DCB BANK

"Development Credit Bank Q2-FY13 Earnings Conference Call"

October 15, 2012

Management Participants:

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

Mr. Bharat Sampat – CFO, DCB Bank

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

Mr. Sridhar Seshadri – Financial Controller, DCB Bank

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

Moderator Ladies and Gentlemen, good evening and welcome to the Development Credit Bank Q2 FY13 Earnings Conference Call. Joining us on the call today is, Mr. Murali M. Natrajan – MD and CEO, DCB Bank and Mr. Bharat Sampat – CFO, DCB 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 the conference call you may signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Mr. Murali M. Natrajan, thank you and over to you sir.

Murali M. Natrajan Thank you. Good evening everyone and welcome to Development Credit Bank Q2 FY13 Investor Conference Call. I am joined by Meghana – our Investor Relations Head, Bharat Sampat – CFO, Sridhar Seshadri – Financial Controller, and Rajesh Verma, who heads Treasury and Corporate Banking . I would speak for about five to seven minutes giving you some highlights of the performance for the Q2 FY13. After that I will open the floor for questions.

So let me get started. Profit after tax for the quarter (Q2 FY13) was Rs. 22.1 crores, if you compare this with the previous year, same quarter (Q2 FY12), it was Rs. 13.3 crores. On a sequential basis, profit after tax is Rs. 22 crores versus Rs. 18.9 crores for the quarter one (Q1 FY13). To give you a very short and quick perspective, the profit for the Bank for FY 2010-11 was Rs. 21.4 crores. In 2011-12, our half year (H1 FY 2011-12) profit was Rs. 22.1 crores and now this quarter itself (Q2 FY 2012-13) it is Rs. 22.1 crores. So we are making some steady progress in improving performance of the Bank. Let me talk about CASA, as of September 30, 2012 it is Rs. 2,172 crores, which is approximately Rs. 100 crores up, if you look at the previous year, same time (CASA – Rs. 2,076 crores as on September 30, 2011) . On an YTD basis we are up

6.8% because as on March 31, 2012 it was Rs. 2,035 crores of CASA. On a quarter-on-quarter basis also we have grown CASA because as of June 30, 2012 it was Rs. 2,066 crores. The ratio continues to be at 30% or above, which is what is our stated strategy. In terms of Total Deposits as compared to last year second quarter we are 14% up. We ended at Rs. 7,137 crores as on September 30, 2012 versus Rs. 6,261 crores as on September 30, 2011; much of the growth has come in the current year. On YTD basis we are up already 12.6% if you see the numbers of the previous quarters. What is important is, Inter Bank Deposits have declined and underlying Customer Deposits have increased by 18% year-on-year. Customer Deposits consists of CASA, which I spoke earlier, and Term Deposits and Customer Term Deposits have grown by 25.4%, that is I am referring to excluding the Inter Bank deposits. So, we are building the Bank on granular Retail Deposits. Our Retail Deposits ratio is now 83.2%. I spoke to you about the Non-Resident Indian (NRI) business initiative in my previous call. In any case we are working well on it. We started on a small base of approximately Rs. 200 crores. We are already double that size in one year's time. We are confident that NRI Deposits will begin to contribute even more in the coming months giving a very important source of funding for the Bank. We opened our 87th branch in Ludhiana, Punjab. By the end of the year, we think that we will open another seven to ten branches. If everything goes well, we might probably even touch 100 branches by the end of the year. But we are steadily opening branches in rural, semi-urban, and also utilizing the licenses that were given to us last year. Advances growth from last year was up by 31%, in this Mortgages comprises of 34%, SME/MSME comprises of 26%, and Corporate is 23%. In this quarter, we have not seen any slippage in the Corporate Book, there have been two or three small slippages in MSME and SME book. In order to generate our own Priority Sector Lending rather than do buy out of portfolio, we have embarked upon growing our Tractor, Gold Loan and Commercial Vehicles. The numbers are still small, but we are again starting to make progress, so this is likely to not only help us to improve our yield, but also support our Priority Sector Lending achievements for the overall Advances growth. We have maintained margins at 3.24%, Non-Interest Income, on a granular basis, is also doing well. Non-Interest Income has grown by 18.9%, year-on-year. I am referring this to very Core Income - Commission, Exchange Brokerage, which again we are making steady progress. The total Operating Income is up by 15%, cost continued to be managed tightly. It has increased marginally and our Cost Income Ratio has come down slightly to 71.9%. We aim to bring it below 70% by the end of the year there is full work going on in that direction. Even during difficult times our Provisions continues to be under control. Provisions are at Rs. 4 crores compared to Rs. 8 crores in same quarter last year and Rs. 6 crores in the first quarter (Q1 FY13). We have achieved Coverage Ratio of 89.25%, we have been in this range of coverage ratio for the past few quarters.

