DCB BANK

"Development Credit Bank Limited Conference Call"

October 13, 2011

MODERATORS **MR. MURALI M NATRAJAN – MD & CEO, DEVELOPMENT CREDIT BANK**
MR. BHARAT SAMPAT – CHIEF FINANCIAL OFFICER, DEVELOPMENT CREDIT BANK
MR. RAJESH VERMA – HEAD – TREASURY AND CORPORATE BANKING, DEVELOPMENT CREDIT BANK
MS. MEGHANA RAO – HEAD - INVESTOR RELATIONS, DEVELOPMENT CREDIT BANK

Moderator Ladies and gentlemen, good day and welcome to the Q2 FY12 conference call hosted by Development Credit Bank. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Murali M Natrajan - MD and CEO of DCB Bank, thank you and over to you sir.

Murali Natrajan Thank you, good afternoon ladies and gentlemen. Welcome to the second quarter FY 2012 analyst call of DCB Bank. My name is Murali, I am the CEO of the Bank. I am joined by Bharat Sampat – CFO, Meghana – Head of Investor Relations, Rajesh Verma – Head of Treasury and Corporate Banking. In the next ten minutes or so I will update about the results and then we will open for questions.

DCB Bank delivered profits of Rs. 13.3 crores this quarter. Last year second quarter (Q2 FY 2010-11) it was Rs. 4.8 crores, it was the same quarter when we actually came back to profits. Last quarter of this year (Q1 FY 2011-12) it was Rs. 8.83 crores, so we are making steady progress. In fact, the first half year profits are already Rs. 22.16 crores which is slightly more than the full year last year (FY 2011) profit. As compared to last year (September 30, 2010) same time Deposits have grown by 14%, however if you compare it with March 31, 2011, that is the last six months, Deposits have grown by 11.6%. CASA ratio is at 33.2%; our aim has been to keep CASA above 30%. In a rising interest rate it is a tough situation to hold on to large Retail CASA accounts, while we are doing very well as compared to last year on CASA new acquisitions, we do have some challenges in terms of retaining large balances, but that is somewhat work in progress. As compared to last year (September 30, 2010) Advances growth is 12.4%, but flat in comparison to March 31, 2011. If you all have received our investor presentation, it can noted on page 17, we are making good progress on the chosen business lines which is the MSME, SME, Retail Mortgages, CASA Retail Term Deposits. AIB is a seasonal business, so there would be a fall in the first six months and then in the next six months, of course, we will build it back as we have to achieve our priority lending target. We are very selective in Corporate Loans therefore, it is flat or slightly reduced, we will have marginal growth this year.

Retail Deposits still make up for 80% of the total Deposits. Our aim was to keep Retail Deposits above 70% to have stability for a small bank like us and we have been successful in doing so. We did receive ten branch licenses and we are in the process of installing those branches. The existing branches continue to increase their CASA per branch and that is also given in the investor presentation.

Gross NPA is at 5.75%, a slight decline and Net NPA is at 0.97%. We are seeing steady improvement in retail recoveries, that is in Personal Loans and Commercial Vehicles, we are proactively exiting accounts which under threat, you know, tough situations seems to be somewhat like a marginal credit, so those proactive actions are helping us to keep our Gross

NPA at a steady level. Operating income was highest in the last six quarters, primarily driven by interest income, on account of better margins and higher book size. Operating cost reflects our investments in frontline CASA capacity, which I explained that since December of last year we have been steadily adding people in our branches to bring in more new CASA accounts. And those costs are frontloaded, which means that we have put in this cost and you know, we need to wait for the productivity to pick up of these sales people.

Operating profit is higher than last quarter, but somewhat flat primarily due to cost investments. Provisions are much lower than last year (Q2 FY 2011) and similar to the last quarter (Q1 FY 2012). NIMs have improved, that is primarily on account of the base rate increases and also the portfolio mix. But unless we increase the base rate again it may be very difficult to sustain these NIMs, because we are seeing the cost of funds increasing. But, I think the cost of fund increase will stabilize somewhere in the month of February or March when most of the existing Retail Term Deposit could get re-priced. From there on I hope that the cost funds starts to come off.

Capital adequacy is strong at 13.1%, with Tier I at 11.23%. On the whole given a difficult situation, we are satisfied with our second quarter performance. There are of course, many work in progress items, especially further improvement in CASA and improvement in costing income ratio, improving productivity of the frontline staff and so on. But, we are confident that we will be able to do a good job this year. That is what I wanted to share with you, I am open to questions.

Moderator Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Manish Oswal from KR Choksey Shares. Please go ahead.

Manish Oswal First of all congratulations on good set of numbers sir. NIM increased by 31 basis point quarter on quarter, I believe largely because of repricing of advance book, so what is the outlook for the NIM at a sustainable level in medium term, especially for this fiscal and next fiscal?

