to take 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 Nikhil Rungta from Anand Rathi. Please go ahead.

Nikhil Rungta: Just couple of questions: Firstly, like now that our Mortgage portfolio is around 43%. What would be our Loan strategy going forward – at what level of Mortgage we would be comfortable with and post that

how will our growth come from? Around 60% to 70% of our mortgage portfolio is in the form of LAP, which are primarily small business customers. So on that front I have a slight concern like LAP is generally supposed to be slightly higher riskier segment compared to your normal Home Loans. So from that perspective and also like other larger banks are getting very aggressive in this stream. So on the LAP portfolio, how our return would be coming from because your competition is getting into the yields now?

Murali M. Natrajan: Even in the last 5-years I do not think competition was looking the other way when we were growing our portfolio. So competition is something that all banks including us have to deal with and you deal with on the basis of how well you are structuring your sales team, how well are you tailoring your products. First of all, I want to tell you that our strategy is Self-Employed, we do not like salaried segment at all, our salaried segment whether be on the CASA side or on the Loan side would be hardly 5 to 7% of the portfolio. So our strategy is to serve the Self-Employed Customers. 70% of India is self-employed; anybody can be self-employed from a small shopkeeper to a mid-size SME, all are self-employed. That is the target market that we are working on. Therefore given that we have had reasonably good experience in our credit portfolio in Mortgage... this is the 5th year of mortgage that we have completed, so I can confidently say that we have gone through and all these against the headwinds, I do not think you can say that there has been any amount of tailwind in the last 5-years. So we have built this portfolio in the headwind kind of conditions in the last 5-years, right. So what I would like to say is that our intention is to double our portfolio in 3-to-3.5 years without changing too much on the composition of the assets, which means Mortgage will continue to be still 40% to 45%, other retail will be about 5 to 7% Agri-inclusive banking would be 15% to 17%, Corporate would be about 25% and MSME/SME would be about 13% to 15%. So even after doubling the book, we would be around the same composition.

Nikhil Rungta: In terms of the stress account like the one shipyard account slipped from restructured to NPAs, right, as you mentioned this was an old account of last 6-7-years. So how many similar stress accounts do we still have in our Corporate books?

Murali M. Natrajan: At any point in time, I have always mentioned in every call in the last 4-years, if I am not mistaken, there are some 3-4 stress assets in Corporate Loan book, and this was one of the stressed assets which has been there for last 3-years, we had tried to exit this account, but we were not successful in exiting the account, the customer asked for restructuring, we restructured, he is unable to honor the restructuring, you know how the promoters are in our country, they were not able to honor the restructure, we are not interested in any more trying to support the customer. So it has become NPA and we are pursuing recovery proceedings.

Nikhil Rungta: And Sir last question like for the sale of NPAs to Arcil during the quarter we received around Rs.16 crores of security receipts. So is that the amount appearing in the balance sheet or the stock of SRs is higher? The outstanding SRs would be only Rs.16 crores now or do we have other SRs of ...?

Murali M. Natrajan: This is the first time we have made any sale to Arcil in the last 7-8-years. At least during my time I do not remember doing any Arcil sale. This is the SME/MSME portfolio, it was secured against properties, the gross NPA on this was Rs.62 crores, the net NPA was about Rs.35 and we sold it for Rs.20 crores to Rs.4 crores in cash and Rs.16 crores in SR.

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

Abhishek Kothari: Sir just one question on your Slide #22 Corporate NPA and the SME/MSME NPA. The difference between December and March number seems to be too much. So is there anything....?

Murali M. Natrajan: SME/MSME portfolio Rs.62 crores worth of GNPA, the net NPA on that was Rs.35 crores, we sold it for Rs.20 crores, got Rs.4 crores and Rs.16 crores in receipts SR, right. In Corporate Loan, Rs.65 crores shipyard account became NPA in this quarter, which is why you see Rs.26 crores going to Rs.91 crores.

Abhishek Kothari: And sir on your NRI Deposits of around Rs.1100-odd-crores, what is the average interest rate that we pay?

Murali M. Natrajan: It will be same like that; there are about 10-15% CASA in it and the balance would be like a Domestic Term Deposit.

Moderator: Thank you. Next question is from the line of Prakash Kapadia from ialpha Enterprises. Please go ahead.

Prakash Kapadia: Sir, last 3-years we had de-focused from the SME segment. Are we seeing any opportunities now given that they would be key part in our economic recovery in India, so over the next 2-years, is this segment going to grow, what is our outlook? And on Corporate Loans most of it I believe is working capital-led. So are we seeing incremental demand on the ground, if you could give us some color on?