Other important thing that I want to talk about is some changes in the Board of Directors. As some of the Board of Directors completed the statutory period of eight years, they have to retire. Three directors have retired. In their place we have taken five new directors. One is Mr. C. Narasimhan, ex-State Bank of India, another Mr. Sridhar, previously CMD of Central Bank of India, and National Housing Bank, then two chartered accountants, Mr. Nalin Shah, and Mr. Keki Elavia and one businessman, Mr. Imran Contractor. The stock exchanges have been informed. The press release should reach you by today or tomorrow, giving more details about these directors. We are confident that these new directors would guide us and support us towards the next phase of growth of the Bank. That is what I wanted to share with you. I am open to questions.

Moderator Thank you Sir. Participants, we will begin the question and answer session. Anyone who has a question may enter '*' and '1'. Our first question is from the line of Mr. Prashant Shah from Vantage Securities, please go ahead.

Prashant Shah Sir, I just wanted to ask you, your Advances are showing a very good pace of growth i.e 31%, but your NII, it has not transacted into NII growth in this particular quarter. So can we understand that most of these Advances came mostly during the end of the quarter?

Murali M. Natrajan Advances came towards the end of the quarter is one point. The other point is also that only from October onwards I see that some improvement in the Cost of Funds because, like I mentioned in one of my previous calls that we expected repricing of the Term Deposits to get done by about July or August, which is what has happened. Now, the Deposit rates are slightly coming off, so even if we have to adjust our Base Rate at a later point in time, I think our NIM would be okay, so I do think that we should see a better performance on NII in line with our Advances growth.

Prashant Shah Okay, but NIM going to 3.2%, can we expect more, may be 3.3% by the end of the year with all the factors that you mentioned.

Murali M. Natrajan I am very conservative on NIMs. You never know what happens in terms of the competition and Priority Sector Lending and all. We have always said that we will be in 300 to 325 basis points and that is what we want to maintain.

Prashant Shah Okay fine, coming to NR business, you touched on your Deposit side, what about your client base. Do you do NR business with your clients also in terms of lending? I mean, the NR business that you mentioned, you have said that you accept Deposits from NRI, which you expect to contribute to your Deposit base in the coming quarters.

Murali M. Natrajan Yes.

Prashant Shah So, do you expect something similar on the Advances side also, or are you just focusing on the sourcing right now and lending in the local market?

Murali M. Natrajan No, we don't plan to do any lending. We do expect that some of these NRI customers are trading with India, because some of them are SMEs in other countries like Africa, so we expect some Trade Business and Remittance Business coming through. But as of now it is a pure Deposit service, of course, if they ask for Mortgage Loan in the local market, not abroad I am talking about, within India if they ask for any Mortgage product, we have those products, but the focus is on Deposits.

Prashant Shah Would you be able to tell us how much would this NR deposit constitute the total Deposits right now?

Murali M. Natrajan At the moment it is very small. Probably about 6%. But it is likely to become important source from an incremental Deposit point of view.

Prashant Shah I wanted to ask you, Sir, on your slippages, for a positive, your NPAs have actually gone down.

Murali M. Natrajan I will give you the break up. The opening balance was Rs. 236 crores. We had about 4 small accounts adding up to Rs. 11 crores of fresh slippages. SME and MSME put together. We had recovery and upgrade of Rs. 7 crores, and write off and sacrifices of Rs. 14 crores, so that is how the closing NPA came to Rs. 226 crores.

Prashant Shah Okay, but in the last quarter call you had said about a couple of accounts, which was contributing to the incremental NPAs in that quarter, have those been upgraded, one was over Rs. 12 crores and another a Rs. 3 crores account.

Murali M. Natrajan The Rs. 12crores and Rs. 3 crores accounts, both are under SARFAESI, right now. So we are confident that in the coming months we should be able to affect the recovery or upgrade.