Murali Natrajan Every time I give a conservative estimate on NIMs, somewhere we seem to be doing a better job than what we thought we would do. See, what is happening is that we have done re-pricing by increasing Base rate

Manish Oswal Right.

Murali Natrajan And at this moment I have not seen (based on the last RBI circular) any changes being made by them and most of the banks are also not making changes. We also have to be careful that we do not increase the interest rates such that the customers have difficulty, especially the SME/MSME customers, in repaying their advances. So, I do not think the 3.4% is sustainable, I would possibly go with 3.1% - 3.2% type of NIM.

Manish Oswal Okay. And secondly core income is rather flat, so wanted to know how it would shape up in the next second half of the current fiscal because that is the concern?

Murali Natrajan What income you are saying?

Manish Oswal Core income, I am talking about the core income break up as given in the presentation.

Murali Natrajan See, other income, the moving parts are like this - one of the biggest other income for us is Bancassurance trading, the other is Trade, the third used to be FX and fourth used to be SLR credit. SLR trading incomes are almost nothing because of the continual increase in rate increase. FX has been very volatile in the last month or two months, so we have been keeping away having any position on that. And as far as Bancassurance is concerned you would remember that last year a lot of new regulations came to IRDA and whole industry is going through a adjustments and so were we, while we have more than hundred RMs who are certified for selling insurance, we find that because of the margin deduction, while the volumes are going up the income remains at the same level. We are seeing good progress on our Trade performance, especially in the SME, as we increase our SME and Micro SME we are seeing improvement in the rates. So, I do think that our second half on other income should be better than the first half.

Manish Oswal Specifically I am looking for that growth line in the commission income and brokerages line item, so how that will shape up actually.

Murali Natrajan Yeah, difficult for me to give you any specific item or like that, all I can say is that it is....

Manish Oswal Because it is related to either from, loan growth or transactions.

Murali Natrajan It will relate to largely related to loan growth in SME and Micro SME. And because you do not make too much of money on other income through Mortgages, you do processing fee as part of income. Of course, processing fee comes even in SME and Micro SME. There is a lot of competition in processing fees, banks cut their processing fee charges so therefore while in entry level sometimes the rate may be a challenge.

Manish Oswal And sir, actually the provision figure is almost flat, what is your assessment of overall quality of book, given the tough macro environment, so.....

Murali Natrajan I do not have too many concerns on my Mortgage or SME books, okay.

Manish Oswal Okay.

Murali Natrajan I think it is okay, we have some challenges, continuing challenges in our Corporate book, although Corporate is very selective the way we do it, yet we have some challenges. The next two quarters we have to really work hard to make sure that we do a good job on maintaining or reducing our gross NPA. But as far as SME and Mortgage is concerned, I have very-very less challenges on that.

Manish Oswal What is the total branch network as on September 30th.

Murali Natrajan Branch network is 82, we have 10 more branches which we are in the process of implementing

Manish Oswal How much sir?

Murali Natrajan 10 more branches which should come by March.

Manish Oswal Okay, lastly what is your full year loan growth target, could you share some numbers?

Murali Natrajan This year we are going to be very muted, I do not think we are even worrying about our loan growth this year, because the environment is such that the last thing you want to do is end up picking up loans that are not wanted by other banks. So, I would say that if we are able to achieve about 16% to 17% that would be quite a good.

Manish Oswal Any specific strategy on CASA front, CASA because in the last few quarter you were targeting CASA aggressively. So, any specific number you would like to share with us?

Murali Natrajan See, our aim is to keep CASA ratio at 30% or above and grow CASA 20% every year, right. You can see that we have grown CASA in the last two years with the same number of branches. See, the strategy is the new products, increasing distribution, putting a score card in place with branches to pursue CASA as the main item and those have been working for us so far. We are introducing more new products now in this quarter, so that we can tab a better segment. So, it is a combination of distribution and products.

Manish Oswal Okay, and a couple of housekeeping questions. Can I have the risk rated number sir, as of September?

Murali Natrajan Bharat, can you do that?

Bharat Sampat Yeah, the risk weighted asset as of September is Rs. 4962 crores.

Manish Oswal And sir, what is the duration of AFS book sir?

Bharat Sampat AFS is a very small book, Manish.

Rajesh Verma 0.56.

Manish Oswal 0.56, okay sir. Thank you very much sir, all the best for the next quarter.

Murali Natrajan Yeah, thanks.

Moderator Thank you. The next question is from the line of Abhishek Kothari from Way2Wealth Securities. Please go ahead.

Abhishek Kothari Congrats on your number sir.

Abhishek Kothari You were targeting about 16 % to 17% loan growth and if I see right now, you have year to date, a loan growth of hardly 1%, in comparison to your deposit growth of 11.3%. So, which segment are you really targeting or pushing for this year

Murali Natrajan First of all you take a look at page 17, I think of your investor presentation if you have that in front of you. You will see that AIB, that is Agri & Inclusive Banking would have dropped to something like 400 crores. That itself will go up by another 300 - 400 crore because we have to meet our priority sector lending. Then, obviously we have built up some momentum in our SME, Micro SME. If you see June to September it would have grown by almost 150 crores of SME and Micro SME. That would be another area where we would pick up speed. And Mortgage we are doing quite well.