Murali M. Natrajan: So let me answer your last question first; we have a very limited participation in the Corporate Banking business. Despite that I can say that at least I have not seen too many good proposals coming up in the last 4-5-6-months. Not that we are interested in growing the book beyond 25% contribution, but I am just saying that it does seem like to find good proposal is not easy at the moment. So it may take some time. In SME/MSME we have never de-focused on MSME/SME. Self-Employed is the segment that we were always interested in, whether it be in Agri-inclusive banking, SME, Mortgages, any business for that matter, okay. What we did is about 2.5-3-years ago we said, we do not want to lend beyond Rs.3 crores... only on exception we are lending beyond Rs.3 crores. The general rule is Rs.3 crores and below is the ticket size we are interested in SME/MSME and Mortgages, okay. Because of that we started exiting accounts which are greater than Rs.3 crores. So supposing a customer has got Rs.7-8 crores, he

wants to have Rs.1 or 2 crores enhancement, we simply let that customer out of our bank, because we do not want to deal with that risk, rather we started focusing on getting loans which are below Rs.3 crores, so average ticket size came down to Rs.60-70 lakhs and we focused on 100% collateral rather than giving any leverage on the collateral beyond a particular limit, okay. So because of that what is happening in the MSME/SME portfolio is the exits have been more or less offsetting the new loans that we are getting right. That is the reason you find the portfolio; first it has slid a bit, then see from March 2014 to now, you find that it is pretty much in the same level, right. I do not want to consider some Rs.20-30 crores because anyone not using CCOD or in the last few days putting some money into CCOD can offset it by Rs.20-30 crores does not materialize. So we are focusing on SME/MSME. We believe that if this "Make in India" campaign and all starts to take root, this would be a segment that would get a lot of attention. So we are absolutely focused on it.

Prakash Kapadia: And Sir if I look at number of ATMs after 2 or 3-years of decline, we have seen a sharp increase in the number of ATMs. Is this which we intend to grow in line with our branch expansions, some thoughts on that?

Murali M. Natrajan: We are very merciless on looking at the profitability of ATMs. So we have outsourced the ATM through two vendors and not a white label, we call it the brown label model, where what happens is there is a cost sharing and there is a target in terms of number of transactions, etc., So wherever we find we sit down, we look at the ATMs and say this is not making sense, so we just close that ATM. Now we are finding that some of the locations that we are putting these ATMs, it is making sense, and we started growing that. So there is no change in strategy or anything, it is just that we are getting better at deploying ATMs that is all.

Prakash Kapadia: On the deferred tax, we have utilized this in current quarter, so we would have a balance of Rs.4 crores, because I think last year and the

year end we had some Rs.13.5 crores out of which we have utilized Rs.9.3 crores, so given that?

Murali M. Natrajan: No-no we never had, I do not think all deferred tax asset got over in 2008 or '09 if I am mistaken, Bharat, you can throw some light on this.

Bharat Sampat: No-no, deferred tax asset was created only to the extent of deferred tax liabilities in our books. So now what happens is we are fully covered into deferred tax asset and going forward rough rule is that if I earn 100 Rs. I end up paying tax 33, subject to minor deductions here and there.

Prakash Kapadia: So it is fair to assume next year onwards we will be at 33% depending on write-off or provisions?

Bharat Sampat: Absolutely.

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

Swanand Kelkar: I wanted to check with you on dividends, I know that you have not been declaring dividends thus far because you have accumulated losses on the balance sheet, wanted to understand how much is that quantum and are there any discussions happening at the board level about dividend at all?

Murali M. Natrajan: When we started this year we had about Rs.138 crores of accumulated losses. There was a change in company law in terms of depreciation rules. So the accumulated losses got added by another Rs.6 crores, so it became Rs.144 crores, okay. We have wiped out all but Rs.4 crores of accumulated losses. So by this quarter end that is the 1st quarter of 2016, we should have wiped out the accumulated losses completely.

Swanand Kelkar: Since you are very close to that event, is there a dividend policy or a thought process around dividends being thought of or where are we on that?

Murali M. Natrajan: We are not talking about dividend as yet, but I guess at some stage it will crop up down the year.

Swanand Kelkar: So the only suggestion which I would make is I know that dividends are thought of positively by investors, etc., but for somebody who is trading at much above book value now, there is also a merit in not considering dividend because book value accretion is what shareholders care about. So keep both the pros and the cons in mind. I understand that giving out dividend has sentimental impact because it also signifies your financial strength but keep both sides of the coin in mind.