Prashant Shah Okay, do you expect the current trend of recoveries to continue. I mean you did about Rs. 1.9 crores of recovery in this quarter.

Murali M. Natrajan Recovery work is happening, but when we talk about large accounts I cannot predict as to which particular month recovery will come.

Prashant Shah No, I am just asking for general run rate. We can expect something similar

Murali M. Natrajan We are confident of maintaining the run rate in the coming quarters

Prashant Shah Thank you

Moderator Thank you Sir, our next question is from line of Mr. Saikiran Pulavarthi from Espirito Santo. Please go ahead.

Saikiran Pulavarthi Sir, just two questions, one on the branch expansion. You mentioned that you might reach 100 branches by the end of the year, just to clarify, this financial year or calendar year.

Murali M. Natrajan March 2013.

Saikiran Pulavarthi Okay, on the second thing Sir, I understand from your presentation you have got five more branch licenses and you plan to add a couple of more states into the branch network. How does the rural branch network strategy work for you? What are your thoughts?

Murali M. Natrajan Our thought on rural strategy is, we use a cluster approach. Now let me explain what a cluster approach is. In order to reduce our Operating Cost and supervision cost, what we do is, we open branches, rural branches in and around a particular area. E.g., we have a branch in Gujarat in a rural area, then we try to find nearby productive rural areas to open branches, and nearby would mean 30 to 40 kilometers type of distance. So like that we open about four to five branches in a cluster so that we can manage them all together from a supervisory and operational risk point of view. Okay, so our idea of opening rural branches is that a) the cost is low, b) we try to be first or second Private Sector Bank in that rural area as far as possible, so that we have a good chance of getting the CASA and other Deposits. It is a full-fledged branch, what I mean by that is, we do Deposits, CASA, Gold Loans, Crop Loans, and any other PSL product, I don't know, maybe in 12 month's time, we might even consider doing some Rural Housing if we get our act together on that. So it is a full branch, which helps us to do both Deposit as well as Loan products. The Loan products normally are very PSL oriented. That is our strategy at the moment.

Saikiran Pulavarthi Second thing Sir, in terms of geography, which geographies are you targeting for these rural branches?

Murali M. Natrajan Gujarat, Maharashtra and Orissa at the moment. We may expand to Tamil Nadu at a later point.

Saikiran Pulavarthi Okay Sir. One more thing Sir, you mentioned that 68% to 69% Cost Income Ratio is your aspirational number, do you intend that to be your full year number or is it an exit run rate of the fourth quarter?

Murali M. Natrajan I hope the exit run rate is better than that, but hopefully the full year number will be that.

Saikiran Pulavarthi Last thing Sir, on the Advance growth, do you expect this momentum is to sustain even for the full year at around 30% plus.

Murali M. Natrajan Year-to-year it is 31%, but I would be conservative and say that I would probably aim at about 25%, but if there are opportunities and if the risk are appropriate, may be higher than that, but 25% is what I would like to give as a direction.

Moderator Thank you Sir. Our next question is from the line of Bhavna Sinyal from IIFL. Please go ahead.

Bhavna Sinyal At the start of this financial year, Sir, you indicated that Retail and SME/ MSME will be the main growth drivers, but so far we see that only Retail portion had been driving the credit growth. Can you throw some light on the SME/ MSME portfolio and why there has been a slowdown in that segment and what is your outlook going forward?

Murali M. Natrajan We have grown SME/ MSME for the half year by approximately Rs. 100 crores, if I am not mistaken. Let me just confirm that number, just one second. Yes, we were at, Rs. 1,403 crores as of March 31, 2012 and now we are at Rs. 1,493 cores, so approximately Rs. 100 crores. First quarter was very slow, we did not see too much of response in terms of customer asking for more limits, and even the new sanction that we did were not coming through in terms of disbursal. Second quarter is much better, I do expect the momentum to build up further in SME / MSME. At the same time, given the environment, we are also extra cautious. Even within SME/ MSME we are trying to avoid any large ticket accounts, so that it does not cause any stress to our portfolio. So you can say that it is a combination of market and our own slightly conservative approach. While our portfolio is in good shape the environment has stress, and I do see some level of payment delays faced by everyone in the market, so I would say that we would continue to push forward on our SME and MSME strategy. There is no change in strategy and I should expect this number to do much better in the coming quarters. Mortgages continue to build very well. Let me remind you that the Mortgages also, I sell it mostly to the self employed segment which is the SME segment. I do very little of salaried segment. Our focus is the SME and the self employed segment. Much of the lending that we do in Mortgages, whether it is Home Loan or Loan against Property is also to this segment.