Abhishek Kothari Yeah, Mortgage has been increasing.

Murali Natrajan Yeah, it is increasing, but I think in the next two quarters it would be somewhat flat because there is definitely a slow-down in Mortgage. So, our SME, Micro SME would pick up more speed. So, we should be able to grow those three books in the next 2 quarter. I mean if you see last year also we would have grown exactly like this. The first two quarters would have been somewhat flat and then the next two quarters would have picked up.

Abhishek Kothari So, mainly you are targeting SME and this Agri portfolio of 400 crores.

Murali Natrajan SME, Mortgages, and Agri portfolio would be a mandatory thing that we will have to do, in order to make up for our agriculture lending.

Abhishek Kothari Okay, and can I have the NPA movement for the quarter?

Bharat Sampat NPA movement, gross NPA start of quarter is 262 crores. Slippages in additions to existing NPA is 11 crores. Recoveries and upgrades are 12 crores and write-off 1 crore.

Abhishek Kothari Write-off is 1 crore?

Bharat Sampat That is mainly on retail assets, retail compromises.

Abhishek Kothari Write-off is 1 crore, right?

Bharat Sampat Yes.

Abhishek Kothari Okay, fine. That is it from my side, thank you.

Moderator Thank you. The next question is from the line of Mani Arora from ICICI Securities. Please go ahead.

Mani Arora Hi sir, I have three questions. Firstly on the Mortgage portfolio have been, it is a sharp rise of 22% sequentially. So, have you acquired the portfolio or is it fully sourced?

Murali Natrajan About Rs. 150 – Rs. 200 crores is acquired, and the balance is sourced by us.

Mani Arora Alright, and last quarter you told us that around, there were slippages to the tune of Rs. 35 crores, is it couple of big corporate accounts turning NPLs, how is the, have you been able to recover them or have they become NPA?

Murali Natrajan It takes time Mani, Corporate accounts are operated in the most indiscipline category in our country, right? So, it would take time to recover those, one of their loan is in CDRs, so we are hoping that the CDR will get completed in this quarter. It was supposed to be completed in the quarter that went by, however, it did not happen. So, hopefully this quarter it will happen. The other one, the recovery efforts are on. I do not think we have had any major slippages this quarter. But the Corporate account slippages can happen very suddenly in our country at least that is what we have seen.

Mani Arora Whatever incremental lending the bank has done in the past two years, do you see any trouble or any stress on those accounts?

Murali Natrajan Let me answer it like this - I do not see any stress in Mortgages but I will like to say that if the interest rates were to increase by say another 75 to 100 basis points, then some part of the Mortgage will come under the stress. But, historically Mortgages in our country have performed very well, so it should not be a problem. As far as SME and Micro SME is concerned we have a portfolio management team and early warning signals team. So, what we do is, when we see that there is a stress, SME can come under stress for various reasons - from family disputes, partnership trouble, diversion of money into some Real Estate, I mean, it can be any item, it does not have to be necessarily some slow-down in economy that will cause the turn of stuff, right? So, what we do is, we exit those accounts proactively in order to keep our NPA in control. As far as Corporate accounts are concerned I do see one or two stress accounts in our portfolio. We are dealing with it and we are hoping that by March we would be able to kind of, you know, close it out.

Mani Arora Okay sir, what is your Micro Finance Exposure as of now?

Murali Natrajan Micro Finance Exposure is very limited, in fact, we do not have any exposure in Andhra Pradesh. I think I mentioned it in my previous call as well. Bharat, can you just remind me on what are the high, probably less than Rs. 100 crores it should be.

Bharat Sampat Rs. 79 crores net.

Murali Natrajan Yeah, and we have in a very selective basis re-started lending through micro finance. Very, very selectively. Not to Andhra Pradesh as of now, but across the country. We have put more stringent conditions, for example we are not lending to MFIs who are not able to attract capital, for example, okay. So, our micro finance portfolio is intact and we did not lose much money in Andhra Pradesh, I think probably we lost may be 1.5 or 2 crores, something like that, nothing much.

Mani Arora Okay, sir about re-pricing of our advances what will be the average maturity of your loan book now?

Murali Natrajan See, most of Mortgage book would be above 5 years. SME, Micro SME almost 70% - 80% of them are CC type of a loan, CC or bills type of this thing, technically it is for one year, but they are all perpetual, we do renew them if they are good. Similarly Corporate would be 50%, would be short tenure the balance would be CC type of portfolios.

Mani Arora Okay, sir another question would be the breakup of your provisions.

Murali Natrajan Provision break up, Bharat you have?

Bharat Sampat What do you mean by break up Mani?

Mani Arora What would be the provision for NPI restructured assets, if any?