Murali M. Natrajan: Yes that is very useful, I am sure these kind of inputs will come into the discussion of dividend, but if you ask me I am not even thinking about dividend right now, we are just trying to see how do we continue this journey and take one quarter at a time.

Swanand Kelkar: The next question which I had was, over the past 3 or 4-years cost-to-income has been a good lever for profit growth that has consistently come down on an annual basis, and from what I can gather over may be 2-3 conference calls is that you are getting more confident about growth that is reflected in your branch additions, in your manpower addition, etc., So does that mean that the pace at which the cost-to-income ratio has come down from 70's now to less than 60, that stops being a big lever for growth and actually the top line growth that drives profitability from here?

Murali M. Natrajan: I would say that the reason why you see below 60 is also 1st and 2nd quarter put together we had about Rs.36 crores of tax interest on tax refund that came in, okay. If you back that off I think our underlying would be about 62% cost-income ratio. Now there are many moving part, we need to go into a little detail to understand what is going on in the cost-income ratio. So looking at that, if I look at last year versus this year, last year the branches all that we put together cost us Rs.5 crores and this year the same the branch increase and the last year branch which came in last quarter etc., has cost us Rs.30 crores which means we have really moved significantly on the investments. If

you see our headcount has gone up from 2,200 to 3,300. So net-net Rs.30 crores of cost of this year that is FY15 is cost of investments, okay. So we have done some management estimates on backing out the income coming from the investment on both year that is last year and backing off the investment cost also from both years, then cost-income ratio underline looks like has come down from 62.5 to 59.6, okay. So as we keep growing the balance sheet and calibrate our investments in people and branches, we are targeting for a 55% cost-income ratio in 18 to 24-months' time. That is where we are heading at the moment. And in a very disciplined manner, we are looking at the new cost, existing branches cost, how they are performing, we are trying to makes sense so that it does not get all mixed up and we do not know what is happening. So we are trying to do it in a very disciplined manner.

Swanand Kelkar: I know that the quarter before this you got upgraded on your credit rating. Is that reflecting in cost of funds and even the general lowering of cost of funds in the system?

Murali M. Natrajan: Most of our money is coming from Term Deposits and CASA. So we do not borrow too much. So therefore I do not think it has impacted much. But, one thing that is good is when you go and knock doors on government and institutional deposits, it does have a positive impact.

Swanand Kelkar: Any thoughts on spends because you have seen some banks reduce their base rates etc., how are you seeing that going forward?

Murali M. Natrajan: We are strictly going by the base rate computation guidance given by the regulator and we have not changed it in the last several quarters since it was frozen by the regulator, okay. The biggest input for that is the Term Deposit that comes in because CASA rate is just 4%. So there is no change in that in any case. So we are very confident that as the Term Deposit rate starts to come down over the next 3-6-months automatically, base rate for us will come down.

Moderator: Thank you. Next question is from the line of Krishnan from TVS Capital Fund. Please go ahead.

Krishnan: We know that the compounded annual growth rate has been maintained very well through the year. Basically we would like to hear from you your strategy for the next two quarters more specifically the coming year as a whole in terms of the growth plan that you have?

Murali M. Natrajan: Unless there is some major change in either competition environment or regulatory environment, we do not believe there will be any change in our strategy, we will be very focused on growing our CASA, this year we have grown our CASA by 14%, SA by 17%, we will be focused on getting Retail Term Deposit, our loan composition will be 40-45% Mortgages and Retail would be about 50-52%, Agri-inclusive banking will be 15%, corporate will be 23-25% and MSME/SME. There will be no change. So next two quarters or even next 3-years we do not see any reason to change our strategy. Given that we have put a lot of branches and headcount, our main focus right now is to make sure that we get productivity out of these costs because these are all quite a lot of costs that we have kind of taken onboard.

Krishnan: Which are the regions that you are adding branches in and how many branches you are planning to add this year?

Murali M. Natrajan: This year also we will add about 25 to 30 branches, if you see the map in our "Investor Presentation" we do not intend to go to any other new location other than what is left, so main locations would continue to be Punjab for Deposit, when you look at Tamil Nadu it is more towards Micro – Mortgages and Gold; and Rajasthan, Odisha, Madhya Pradesh, Chhattisgarh, all these we are getting traction on PSL type of loan. So our strategy for putting would be across India, we will not venture into Northeast still. So we will be quite satisfied with these 10-odd states.

Krishnan: And then with the introduction of the small finance banks, how do you feel synergy changing around you with the introduction of major licenses will come by then and how do you see those small financial banks cutting into your business arena?