Bhavna Sinyal Okay, also Sir, has there been any rate cut in any of the credit segments, particularly Retail segment as we can see that the festive season is on.

Murali M. Natrajan Rate cut.

Bhavna Sinyal On any of the segment, credit segment.

Murali M. Natrajan You mean, reduction in Base Rate.

Bhavna Sinyal No, not the Base Rate. Around particular Auto Loans or …

Murali M. Natrajan I do not do Auto Loans. In Retail we only have Retail Mortgages. Now we have Gold Loans, and a little bit of Commercial Vehicles. We do not do Auto Loans. The pricing has been in the same region. Yes, there is some pressure on pricing, we do see. We use risk-based pricing model and are continuing to use that model.

Bhavna Sinyal Are we looking at a Deposit Rate cut in the near term.

Murali M. Natrajan We were the first one to actually reduce the Deposit Rate in March. I think there may be some changes to Deposit Rate. It depends on how we see the momentum. But I think there may be some reduction in Deposit Rate as well as adjustment of Base Rate. So I do not think the NIM can improve.

Moderator Our next question is from the line of Mr. Jignesh Shial from Equirus Securities. Please go ahead.

Jignesh Shial I have a couple of questions. First of all on your Cost to Income, I mean, it still remains above 70%. Any strategic, I mean, this is the only number that I worry about as far as DCB is concerned. This time I am pretty confident about it coming down. How do you see that improving? What are definite steps? One I understood this cluster approach that you are saying. This is making sense. Are there any other approaches that the Bank is looking forward to, or something that you can elaborate further?

Murali M. Natrajan I would say that one of the key areas of focus for the entire management team is how to bring the Cost Income Ratio to a proper level where the margin of risk improves for the Bank. Okay, I will have to trace back a little bit of history although I may have said this in the previous calls. Our total cost, when I say total cost, means salary plus operating expenses in FY 2007-2008 was Rs. 238 crores, FY 2008-09 was Rs. 242 crores and last year (FY 2011-12) it was Rs. 244 crores. Okay, so if you see, in the last four years or so, we have completely recycled this cost to create Mortgage business, SME business, MSME business, Agri Inclusive Banking. We have doubled our ATM network size. We have created a collections network to manage our portfolio, so all that we have been able to do in the same cost. Right, the challenge for the Bank is, the size is still an issue, because of which you find the Cost Income Ratio to be a problem. It is not wastage of cost or inefficiency. I cannot believe that we have inefficiency. It is a size issue, because you need to have a particular Finacle system. You need to have an installment loan system, all that comes at a particular cost. So our focus is, to systematically grow the Bank in a very careful and proper manner, double the Balance Sheet in about two to three years time. If I look at our Advances number of September 2009 number and September 2012 number I see that it has more or less doubled. Okay, the focus is on growing the size systematically without causing any NPA issues and that would definitely take care of the Cost Income Ratio. We want to grow our income ratio much faster than cost, so that the Cost Income Ratio step by step comes down. Cluster approach is just one aspect of this. There are other aspects of it as well. We look at productivity of the branches. All branches have scorecards. We look at how they are performing and score them. We look at the rent that we pay in various branches, and how they are producing against those fixed costs. So there is a lot of metrics that we look at. I mean this call would not be sufficient for me to explain all that, but all in all, that is the concern, and key focus area for the board and the management team.

Moderator Thank you. Our next question is from the line of Shweta Mane from Arihant Capital. Please go ahead.

Shweta Mane Hello Sir, a few set of questions. Sir, firstly we have demonstrated good asset quality, quarter after quarter that is understandable. Sir, we are seeing credit costs are coming down at a higher pace, so could you just throw some color on the same.

Murali M. Natrajan Can you elaborate on the question

Shweta Mane Sir, our credit costs are actually coming down at a very higher pace, like almost by 42% year-on-year and 26% on quarter-on-quarter. So how would we see credit cost going ahead. I understand that our Asset quality is also showing a very good result, quarter-after-quarter, but your credit costs are also falling at a very higher pace.

Murali M. Natrajan So you are not happy about that?