Murali Natrajan Restructured portfolio I think, is probably four accounts madam.

Bharat Sampat Three accounts.

Murali Natrajan Three accounts, yeah....

Bharat Sampat Three accounts, restructured portfolio are three accounts – Standard.

Murali Natrajan I think the way I looked at it, retail provisions this year was negative in the sense that, recoveries were more than provisions, and in Corporate we took more provisions for some existing NPAs. So, largely you can say that we have made provisions in this quarter for existing NPAs in Corporate and probably may be one SME account or something.

Mani Arora Okay, sir the last question would be on your capital raising plans. Could you throw some light on that?

Murali Natrajan Yeah, we are working on it and it is a pretty difficult market, we have been in touch with some investors who have shown some keenness. However, the market has been not supportive, because the prices have been volatile and there have been a state of bad news here and there, sometimes globally, sometimes within India. So, yeah, the intention is to raise capital before March, of course, as soon as possible, but before March. But, we still are looking at raising at least 120 - 150 crores and then raise the further capital after, say about 18 months. We have all the approvals in place, but it is a matter of timing.

Mani Arora Okay, thank you so much sir.

Murali Natrajan Yeah.

Moderator Thank you. The next question is from the line of Jignesh Shial from HSBC. Please go ahead.

Jignesh Shial Good evening sir. Just a couple of questions. Firstly about your borrowings, now if I see it up, it has suddenly spiked up in the last quarter of 2011 (Q4 FY 2011). It reached up to Rs. 8600 crore around, then it had fallen again and now its at Rs. 8464 crore. So, how exactly you are planning on this front, as I am seeing it up, it probably I might be wrong, but your book sizes also, I mean your advances is also accordingly growing up in that case. So, how exactly is your borrowing now panning out. So, what is your target?

Murali Natrajan Our credit deposit ratio must be less than 70%, probably 68% or 69% total.

Jignesh Shial Okay.

Murali Natrajan And Rajesh can tell you as to what is our Borrowing and we do not depend on Borrowings to grow our Advances book. Probably we did that a little bit in March 2011 when we are closing the previous year, but then we made it up with deposits immediately afterwards in the Q1 FY 2012. Rajesh, I think you can throw some light on that.

Rajesh Verma Yeah, we have line of credit with other banks. We sometimes borrow from them to meet our immediate requirements, but we pay them off. So, it is not a core borrowing, we borrow from banks and financial institutions to meet our total requirement, and whenever the requirements are met, we just pay them off.

Murali Natrajan For example, we want to raise Rs. 100 crores now, we would probably do a borrowing and then immediately replace it with deposits. If you see, 80% of our Deposits are Retail Deposits including CASA, so borrowing dependency is a very, what do you call, as opportunistic.

Jignesh Shial Yeah, that is actually, you know, that is the mindset that I had when I had seen the certain rise in the last quarter, and that was what I was expecting that over a period of now in the next six months, I mean in this six months you might have replaced it with the deposit. But now you are borrowings still looks the similar kind of a number. So, that is why wanted to know your target for the next six months in that case? Would you be replacing it with the Deposit or it would be remaining in the similar level, something like that?

Murali Natrajan Rajesh, do you want to answer that?

Rajesh Verma Actually, see it depends on what kind of growth that we are going to achieve. Normally what we do is that, we maintain certain ratios, of like Bulk Deposit, Retail Deposit and Borrowings. And we will follow the same ratio. We have got large lines unutilized at the moment, and we borrow from the Banks but we are not deliberately borrowing at the moment because there is no such need at the moment. So, in case in future if some kind of requirement comes then we will borrow, otherwise there would not be any requirement.

Jignesh Shial The main strategy is to depend on Retail Deposits and..

Murali Natrajan Yes, you will find that we will always be above 70%, in fact, in the last six months or even two years you would have seen above 80% of our Deposits being Retail. So we will continue to replace some of the borrowing with Retail Deposits.

Jignesh Shial Just to know, what would be your cost for these borrowings, the average cost.

Rajesh Verma Market cost over about 7% - nothing comes steep in this. So we will have to balance it, some will come at 9% - 9.5% some will come at 8. It all depends on the range. Very hard to say what the rate is so that's why I said it's very opportunistic.

Jignesh Shial Okay that's right. Now secondly your cost to income has actually declined. But actually your operating cost is increasing. The operating cost if you see it YoY, right now your operating cost is almost what you can say increased by around 17%. So what's the cost income ratio now you guys are expecting for the full year?