Murali M. Natrajan: In Loan side everyone cuts into everyone's business now, they are all NBFCs and they are giving loans, they give Mortgage Loans, they give Unsecured Loans. May be on that Deposit side we will face some competition on CASA or Term Deposit. So we will see as it comes, because I do not see any reason to panic because of this small bank coming in as yet.

Moderator: Thank you. Next question is from the line of Sameer Bhise from Macquaire. Please go ahead.

Sameer Bhise: Just wanted to check on the Fee side, any initiatives that we are considering at this point in time because our Fee line seems to be slightly underutilized?

Murali M. Natrajan: My answer to that is that we have gone from Fees of Rs.139 crores to Rs.166 crores. If you see in the "Investor Presentation" underlying there are no one-off kind of items, there are consistently processing fee, trade fee, bancassurance fee, ATM fee, all those fee, small-small components are all adding up, as the volumes grow up all these are going up consistently. The only thing that we are doing very strongly now is that we are trying to equip our branches to make sure that they are able to sell mutual fund, bank assurance, general insurance, trade, FX, all these products. So there is a lot of activity going on from the Corporate Office to try and equip all our branches to do that. Other than that, in a product sense, we are pretty complete, we do not need to add any significant number of products or anything.

Sameer Bhise: So in terms of product suite, we believe that we are largely complete?

Murali M. Natrajan: Absolutely, we have bancassurance tie up which is very good, we have top mutual fund companies tie up, we have trade products which are absolutely comparable to other banks. I think what is probably missing is that we need to get our branches to be able to spot the opportunity and be able to pitch those products. There, there is some gap which we are working on.

Moderator: Thank you. The next question is from the line of Prashant Shah from Vantage. Please go ahead.

Prashant Shah: Sir, just wanted to ask you, could you just tell me the quantum of the slippage that you mentioned in the ship yard account?

Murali M. Natrajan: Rs.65 crores.

Prashant Shah: In this quarter, your yields have gone up by 11 basis points and if I see the cost also up 11 basis points, yet you are showing 5 basis points increment in your sequential NIMs. So, how would it be possible because as per my calculation your yield on investments are also not significantly up?

Bharat Sampat The deployment of surplus liquidity in GSec has been brought down and also the reduction in SLR rate has freed up funds.

Murali M. Natrajan: What happens is that because we have a small balance sheet, we have a policy to have certain level of excess liquidity. Now, typically, in the fourth quarter that liquidity kind of dries up, which means that we are utilizing the liquidity much more. We have grown our loans by almost Rs.1,000 crores in the fourth quarter. So that is what the reason is. Otherwise, there is no change or anything. The mix of products that we have there have been no change.

Prashant Shah: So just taking it forward, how do you see the NIMs behaving going ahead because what I believe there will be tough competition for deposits and there might be restricted room for you to cut the deposits, but there will be a lot of pressure I believe on lending rates especially coming from RBI?

Murali M. Natrajan: When was there no pressure on lending rate or deposit rate? I want to know from you guys. I have been in banking for nothing less than 30-years. When interest rate goes down there is a competition for deposit and loan. Competition is something that is real and that is existing. So you have to work towards making sure that you optimize your resources, if a customer has got a term deposit, the idea would be

how do we get some CASA balance from him so that the overall cost comes down, a simple example I am giving you. So I believe that deposit rates are likely to come down in the next 3-6 months. The way it will happen is that because of the competitive pressure, we might have to reprice some of our loan book, which means that there may be some NIM pressure coming for 3-6 months, but overall, we are confident that somewhere in the range of 350-360 basis points, we can maintain our NIMs.

Prashant Shah: Coming to your branch expansion strategy, you are looking at 25-30 branches in the next few years, means each year. How do you relate it to your CASA ratio because it has dipped a little bit this year? Do you see them contributing to bring it back up to maybe 25% or above that?

Murali M. Natrajan: I think as the branches become mature, they start contributing much better CASA. So I have said I think in earlier call also that give it about a year or 18 months we should see the CASA ratio back to 25%, at least that is the intention with which we are driving these branches.

Prashant Shah: You mentioned breakeven for a branch is 18-22 months in terms of cost. In terms of CASA, how long it takes for a branch to reach the critical level of CASA, what would that level is where you are satisfied?

Murali M. Natrajan: We do not look at CASA separately and loan separately when it comes to a branch, it is a bouquet. A branch in a rural area may have a very different composition of CASA and loan from metro area. The whole bouquet say that, okay, this is how the fee should move up, this is how the CASA should go up, this is how loan should go up and this is how within 18-22 months we are supposed to break even on the full cost basis.