Shweta Mane No Sir, percentage wise, it is very high. So, is it like, how do you explain that?

Murali M. Natrajan Okay, the explanation is like this. If I look at my book, Retail Mortgages, we are pretty confident that we should be able to manage those credit costs in about 15 to 20 basis points. If I look at my SME and MSME book, we think that we can manage the credit cost on a 50 to 75 basis points. If I look at Commercial Vehicle and all, it is too small right now to worry about. Gold Loans, we hardly ever have any losses. Corporate Bank in the past has given us some challenges in one or two accounts, suddenly becoming NPA, you may recall first quarter of 2011-12, we had two accounts adding up to almost Rs. 30 odd crores of slippage in just one quarter. Okay. That takes a lot of time to recover. So what is happening in the portfolio is that we are pretty confident that we are originating good loans and we are doing a decent job in terms of managing the risk of the existing loans, and we are also getting some recoveries from our old Personal Loans and old retail portfolio. Once in a while we also get some recoveries from our provided Corporate Loan book. So, instead of telling you what would be our outlook I would say that we are aiming for about 40 to 50 basis points as our steady credit cost, probably better, but not more than that.

Shweta Mane Just an extension to this question. How is the asset quality faring in the SME banking portfolio because last quarter we saw one large account slippage and also the fact that we are growing a SME and MSME quite in a big way?

Murali M. Natrajan Yes, SME and MSME, we really love this particular segment. Because 70% of any economy, definitely Indian economy, consists of SME and MSME, and if you do a proper picking the right customer , SME and MSME can really give you good returns and we are quite confident about that. Having said that, there are environmental challenges, there are delays in payment that are faced by SMEs and MSMEs. I see that because when we do review of portfolio and account-by-account review of any stressed, or any account that seems to be in some kind of anxiety, we understand that there are some delays happening from their end. Having said that we are doing secured lending, which means that we usually insist on hard collateral like a home or an office property as collateral apart from any other collateral like machinery and whatever else. So, if you have the collateral of the customer, even if there is a probability of default, the actual loss given a default is likely to be less. So, if you continue to manage this portfolio well I am confident that it is going to give us some returns. But there is some amount of stress in the environment. I cannot deny that.

Shweta Mane Okay, when our credit growth has been quite outstanding, we are growing at 30% rate. But our Deposit growth is not moving in this higher fashion. Incremental Deposits still stands on the lower side. Also understandable is the fact you have targeted 100 branch expansion network by the year end. But how would you justify this particular Deposit growth? How do you strategize to boost this Deposit growth going ahead?

Murali M. Natrajan The new branches that we put will not suddenly give us Deposits, so do not hold your breath on those new branches yet. But, in terms of Deposit growth, if you see, first half we have done a pretty good job as compared to last year. So I am confident we should be able to reach upwards of 20% customer Deposit. We have retired some of the Inter Bank Deposits, but if you see the actual customer Deposit growth, it is better than the overall total Deposits growth. So, we should see a much better performance on Deposits as we move forward.

Shweta Mane So what is the number you are looking at by the fiscal year end? If you could just provide that?

Murali M. Natrajan Which number are you referring at?

Shweta Mane Deposit growth, the target.

Murali M. Natrajan I said above 20% growth for full year.

Shweta Mane Okay, Sir lastly if you could throw light on your PSL status.

Murali M. Natrajan PSL, last year we achieved the target and we were slightly short of the sub-target of weaker section and agriculture. We are working hard again, so next year also to achieve that target, so we should be alright I think.

Moderator Our next question is from the line of Clyton Fernandes from Anand Rathi, please go ahead.

Clyton Fernandes Sir, it is very heartening to see your ROA almost double from the time you last became profitable in Q2 FY11, and your business growth also now is picking up and reaching a fairly decent point at +30% growth rate and credit at least. So my question is, Sir, do you think, now that you have spent two years with the Bank and made it quite strong, in terms of profitability sense and consolidated the Balance sheet. Would it be now time for DCB to grow at this growth rate for the next year or so or do you think it is still early days and the environment is still not very conducive for a very strong credit growth for the DCB?