Murali Natrajan Let me explain it like this, because I think I have explained this in the previous call, okay. First of all we are deliberately investing behind front line staff in branches for stepping up our CASA growth. Those kind of staff take time to perform. I mean like when you hire new staff it is not that on day 1 they start performing. It takes time for them to perform. Some take like 6 months to perform. So there is a whole team working on making this people productive in terms of the quality as wells the quantity of accounts they are bringing to the Bank. So these costs are front loaded. Now why are we incurring this cost? Last year and previous year our provisions were very high. I didn't have any headroom at all in the P&L to invest in these cost. Now that the provisions are coming off, we are putting these costs. I mean, I have added almost like 400 people in the last 6 months since may be in December 2010 or something like that, okay. Now the idea is that as we step up our CASA and as you increase the Balance Sheet the cost income ratio should come down. We are going to be essentially a Retail and SME centric bank. Therefore, I don't expect our cost income ratio in a steady state to be less than 55%. If I did a lot of huge Corporate Banking then obviously the cost income ratio would be even lower. But I don't expect us to be less than 55%. The aim is to bring the 74% to below 60% in two years' time. And we have created a roadmap of working on this. You will notice that mostly staff cost is what increasing, the operating costs are pretty much in control. Because there is a lot of work going on in improving the operating cost as well. So I expect the cost to be steady for the next two quarter. We don't have any plans to put in more cost. Even these 10 branches that we implement, we will be able to self-fund it through some of the sales that we have. I think we should be able to achieve that.

Jignesh Shial Okay. So this is fine. Just a quick question on your Advances side. The agriculture portfolio is actually in the six months has almost reduced by half. So have you sold part of your books and that is the reason why......

Murali Natrajan That is the structure of these products. Most of it is short tenor products, less than 1 year type of products. So every year you will notice that it will drop by almost 40%-50% in the first six months and start building up in the next 6 months. And sometimes these are all low yield. So therefore there is no point in having long-term book on low yield products.

Jignesh Shial Okay. So if there is nothing on loan kind of book that you have sold or something like that?

Murali Natrajan No we have not sold any book. They are all normal run off.

Jignesh Shial Okay that's right. And since your YoY Advance growth has remained 12% and so what would be the industry average, I mean, would you be able to meet by the industry average for the full year?

Murali Natrajan I don't worry about that. This is a bank which has been in challenging situation for two years. So I don't worry too much about the industry average and all. We are just perusing our strategy of growing SME, Micro SME, Retail Mortgages and CASA. So we should be able to achieve 16% to 17% growth of Advances this year. In the kind of tough situation the industry is in, I don't think I want to be too aggressive on Advances growth.

Jignesh Shial Honestly, that's the correct strategy and that's why I'm actually looking for it. The consolidation is the right strategy in this kind of environment. Exactly that's the reason I have questioned. Just on the last part, your other income is the only part which is actually worrying now. Your other fee based income and all. That's actually reducing. And you are saying you are already increasing your work force to cater that kind of momentum. So what's your target then? A person has already this asked question, but still I want to understand how you actually looking for your other income part.

Murali Natrajan Okay. May be in a slightly micro manner I can explain. Every RM whether he is in SME, Micro SME or branches, they have an Advances or Deposit target as well a fee target. And the fee target would consist typically of Bancassurance, Trade, FX, General Insurance or Wealth Management depends on where that RM is. So depends on that there will be specific target for all this. And we don't have any gaps in products in terms of any of these whether it is Trade or wealth management or so on. So what has happened is while we have increased our intensity on other income because of like for example margin compression in Bancassurance. While we are doing more volumes still the income has come down primarily because the margins have come down. Similarly in Ttrade what has happened is the SME and the Retail Trade has gone up substantially but since we, as our strategy, exited some of the Corporate accounts, those kind of Trade incomes have vanished. We have not had any luck of course. The market has been like the where interest rates are going up. There is no SLR trading income at all. In fact we are lucky that we have not lost any money on that. So the strategies are in place, the effort is in place, however, the growth has not been pretty good. But I'm confident, the kind of effort that we are putting in. We should see improvement in the next six months.

Jignesh Shial Okay, that's it from my side. Thanks a lot.

Moderator Thank you. The next question is from the line of Elizabeth John from CRISIL. Please go ahead.

Elizabeth John Good evening sir, congratulations on the good set of numbers.

Murali Natrajan Hi Elizabeth.

Elizabeth John Just one part, I wanted to understand on the Mortgages, how was the mix now moving in LAP and home loans?

Murali Natrajan Bharat can help me. I think it will be about 50-50. I consider loan against property as kind of installment loan products for the MSME segment because we do very moderate LTV, probably 60% or 65% LTV. The loan against property is based on the income and cash flow generation of the customer and not on the property value. Property value is a limited, it is not like say somebody has a Rs. 10 crores property doesn’t mean that we will immediately give him Rs. 7 crores. If they can support a 1 crores, say cash only that much we will give him as loan. So always most 50% of that would be loan against property through MSME segment.

Elizabeth John Right. And one more point I wanted to understand, if you see the mix, we were always talking about a balance diversified mix. Definitely we have diversified but right now for this quarter, Retail Banking still has a huge proportion to the total loan book. Is this because Agri has reduced and going forward again it will be a balance mix towards the end of the quarter?