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

MB Mahesh: Just a couple of questions: Is it possible for us to get a broad breakup of your Mortgages book what would be between Commercial and

Residential in the LAP property? Broadly, what is the kind of interest rate that we are carrying in this particular portfolio? Have you seen any major changes with respect to rejection rates in the last couple of quarters given the fact that you are a little bit more comfortable taking risk right now? And how much of employees actually have you deployed in this particular business?

Murali M. Natrajan: I will give you whatever answer I can on this mortgage, because some of these are not something that we are disclosing publicly in any case. First of all, I want to say that Mortgage is a lead product for us and we intend to keep it at 40-45% for sure and we are comfortable both from a ALM point of view as well as from a credit point of view, seeing both the leading indicators and the lag indicators, etc. We do not expose ourselves; very few transactions happen greater than Rs.3 crores in Mortgages, because we believe that there is this concept that is going on in the country where you take a Mortgage Loan from some other bank, top up with more cash, which means you are giving a better evaluation to the property. So, we are absolutely trying to make the Loan ticket size as small as possible. So as we have now expanded to I think almost 26 or 30 locations, I find that mortgage ticket size has actually come down below maybe Rs.40 lakhs or so. That is point #1. Interest rates: It depends. Supposing it is a Home Loan on a self-employed, it could be 11% and if it is a customer where we have to do a lot of hard work to determine his cash flow and determine his income, then it can even be as high as 13%. But the ticket size will be slightly smaller more of Rs.25-30 lakhs type of thing. We like more transactions, less small ticket size. That is the way we are proceeding on this particular business.

MB Mahesh: In terms of the acceptance or rejection rates, have you seen any major changes recently?

Murali M. Natrajan: What happens is that if you source 100 loans... I am just giving you some rough number, this may change overtime or may change month-to-month but what I have seen from the MIS that is shared by credit is that if you source 100, the sales process itself rejects 15 of them

because of say some eligibility issue or the customer has not represented his property details properly, whatever maybe the reason, sales itself does not proceed on say 15 transactions. Then another 15-18 transactions are rejected by credit because the income calculation and the demand made by a customer in terms of loan, etc., is not matching. And another 10-12% gets rejected because the customer is not happy with the term that we are proposing. So we are saying it will be say 13%, the customer is saying it should be 12.5%. Somehow it does not work out, it drops up. So, in 100 loan, say almost 60 is what finally gets disbursed.

MB Mahesh: So this rate has not changed? Is that a fair...?

Murali M. Natrajan: No, what I know from the market is this rate has significantly changed above Rs.3 or Rs.5 crores type of loans.

MB Mahesh: If I do a back calculation, you are sitting with about 15, 000 kind of loan accounts if you are putting average number at about Rs.30-odd lakhs. How many people would you require for this business today?

Murali M. Natrajan: Quite a lot would be required; maybe on the sales side almost 300 odd people would be required, and on the credit side, for every 5-6 people you need a credit person, then in the processing side, for every 15-20 people you need 1 processing person.

MB Mahesh: And the recovery?

Murali M. Natrajan: Recoveries would be say almost 500 accounts we need about 1%. When we are using a lot of electronic method to calculate, SMS, e-mail, and also there is no human intervention required for that, right.

MB Mahesh: In this cost of deposits, have we kept our interest rates a bit too high than market rates to capture lot more Retail Deposits?

Murali M. Natrajan: We want to have Retail Deposits. So, we normally have in the bucket that we want to attract deposit by 20 basis points. Recently we did cut our deposit rate by I think 20 basis points or so. So this is a week-to-

week ALCO process. Of course, we want Retail Deposits. So that means you have to pay a little bit more.

Moderator: Thank you. The next question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: Just one question on the Mortgage portfolio: We have spoken about it earlier, but the current status in terms of the split between normal Home Loans and LAP and just some flavor on the yields would be helpful?

Murali M. Natrajan: Almost 70% of our Loans are in the Loan against Property, we call it Business Loans and the Business Loans we give based on the cash flow assessment and bank statement analytics that we do where customer is unable to give any more details like the balance sheet and so on. The average ticket size is below Rs.50 lakhs. The interest rate is 11% for a Home Loan, our base rate is 10.85%, so I cannot lend below that, to 13%-13.25% for LAP.

Nilesh Parekh: What we are hearing in the market is the spread between LAP and the normal Home Loan has actually shrunk as low as about 100-125 bps, have we experienced something of that sort?