Murali M. Natrajan I joined in April 2009 and I completed three and half years and I fortunately got one more extension by RBI a few months ago, so hopefully DCB should see me for at least next two and half years. Then we will see how many more extensions I get from RBI. I think all these three years that we have seen, we have seen only headwind; I don't think we have seen much of tailwind at all. In that situation we have been cautious. I would say about caution in terms of Advances growth is that I would still be cautious on Corporate, SME and MSME. Retail we are quite okay because we are doing a pretty good job in Retail Mortgages. Usually that portfolio suffers when there is fraud. So Mortgage portfolio is quite okay. So I would say that we would look at about 20%-25% of growth in this financial year, and then we would take a call as to how we need to step it up from there.

Clyton Fernandes Because in the past also before you came in, DCB has always strived to grow much faster than the system before and kind of damaged itself in heavy storm. I am sure this time around with the consolidation over the last two years it will be well-prepared for the future.

Murali M. Natrajan I hope so, and that is the whole idea actually.

Clyton Fernandes Just one question on your restructured book, if you can share that number with me.

Bharat Sampat It is total of 5 accounts adding up to Rs. 9.5 crores.

Clyton Fernandes It has declined a bit on quarter-on-quarter basis?

Murali M. Natrajan Yes, we don't actively restructure the account unless there is an underlying clear reason. You know that we were even out of CDR one year ago and I am told some other banks have also followed the suit. So we are quite careful about restructuring of account, having said that, we have this Rs. 9.5 crores portfolio there.

Moderator Thank you. Our next question is from the line of Manjiree Jaitly from HDFC. Please go ahead.

Manjiree Jaitly I have two to three questions. I wanted to check that in the context of your Agricultural Loan and Priority Sector Loan strategy, are you also employing business correspondents or do you only want a direct interface with the consumer in the rural areas? You mentioned some time back that you are setting up branches in the rural areas but this is not the traditional way that the Banks are expanding in the rural areas for business. Am I right?

Murali M. Natrajan Some people say that we are under banked, but even if you see any spot that we go and find, we are already finding some two or three banks already present.

Manjiree Jaitly Then those would not remote areas in that case.

Murali M. Natrajan No, I am talking about areas where the population is around or less than 25,000. We find 4 Banks - 1 Co-operative Bank, 2 Public Sector Banks, and 1 Private Sector Bank and so on. We are looking at business correspondents (BC) and I think that we are actively considering two business correspondent tie ups, there is some technology work also that needs to be completed for that but that would be present for supplementing our strategy.

Manjiree Jaitly So is that to say that presently you don't have any BC tie up?

Murali M. Natrajan We don't have any tie up but we most likely this quarter we should complete that.

Manjiree Jaitly How was the asset quality in the Agriculture Loans?

Murali M. Natrajan Touchwood, we had a very good run on asset quality in Agriculture portfolio. Hardly there has been any NPA or credit loss.

Manjiree Jaitly My third question was on the Mortgage Loans that you mentioned you give to self employed individuals. What would be the ticket size of these loans?

Murali M. Natrajan In very rare cases it will go Rs. 2 or 3 crores and may be one or two of them might to Rs. 5 crores or something.

Manjiree Jaitly But that would be an aberration.

Murali M. Natrajan That would be an aberration. Generally it will be in the range of Rs. 40 to 50 lakhs. If you look at Delhi or Mumbai, the ticket sizes are larger, but when we do Chennai, Bangalore, Hyderabad and Pune, the ticket size will be much smaller.

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

Jigar Walia I wanted to understand on the Cost Income more. So you said that there are two elements, one is certainly because of the size there is a higher element of fixed expenses like software and stuff because and the other aspect being branch productivity. Nothing that we can do about fixed expense because we need to have good software and stuff. But on the branch productivity if you can highlight, what is it that we would ideally like to target say Deposit per Branch, our ROAs have become quite healthy now, it is quite commendable. But we still need to really improve on our Deposit base and some other stuff to improve ROEs.

Murali M. Natrajan I agree. Kindly refer to Page #15 of the Q2FY13 investor's presentation. You see that we have shown you some traction on how we are going on Deposits. Where we are aiming of reaching at least Rs. 35 crores average per branch on CASA. That is the path we have set ourselves in. Last year CASA performance was weak. This year we hope that it will be much stronger than previous year. We have not increased the SA interest rate. We are still in the previously deregulated 4% rate. So ideally in two years' time if we reach at Rs. 35 crores CASA per branch that would really be very good for the Cost Income Ratio.

Jigar Walia Perfect. Rs. 35 crores CASA per branch and you are also targeting to almost double our Balance Sheet in the next two to three years?