Murali Natrajan See Retail is a very big classification. So you if have to look at it essentially we have about Approximately Rs. 1500 crores of Mortgage book. That is showing up as that 30% odd of the book primarily because you have Agri which has got dropped to something like Rs. 400 crores and even Corporate has dropped to something like Rs. 950 crore or so. So that is the effect of it. Our go-forward strategy is that 40% of our book should be in SME, Micro SME and about 25% to 28% should be in Mortgages. The rest should be in AIB and Corporate. That's the mix that we are working towards. And secured, in the sense like the SME, Micro SME all are secured

Elizabeth John Sure and you mentioned that, we have done investments in the front lines in terms of CASA growth and all that. When we will actually start reaping the benefits?

Murali Natrajan It takes time, I would say another 6 months it will take. We have a scorecard in place. We have analytics in place to measure how much time does an RM takes to perform at the level that we expect him to perform. We have measurement in place in terms of what is the average ticket size they have to bring, what is the quality of the account they have to bring and so on. So we expanded this rapidly between December and say June I think. And I think by March of next year we should see the benefits of this.

Elizabeth John Okay. And the last question is on related to the taxation. I understand that the tax was nil for the first two quarters that's primarily because of the losses that we had. But in Q2 FY11 also we had actually done a tax. So, just wanted to understand that part. That's in first half there was not tax and earlier we pay tax.

Murali Natrajan Yeah, Bharat will take that question.

Bharat Sampat Earlier years we had created deferred tax asset on the provisions that we were making and in view of past losses we have stopped creating further deferred tax asset three years back and as and when the underlying provisions were reversing out, we have been reversing out the corresponding deferred tax assets. And in last March (2011) entire balance of deferred tax assets has got reversed out and presently we are not carrying any deferred tax asset on the book. So there is nothing more to write-off. Past losses allow us to have zero tax provision on normal book and under Minimum Alternate Tax also we are having zero tax liability at this point.

Murali Natrajan So, what we will do Elizabeth is that, the MAT will not apply to us simply because we would moderate our write-offs to save on MAT and the past losses would allow us not to have any tax liability in totality. Okay, that is one of the reasons why our gross NPA continues to be high. If you see our gross NPA we have approximately Rs. 120 crores of Personal Loan, which is fully provided. We can simply write that off and reduce our gross NPA but that would not be very prudent from a tax planning point of view.

Elizabeth John Okay. Great thanks.

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

Subramanium P S Good afternoon every one. My question few data keeping questions. This Mortgages that you disclosed, this includes LAP also right?

Murali Natrajan Yes.

Subramanium P S Okay. Secondly on this taxation, how much would be the unabsorbed losses currently sir?

Murali Natrajan Bharat will you be able to say that?

Bharat Sampat Quite a lot, Rs. 350 crores.

Subramanium P S So is this safe to assume that for the full year the taxation would be effectively zero?

Bharat Sampat Yes, it is safe to assume.

Murali Natrajan It is probably safe to assume that we may not pay tax for at least one or two years unless the tax laws change and we are not smart enough to manage our taxes.

Subramanium P S Okay sir right. The other question sir on the yields that have moved up sharply. Is it just a function of your advances mix changing and secondly there is scope for you to pass on some more rating fees if there are any?

Murali Natrajan We actually do analysis of our customer base. We have a good analytic team. So we do analysis of customer base to see whether we can pass on increases. I can pretty much tell you even from industry part, it will be tough to pass on more increases. Probably another 50 basis point is what, that too not to the entire portfolio, probably part of the portfolio can bear other 50 basis points or so. That's why a caution on the NIMs because if there is going to be further increase in cost of funds, which is any way happening it will not be easy to pass on to customers. But the yield that you see is a change of product mix and then we have been very segmented in our approach in terms of pricing our customers. So that is the reason you find a better yield.

Subramanium P S And would there also be a seasonality in your yields? Should one expect at the fourth quarter, typically should have lower yields because of you again bunching on this low yielding portfolio?

Murali Natrajan When the priority sector builds up in the next two quarters, obviously the yields will have some challenge. There is no doubt.

Subramanium P S So this NIM is not...

Murali Natrajan Yeah that's why said I would probably put at a 3.1% to 3.2%.

Subramanium P S Okay. Sir the other question is on this cost-to-income. Intuitively I think what one would think is that, for you the actually see the gains of better cost-to-income you need to scale up pretty fast. And you are saying that you wouldn't want to go beyond 16%-17% this year. And you are also saying that in two years you want to bring down that cost-to-income to below 60%. So just wanted to know what are your thoughts how do you actually plan to do that?