Murali M. Natrajan: If you go for a higher ticket size, there is a crazy competition out there where you have to give as much as even at 11.25%-11.50%, you have to do LAP. So, also, a customer is going on shopping here and there and all, so the loan does not close at all, in the sense that you are just doing all the work and waiting. And since the regulator has removed this prepayment penalty, it has hugely benefited the direct sales agent, so they have become very rich, they keep moving the loan from one place to the other and they put in the application in 3-4 kind of finance service basically and then everyone is processing. So systematically, the cost has gone up a lot in this thing. We are very much focused on trying to get at least 30% of our loan from the branches. So the branches do not have any connector and all these things, right, the branches go through the customer cross-sell process to get these loans, right. Fortunately, there are no DSAs and all

involved. Therefore, it is a lot easier to close that loan... when I say close means, disburse the loan.

Nilesh Parekh: So what you are saying is that the gap still remains between the LAP product and the normal Home Loans that we offer?

Murali M. Natrajan: In smaller ticket size, yes.

Nilesh Parekh: Smaller is the average what you are saying is Rs.50 lakhs?

Murali M. Natrajan: Rs.40 lakhs, Rs.50 lakhs that type of loans.

Nilesh Parekh: On the 30% of the portfolio, which is your normal Home Loans, what is the average ticket size there?

Murali M. Natrajan: Same, I am not doing big ticket, whether it is Home Loan or LAP.

Nilesh Parekh: Are we able to still do business at 11% because everyone has dropped the rate?

Murali M. Natrajan: It is like a rainbow; there are so many colors there. What you guys see is, unfortunately, some advertisement at 9.80% or 9.75% and everyone jumps into it, saying that that is the only rate that is prevalent in the market. Then all NBFCs should go out of business those who are charging 13%, 14% and giving a Home Loan. There are different customers who do not get that kind of price because they cannot prove their income, you need to work hard at those customers to establish. There is a lot goes in. So, we see this 9.80% by SBI or something and we see that is what the rate has become in the market, that is untruth, that is not correct. We are not in that market. I am not interested in lending at 9.80%. We would conserve our liquidity and capital, then lend at 9.80%. What is the point in doing business in that in any case?

Nilesh Parekh: So according to you, sustainability of these spreads that we have in this particular segment, we can actually protect these spreads that we have on the segment?

Murali M. Natrajan: Next two quarters, overall spreads for the whole bank, our bank would be a challenge, because the way deposit rates are moving and pressure on customers. Overall, 350-360 basis points we feel that we are confident that it can be maintained. There is no information that I have in the flow through of applications tells me that it is not possible.

Nilesh Parekh: And as we mentioned, the loan mix would also remain more or less similar to what we currently have, right?

Murali M. Natrajan: Absolutely, we are just not interested in trying to grow the bank's book through heavy big ticket size in Corporate; our Corporate will be limited to 25%. If you see last few years to this year our Corporate has probably grown by 17-18%.

Nilesh Parekh: The point is that if we step up to the normal rate, then would that have some impact on margins also, means, the overall balance sheet loan growth that we have for the whole bank as a segment and the Corporate segment is growing slower, so that is also to an extent helped us from a margin perspective, but.. ?

Murali M. Natrajan: Yes-Yes, we have grown 28.9%, we have not sacrificed too much of a margin, in fact, the margin has probably gone up by 3-4 basis points if you ignore the capital.

Nilesh Parekh: That is the point because that is the benefit of the mix towards the high yielding portfolio, right?

Murali M. Natrajan: I believe that if you are continuing to do a mix of portfolios, we used to buy PSL portfolio at a very low rate, now PSL is something that we have excess, from a situation where we used to buy PSL portfolio was to make up our PSL, we are in a situation where we are in excess, we could potentially consider having a process of selling, in fact, even this year we have kind of had a transaction on IBPC. So, there are ways to protect at least part of your yield through these initiatives.

Moderator: Thank you. The next question is from the line of Monoswita Mukherjee from Ratnabali Capital Markets. Please go ahead.

Monoswita Mukherjee: I just have two questions: First question is can you throw a number of your Advances target for financial year 2016? This year we are having Advance book of Rs.10,500 crores.

Murali M. Natrajan: Given the number of branches and the people that we have added and the mix of portfolio that we have, our intention is to double the balance sheet...of course, includes Advances, in 3-3.5 years. That gives us about 25% type of growth year-on-year. That is what we are targeting.

Monoswita Mukherjee: Second question is can you throw some light on what item this DTA has been created this year of 10th year?

Bharat Sampat: DTA is on past credit provisions which were there, earlier, we were not allowed to create DTA because we had carry forward business losses in tax books, now that we have absorbed full business losses, and we are able to create DTA on that. So it is not related to current year, but it is accumulated life-to-date type of number.