Murali M. Natrajan I think I have said that we are looking at anywhere between 120 to 150 type of branches depending upon Cost to Income ratio and the performance of the new branches that we put in. Advances growth are not being done in all the locations where we have the branch. I mean the Advances like SME/MSME and Mortgages. For that we have a separate sales team and verticals that works on it. So I don't think that should be such a big problem. Assuming that there is reasonable support from the market, we should be able to do very well on SME, MSME and Mortgages.

Jigar Walia If you can also highlight in terms of growing on scale like you kind of indicated now that we have turned around reasonably well and probably the focus now shift towards growth to kind of lead to the profitability delta, but while doing that we will have a challenges in terms of CASA and credit cost. Apart from that, just to manage this are you looking at mix change?

Murali M. Natrajan No, we will continue to be very much on Retail Mortgages, SME and MSME. Of course, we have to do the retail type of Agriculture and Inclusive Banking for our Priority Sector Lending for which we have a separate team. We would be very measured in our Corporative Banking, even going forward.

Jigar Walia In Mortgages we are increasing ticket size for our existing clients would that be one of the focus areas? If we have done some analysis, how much of our client profile itself have we already targeted?

Murali M. Natrajan New sourcing and increasing new sales for SME/ MSME and Mortgages would be the way we grow the Balance Sheet. Part of the growth will always come from the top ups in both SME/ MSME and Mortgages but that will not be the key driver for growing the book.

Jigar Walia So the driver will be new business?

Murali M. Natrajan Yeah, absolutely.

Moderator Thank you. The next question is from the line of Mr. Abhishek Bhattacharya from Nomura. Please go ahead.

A Bhattacharya Just wanted some clarity on your Loan against Property portfolio. What percentage of the Mortgage book is it now?

Murali M. Natrajan I don't have it readily with me. It would be around 40% to 50%.

A Bhattacharya How is it trending in terms of asset quality? Have you seen any sort of stress on this?

Murali M. Natrajan These are all direct good LTVs like about 70% to 75% type LTVs. It is based on cash flow of the customer. There is a proper Balance Sheet analysis. There is visit to the customer's premises. There is personal meeting and all. So the quality has been quite good. I don't have any concern at the moment on that.

A Bhattacharya Next question is on your fee income part. Particularly on the Non Interest Income part, now it has stabilized at Rs. 27- 28 crores sort of range what would take it beyond this? It is right now about 40% of NII sort of a number. Do you see it being there for some time or do you expect it to move further up?

Murali M. Natrajan The idea is that 60% to 70%, if not 100%, of increase in Operating Cost should be covered by growth of fees. That's the way we are thinking. We have not probably fully delivered on that but that's the general thing say if we grow our cost by Rs. 20 crores the fee should grow by Rs. 20 crores. The fee also should grow as granular item so that it can be repeated time and again. So we have focused on Insurance, Demat accounts, usual CASA related fees, ATM fees, Trade related finance, Cash Management Systems. There are several streams of income that is coming. There were two setbacks in this quarter (Q2 FY13) in fee. One is there has been a change in ATM fees from Rs. 17 to Rs 15 and the other change has been that Debit Card Interchange has also been reduced. These two were regulatory requirement which has slightly dampened our monthly run rate of fee, but we are confident of making it through other ways. So what we are working on is generating of granular fees by Trade at our branches. The key driver for this would growth of CASA account and growth of loan. These two would provide the set of customers for us to be able to grow our fees.

A Bhattacharya One last question is on Retail Term Deposits. Now given that the interest rates are likely to soften from here, would you take a pedal off the Retail Term Deposits now or your focus will continue on those?

Murali M. Natrajan We will continue our focus because that is our key funding source. Of course as the Bank's financials are improving, we are finding a lot more support from many Financial Institutions to give us lines of credit. Currently we are about 83% funded by Retail Deposits. By next year or so we will probably rethink this number. Even at 75% it is quite stable and very good base for us to fund. Because we have Advance growth at least for a year. So we have not taken our pedal off it.

Moderator Thank you. The next question is from the line of Ms. Mona Khetan from Elara Capital. Please go ahead.

Mona Khetan On your Gold Loan side there is a recent increment on the breakup of your loans. If I am getting it right the growth in Gold Loans has been in the range of (+25%) for this quarter. So is that a major thrust area for you though it is a very small segment but what is your outlook there and what are the lending rates in that segment?