Murali Natrajan See the last thing we want to do of the Bank is to try and grow very fast and get back into the kind of trouble that we have got in the previous times. I don't think, neither market nor the regulatory will give us a chance if we create some problem with the bank again. So we are very sensitive about that. So that's why we have to be extremely careful on how we grow the bank. That's one. The issue of cost-to-income for us is one of scale. There is no doubt about it. It's not about some wastage anything like that. It is about scale. If you see last couple of years, we have brought down the cost by almost Rs. 40 crores and then we are going back there, which means we have recycled the whole cost, created new business with the existing cost all that we have done in the last two years or so. My thoughts are like this, on Advances book I definitely don't want to peruse anything aggressive this particular year. I will wait for environment to improve before becoming much more faster in growing advances. What we will do is, we will actually be working to make the existing cost produce more on a productivity basis. We will actually try and improve the productivity of the front line whether it be in advances side or on the deposit side that is one clear strategy that is emerging. We are also looking at certain cost reduction in our operating costs to fund for our new branch expansion. So that's how we planned to reduce the cost-to-income ratio. Wherever possible we will of course continue to invest in front line stocks where we see opportunities. So it is one of the toughest challenges that we are dealing with our bank. Growing, at the same time not letting the cost get out of control too much.

Subramanium P S So as I understand you would try to improve the top-line that is without growing your balance sheet. So either that would mean…..

Murali Natrajan Of course we will be increasing the Balance Sheet. But advances will not grow by more than 17%-18%. You cannot increase the top-line without growing the Balance Sheet.

Subramanium P S That is if you could get a better set of CASA, your net interest income could grow. When I say top-line I meant net interest income and other income.

Murali Natrajan I mean the Balance Sheet growth, you see that we have consistently grown Balance Sheet in the last two years, after reaching a bottom in some September 2009 or somewhere like that. So growing the Balance Sheet is obviously the most important one. But the speed at which you grow our Advances will depend upon the environment. Under current environment, we are not very not confident that we should speed up any further.

Subramanium P S Okay thanks. That answers my questions.

Moderator Thank you. The next question is from the line of Darpin Shah from Almondz Global Securities. Please go ahead.

Darpin Shah First of all congratulations of good set our number.

Murali Natrajan Thanks.

Darpin Shah Sir last quarter you had mentioned that there will be some kind of restructuring which is possible in Q2 FY 2012 to happen. So what's the status there?

Murali Natrajan Restructuring of what?

Darpin Shah If I recollect correctly, you have couple accounts especially in MFI segment which you had mentioned that there will be restructuring and also on the other part. So although you have mentioned a Rs.10 crores of restructuring book is there, what changed or what has happened to those accounts which you had mentioned in last quarter?

Murali Natrajan Somewhere I'm not able to recall if I had mentioned to about restructure, my apologies. But I can tell you that we are extremely selective on restructuring of accounts. We actually have only about three accounts.

Bharat Sampat Three accounts with Rs.10 crores.

Murali Natrajan Yeah that's about it and I mean, Bharat can say what is happening on that account. Because the restructuring is usually a postponement of the problem so we are very selective about restructuring and MFI account, one account that I think Trident Microfinance you would have restructured, that's Rs. 1 crores restructuring would have happened this quarter question if I'm not mistaken. Right?

Bharat Sampat Correct.

Murali Natrajan Bharat, you can say.

Bharat Sampat Correct, Trident Rs. 83 lakhs.

Murali Natrajan **Rs.** 83 lakhs for the restructure so nothing much in MFI. MFI, Andhra Pradesh was only problem where we avoided exposure. So we were quite okay in Andhra Pradesh. So rest of the countries MFI was in decent shape, nothing to worry about.

Darpin Shah And sir just a small housekeeping question, how much excess SLR do you have or if there we have breached the threshold?

Murali Natrajan Rajesh would you want to take that?

Rajesh Verma We have around Rs. 400 crores of excess SLR.

Darpin Shah Rs. 4 crores?

Rajesh Verma Rs. 400 crores now.

Darpin Shah 400 crores excess SLR, okay.

Moderator Sure. We have the next question from the line of Venkata Rajesh from Premji Investment. Please go ahead.

Venkata Rajesh Good evening. My question is actually pertaining to the asset quality. You mentioned that Corporate sector is actually is seeing more stress for you. So which segments in the corporate, I mean, any particular sector you are targeting?

Murali Natrajan No. See I will tell you why we worry about Corporate. Because if I have a Rs. 2 crores SME which goes to NPA, given our operating profit which is yet very small, we still can deal with those kind of NPAs. But if you have a say Rs.15 crores or Rs. 20 crores Corporate accounts that goes NPA, it is tough to deal with that given our small operating profits. That's the reason we worry about Corporate more than the rest of it. Because the rest of it anyway the portfolio quality is good. So Management not saying that we have a problem in our Corporate books. But even one or two accounts in Corporate can cause lot of pressure for a small bank like us. Okay so that's which I mean. There is nothing like a specific segment or anything, that is the problem in Corporate. But like you know once in a while suddenly one Corporate goes into CDR and then by the way we have resigned from CDR, because as a small bank we decided that we don't want to be part of CDR process. So we resigned from CDR last quarter and we decided to deal with all accounts our self directly rather than go through CDR process. So what I mean by that is one or two accounts are under some stress and that happens every quarter. So we have to manage it.