Monoswita Mukherjee: So basically, it is a figure on the provisioning of previous year?

Bharat Sampat: It is accumulated provisioning to-date; all the provisions which we had to-date, it is related to that; previous year, current year, everything put together.

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

Kaushal Patel: May I have a break-up of provisions made in Q4?

Murali M. Natrajan: In Q4 we have made provisions of Rs.14 crores – for NPA we made Rs.10 crores, and for floating, we made Rs.2 crores, and standard advances and unhedged foreign currency we made Rs.2 crores. So that is how we come to Rs.14 crores.

Kaushal Patel: We had quite strong recovery and upgradation in last quarter. I would like to know how it will be in FY16.

Murali M. Natrajan: In last quarter we had SME, MSME book gross NPA of Rs.62 crores, net NPA of Rs.35 crores which we sold to Arcil for Rs.20 crores, got Rs.4 crores of cash and Rs.16 crores of SR. Other than that, the recoveries are normally what it is, in terms of run rate, I do not see any major change. If we recover some large Corporate account in any particular quarter, of course that would be big, but as far as the Mortgage, SME, those kind of recovery, it will be as per usual run rate.

Kaushal Patel: So going forward, in a current financial year '16, any plan to sell further any asset to ARCs?

Murali M. Natrajan: If there is an opportunity, we will definitely evaluate it, at the moment, there is no plan, but we continuously evaluate. We have not sold any Arcil in the last several years. Then we looked at our SME book, we had discussion with Arcil. It seems like a proposal that both Arcil and DCB could work on and that is why we sold it. It takes almost 4-5 months of effort to sell because the whole process takes almost 4-5 months.

Moderator: Thank you. The next question is from the line of Nitesh Chawla from Banyan Capital Advisors. Please go ahead.

Nitesh Chawla: First question is related to the Agri book: It has grown very nicely in the last couple of years. The question is what will be the impact of this unseasonal rain we saw last month or let us say if the monsoon is bad, what kind of potential NPAs can develop out of that book?

Murali M. Natrajan: Out of the 154 branches, almost 50 branches are in the Agri-inclusive banking business segment, and the various portfolios that we do there is we do Crop Loan, we do Tractors, we do Warehouse Construction funding, we do Commodity funding, we do lending to directly to micro finance institutions, like for example, Ujjivan or Jana, all these institutions we do. So, we do that. I believe that there can be some impact because of this unseasonal rain and other things. I believe that in Madhya Pradesh, for example, what I hear is there has been a two crop failure, etc., So far we have not seen any impact of that in our delinquency or so. Usually, we try and avoid areas where either the

credit culture is bad or there are some issues in terms of repayment, etc. But having said that, we are yet to see any impact, but, there could be some impact, you are right.

Nitesh Chawla: Next question is there will be two new banks coming up later this year. So, I was just curious how we are strategically planning for that development...I know you said the book will grow around 25%?

Murali M. Natrajan: Two banks have come, two banks are going to come, but one ING Vysya has disappeared. It keeps on happening. Some banks come and some banks go, we are not going to change our strategy, let them come, it will take them at least 12-18 months to kind of get their feet wet, there will be a lot of process and system items that they have to fix before things can go downstream. So, we will wait. As far as we are concerned, there is enough market in the Self-Employed segment. We have built up capacity, we are pursuing. Nothing indicates to me that our sales force will get impacted, but yes, when it comes on board, if there is any competitive challenge that comes up, we will definitely rework our strategy and see how we can counter that.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: A few questions: One is if you can explain in terms of what the DSA compensation and how is the DSA compensation model change post the removal of prepayment penalty, if you can just broadly explain, would it vary across banks to banks and could be a meaningful variation, what is the process fee that we charge typically?

Murali M. Natrajan: Let me put it this way: We use something called "Connectors." We try and ensure that at least 30% of our Loans are originated by branches and not by connectors. That is #1. #2, we try to make sure that no connector goes beyond a particular contribution in a month, because then they become too strong in terms of bargaining power, we do not want that. So, what we do is, for example, we will limit, say if you are originating Rs.10 crores in a city, so like I said, 30% let us say come from branch, balance Rs.7 crores, we would say that not more than