Murali M. Natrajan Gold Loans in the rural areas we are doing primary from PSL point of view. There the rates should be may be 13% -14%. In the urban area Gold Loans are done as a cross sell to our existing customer instead of them going to any of the NBFCs where the interest rate are likely to be higher. We are able to attract customers so why won't they take Gold Loan from us. The portfolio is very small, it is much less than Rs. 100 crores. It is the thrust area in the sense that it is not likely to move the needle big time on the Balance Sheet for this year but incrementally it is growing quite well month-on-month and the interest rates are about 13% -14%.

Mona Khetan I understand that most of these loans are non agricultural.

Murali M. Natrajan In the urban areas it cannot be agricultural. Only in the rural areas it is Priority Sector Lending.

Mona Khetan On the Corporate Book side just wanted to get a sense of what would probably be you largest single entity exposure?

Murali M. Natrajan I do not think we disclose that number in public.

Moderator Thank you. The last question is from the line of Mr. Chetan Vora from Alpha Accurate Advisors. Please go ahead.

Chetan Vora We were doing CASA at 33% right now it stands at 30%. So just wanted to know by when we will be hitting that number and we would be targeting above that percentage sir.

Murali M. Natrajan I don't think it is possible to target 33% this year. This year we are also growing Term Deposits and the Balance Sheet. But we have always stated our aim is to be at 30% and above and so far we have been able to maintain that. We have not changed the interest rate on the SA, we are continuing to be at the same level as when it was before regulation. We are getting reasonable amount of traction from most of the branches in terms of new acquisition. We are doing quite well on introducing newer products for customer, various customer segments and that is also getting us good amount of new customer base. I think we would be at about 30% or so. I don't think it will be 33% for this year.

Chetan Vora On Non Interest Income portfolio, at what rate we would be seeing the portfolio to be growing?

Murali M. Natrajan I am not able to give a certain number on that but in our Bank whatever is the expense growth, that is the Operating Expense growth, every year at least that much has to be made up incrementally by new fees. The philosophy of the Bank on the fee is not to try to do some penal charges or one off charges and increase the fee, but more like pay for use type of fee. You provide, for example, a Personal Accident Insurance which does not have any mis-selling kind of a problem or you give a Trade to a customer or give a Demat to customer. Something which actually the customer will use and pay has a fee because that would be the most sustainable kind of a model so that's the thinking in the Bank.

Chetan Vora You said that the number of branches will be reaching 100 by the end of this year. Would that be for year 2014 or 2015 just give a benchmark number.

Murali M. Natrajan We aim to reach 100. There is process going on to put a few branches. Approvals are in place and work is happening. We hope we reach 100. I said in the last call or some call ahead we would be anywhere between 120 to 150. We have not changed our mind on that. We would reach the target in two to three years' time. If we find that there are opportunities and we are doing well, we may change our strategy.

Chetan Vora Amongst our portfolio, are we seeing any stress in any particular segment?

Murali M. Natrajan At the moment I am not seeing any stress in our portfolio. Last quarter we had an account in SME going under stress. This quarter again we have 1 or 2 accounts. If you grow any book there is bound to be few accounts which will go through this cycle. I am not seeing any unusual stress in any portfolio but however, from an environmental point of view, I do see many SME customers whether in our book or anywhere else, having challenges in terms of payments cycle getting extended and so on. We hope that the situation doesn't deteriorate much, but there is pressure in the environment, I would not deny that.

Chetan Vora We have already done a QIP. This fund will be available to us for how many years. The next dilution will be after what period? If we are targeting to double our Balance Sheet by say two years, by when the Capital infusion we would be seeing?

Murali M. Natrajan As per the RBI road map that we have been given, we are supposed to reduce our promoter stake to 10% by March 2014. We will come back to you with any plans that we may have for Capital Raising at a later point of time.

Moderator Thank you Sir. Participants that was the last question. I would now like to hand the conference over to Mr. Murali M. Natrajan for closing comments.

Murali M. Natrajan First of all, thank you all for having patience and giving us an opportunity to talk about our results and thanks for all those questions. In any call, unfortunately we are unable to answer all the questions but feel free to write to us or call us separately if any of your questions have not been answered, we would be more than happy to address those. Thanks again and talk to you next quarter.

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