Venkata Rajesh My other question is actually on your agri portfolio what kind of NPAs do you actually see in that part of the book, I remember that you said that its actually very short term book and it turn around within six months period right?

Murali Natrajan Yeah, no major NPAs in that book. I would say hardly an NPA in that book. We have been very selective and very careful managing the portfolio quite well. So the quality of the book is pretty good. And wherever we have seen some potential NPA we have been able to do some timely exit or closer of the account. So there is no concern in that book at the moment.

Venkata Rajesh That's all from my side. Thank you.

Murali Natrajan Bharat do you want to clarify all the excess SLR again?

Bharat Sampat I think there was a miscommunication. Excess SLR as of 30th September October is Rs. 180 crores.

Murali Natrajan So Rs. 180 crores is the excess SLR not Rs. 400 crores.

Moderator Thank you. We will take the last question from Manisha Porwal from Arihant Capital. Please go ahead.

Manisha Porwal Good evening everyone. Sir I have just one question about the SME exposure. In the last con call sir, we had mentioned that we are seeing reduced utilization of limits by SME because of which there was flat growth. So I just wanted to know how is the state as of now? Because you have also mentioned that you regularly check and exit actively from such accounts. So how many such cases have we actually come across because that will give us feel of how the SME is actually performing.

Murali Natrajan See, let me put it this way. The utilization is still matter of, I won't say concern, it's not something that's exciting us because utilization are remaining at about 5% to 10% less than what you would like. Primarily what anecdotal explanations are given by SMEs that they are waiting for opportunity or they are waiting for better times or they want to expand later. That kind of explanations we get. And this doesn't apply to all SMEs. I'm talking about, generally speaking that's the kind of responses we have got so far. What happens is every month we have a portfolio reviews done by the portfolio management team. So we look at accounts that are not performing as per the strict standard that we have set internally. Like for example, how much cash on a monthly basis I need to deposit on the accounts so that we know that how much sales and churn is happening. How much I mean what kind of over limit requests are coming. There are many parameters on which we look at these accounts. If you find that there are unsatisfactory performance, we marked those accounts for exit or improvement in behavior. So if the customer improves the account behavior, obviously we will retain the account if not we will ask the customer to exit the account. So I don't know every month at least about 10-15 crores worth of SME could be exiting. And this is a part of the process that we have of grooming the portfolio.

Manisha Porwal Okay. Sir when we say exit, how does it happened. Do we take some kind of cut on the portfolio and do we account for some kind of loss there or how does it happen?

Murali Natrajan Customer moves the account to another bank that's all. He just phases off. One RTGS will come into the account and we will hand over the property documents and all the rest of it, release the charge and he goes to another bank. Finished. No cut, nothing we don't have any cut on this.

Manisha Porwal And sir, how is the fresh sanctions doing in a sense that these are the utilization of limits. But what about the new sanctions from corporate as well as SMEs?

Murali Natrajan Sanctions, I would not say that it is fantastic. Sanctions are limited. That is also because we have since April, tightened our credit criteria further given the tough environment that we are operating in. So I would say that we must be generating what about between MSME and SME about 40-50 accounts every month.

Manisha Porwal Okay has this resulted into that 16% to 17% growth target. Looking at this have we toned down or this is also one of the reasons that we have toned down our growth target to 16%-17%?

Murali Natrajan I think the 16%-17% is a combination of what might happened in our PSL and Corporate, we see slowdown in Mortgages as well. And MSME and SME we have tightened the credit criteria so therefore there has been I won't say slowdown but will be much more selective this year than probably what we were happy to do last year.

Manisha Porwal And sir small question on Tier-I. Our Tier-I has improved quarter-on-quarter. And we are not supposed to include the profits of the quarter.

Murali Natrajan We have not included the profits here. That we don't do. That will be done only after a full audit is done in the March 2012.

Manisha Porwal Sir then how has it improved from 12.8% in the previous quarter?

Murali Natrajan Why not because if you change the mix of loans, you can make more efficient use of capital. Bharat do you want to comment on it?

Bharat Sampat Risk Weighted Assets as compared to last quarter at Rs. 5032 crore has come down to Rs. 4962 crore during this quarter. So exit of any high risk weightage accounts will result in better capital floating because capital adequacy ratio is numerator as well as denominator. So this can also impact.

Murali Natrajan So for example I think in Corporate we have improved some of the weighted accounts so that would immediately improve our capital utilization.

Bharat Sampat Unrated accounts.

Murali Natrajan Reduced unrated accounts.

Manisha Porwal Okay sir thanks a lot. That's it.

Murali Natrajan Great, thanks very much ladies and gentlemen for logging into this call. If you have any further questions, please feel free to write or call me or Bharat or Meghana. We will be very happy to talk to you and till next time good bye.

Moderator Thank you very much sir. On behalf of Development Credit Bank, that concludes this conference. Thank you for joining us, you may now disconnect your lines.