10% can come from any one particular connector, so that we have multiple connectors so that our volumes do not get impacted in case they try to move to another bank or something. Third is we try to have a tiered approach to the connectors such that there is even after charging a fee of say 25 basis points or 50 basis points or 70 basis points, depending upon the customer segment, you are left with some balance in fee for taking care of your own sales cost. And the fourth point, I would like to mention is that in our case, the productivity of our sales team is lower than other banks because we just want the connector to give us the lead, we will do the rest of the work in terms of documentation, meeting the customer, completing the file, credit check, all that, we do not allow the connector to do the file and all these things. That is all done by our own sales team because we want to have a direct connect with a customer. So, in such situations, the cost paid by us is slightly lower, because we are doing all the paper work. So, different models exist out there. Large ticket sizes, normally, customer does not pay big fees, like he will pay only say 50 basis points, but connector will demand 1.5% also, connectors who would demand 1.5-2% and all. We do not get into those kind of deals. It is a very complex world out there. I am not so sure in a short call like this one can do. I have been dealing with DSAs and all since 1989 or 1990 when we first started the concept of DSAs in Citibank. The whole concept of the name DSA itself was given by Citibank and started by Citibank those days. Again, it is a rainbow; there are so many colors, different structures, so many things happen, but one thing I can tell you is that since the prepayment penalty has gone, actually speaking, the one entity that has gained in this entirely is DSAs.

Jigar Valia: Great that was a good initial background, probably I would be glad to discuss offline. Secondly, just very broadly for the rest of the businesses, can you give what is the percentage that is self-originated?

Murali M. Natrajan: Almost entire business on Agri inclusive banking is self-originated. Entire business in Corporate is self-originated. SME, MSME: Much of the business is originated by branch, a small portion comes from

connector. In Mortgages, almost 30-35% comes I think from branches, the balance from Connectors. We have our own sales force in everywhere, like I explained to you, Connector can only refer, we do entire work after that.

Jigar Valia: What is the duration for Mortgages?

Murali M. Natrajan: Effective duration what we have seen is only 7-8 years, LAP also same; 7-8 years, sometimes it can be even 4-years, but average 7-8 years people pay off. The loan that we first started giving in 2009 and all, which was a 15-year loan, already a lot of it is repaid.

Jigar Valia: On the Shipyard account, you mentioned that we have hard collateral. This hard collateral would be real estate or it could be machineries and all?

Murali M. Natrajan: Real estate and some equity shares also we are holding....

Jigar Valia: Monetization can be faster since you already initiated...?

Murali M. Natrajan: In our country, monetization takes time. These companies are also very rich. So they can drag the court process quite long. That is the whole problem with our structure. So whatever it is, I think over time we are confident of bringing the customer to a negotiation point.

Jigar Valia: On the sale to Arcil Rs.35 crores which is a net NPA provided, and of which we have received Rs.5 crores cash, if you can just broadly explain the accounting, how much you would have made a further provision of Rs.15 crores or you would have made a further provision of Rs.30 crores?

Murali M. Natrajan: First of all, we got Rs.4 crores and Rs.16 crores is SR, because 20%, normally, they are supposed to pay 15%, but we have been able to negotiate Rs.20 crores because we have gone through the whole pool very carefully with them and they believe that Rs.20 crores is a decent number for this.

Jigar Valia: The net NPA was Rs.35 crores on this account?

Murali M. Natrajan: Reserve Bank of India allows any Arcil sale up to 2015 March, can be amortized over a period of 8-quarters, we will amortize difference over a period of 8-quarters.

Jigar Valia: So Rs.35 crores minus Rs.4 crores, Rs.31 crores over a period of 8-quarters?

Murali M. Natrajan: Not Rs.31 crores, Rs.20 crores also we have got no.

Jigar Valia: On SR, we do not have to provide?

Murali M. Natrajan: But SR will be valued over a period of I think every 6-months or so, but think about it like this... actually it does not matter, if you have a net NPA, you have to keep providing those NPAs unless you fully recover even in normal course of business. So there is no difference.

Jigar Valia: After FY15, does it change? Then there is no 8-quarter provisioning. You will have to provide it upfront.

Murali M. Natrajan: I believe that rule is quite useful because if you have a net NPA, you are providing those NPA over a period of time 15%, 25%. So why should it change just because it has been shifted to Arcil? That is my view. But, at the moment, it is valid only up to 31st March sales.

Moderator: Thank you. The last question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Just a quick question on the Corporate book: Could you provide some sense on the rating profile of that book?

Murali M. Natrajan: That is not publicly disclosed, but we have across 'triple-A, double-A' all these are there. I do not have the exact number, but we have from very large triple-A rated Corporates to mid-size SMEs. That rating profile nothing much have changed in the last at least 3-years or so. Where you downgrade obviously it becomes 'D'.

I think we will take other questions by mail, okay.

Thanks a lot for your support and participation. Happy to take any other questions that maybe there, please send a mail to Gaurav or Bharat and we will be happy to get back to you. Talk to you in next quarter.

Moderator:

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