DCB BANK

Development Credit Bank Ltd. Q2 FY2013 -14 Earnings Conference Call

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Management Participants:

Mr. **M**urali **M**. **N**atrajan – MD & CEO, DCB Bank

Mr. **B**harat **S**ampat – CFO, DCB Bank

Mr. **S**ridhar **S**eshadri – Financial Controller, DCB Bank

Mr. **R**ajesh **V**erma – Head - Treasury & Corporate Banking, DCB Bank

Ms. **M**eghana **R**ao – Head – Investor Relations, DCB Bank

Moderator Ladies and gentlemen, good evening and welcome to the DCB Bank Q2FY14 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 the conference all participants' 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 telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Murali M. Natrajan, thank you and over to you sir.

Murali M. Natrajan Good afternoon everyone and my sincere appreciation for logging into this 2nd quarter earnings call. I know that you all are very busy and you have other conflicting appointments but we really appreciate your time. I'm joined here by Mr. Rajesh Verma, Head of Corporate Banking and Treasury; Mr. Bharat Sampat – CFO of the Bank, Mr. Sridhar Seshadri – Financial Controller of the Bank and Ms. Meghana Rao, Head - Investor Relations of the Bank.

What I plan to do as usual is spend about 10 min touching upon some of the highlights of this quarter and then I will hand over to the operator for taking questions. If I am unable to answer any of your questions, please feel free to write to us and we will revert to you. So let me begin.

Profit for the quarter was Rs.33 crores versus comparative quarter of last year of Rs.22 crores, so we are making steady progress every quarter, every year. Previous quarter i.e 1st Quarter of 2013-14, profit was Rs.43 crores, however, let me remind you that we had a one-off of almost Rs. 9 crores in that particular quarter plus the other thing was that in the 1st Quarter there was lot of opportunity for making money in the SLR trading, however almost all those opportunities completely evaporated in the 2nd Quarter. On July 15th RBI came up with a new circular, we have used RBI dispensation and transferred approximately Rs.59 crores of securities to HTM and thereby avoided approximate loss of about Rs.3.5 crores, this is as per the RBI provision. In addition we have debited the P&L this quarter with Rs.76 lakhs MTM loss, as per July 15th date circulation, we have no more loss to be recognized. We had a very negligible MTM position as on September 30, 2013, approximately Rs.1.5 lakhs, which has also been completely absorbed. It appears that the defensive position that we always been keeping in Treasury has helped us to avoid huge MTM loss, moreover we were very solidly liquid during that time which has also helped us to avoid any impact on our P&L. We think that we have managed crisis quite well.

The other important question during this time is always on the slippages; first of all we did not have a single Corporate Loan slippage this quarter. Last quarter, i.e. 1st Quarter of 2013-14, we had Rs. 9 crores Corporate Loans slippage for which we are proceeding on legal action, we have adequate coverage of security, so we should be able to recover the amount. In this quarter we had Rs.18 crores slippage, all of it is in SME/MSME and couple in Retail Mortgages, and these are all secured loans. In SME/MSME we probably have security to the extent of 70% to 80% and recovery actions are going on. In this quarter we have Rs.7 crores plus Rs. 1.5 crores of recovery and upgrade, no write-offs and we have not done any new restructuring. So, Restructured Loans stands at Rs. 28 crores, for 5 accounts. So, it has been decent quarter for us in terms of NPA performance. For the next two quarters we have to ensure that we effectively deal with the couple of Corporate accounts and a few SME accounts that seems to be on some level of stress, but we are confident that the actions that we are taking of exiting some of these loans should give us some benefit and we should be able to perform this year also without much deterioration in our NPAs. Year-on-year Net Interest Income same quarter has grown by 36% year-on-year, Non Interest Income same quarter has remained flat. However, core income is growing. In the 2nd Quarter of this year we hardly have any Trading Gains, in fact the approach was extremely defensive both on FX and SLR side to make sure that we don't have any losses and we have been able to successfully manage that. Year-on-year Net Interest Income, if you compare a half-on-half it has grown by 33% and Non Interest Income has grown by 32%. Half year cost have been kept in check and the growth is 15%, this is due to staff increase, salary increase, branch expansion and one-time penalty that we paid last quarter of Rs. 1 crore to RBI which has already been absorbed, as you know. Half year Operating Profit jumped by 78%and Net Profit by 85%. Deposits growth is 23% and YTD growth is 5%, we are targeting a 28%-30% Deposit growth. Advances growth has been somewhat muted at 18%, the core Advances where we are focusing are Mortgages, PSL oriented Commercial Vehicles, Gold Loans we are growing quite well. However, as we have been following de-risking strategy in SME/MSME, smaller loans are not enough to cover up for the big loans that we are exiting. For example, even in this quarter we have been able to exit some 2 or 3 loans which were in the range of Rs. 8 crores to Rs. 12 crores on SME, as we were not happy with the collateral coverage. On full year basis, we are confident of achieving anywhere between 22% to 25% growth. We had to face also some challenges on the Deposit side because the sudden increase in rate prompted some of the larger Depositors to preterm and take their Deposits away, so we have to compensate that. If you see quarter-on-quarter, that is previous quarter versus this quarter; we have grown something like Rs. 8,300 crores to Rs. 8,700 crores. So full-year I believe that we can achieve 28% to 30% Deposit growth and Loan growth of 22% to 25%. Our CD ratio is at 76%, this is a very conscious strategy, we want to be in a very liquid and be more dependent on

Retail Deposits. CASA is just short of 27%. SA growth, that is Saving Account growth, half-on-half was 13% and YTD this year growth is 8%, we think, YTD growth of SA will be about 16%. There is some pressure on maintaining the CASA ratio because CA is a flat for three or four quarters, if not more. NIM was at 3.68% there is a reason for it, we increased the Base Rate by 35 basis points in September 2013. We replaced high cost Borrowings with Retail Term Deposits. Our yield on securities and money market went up, we also had liquidity during the July 15th RBI action, so we were able to make some opportunistic gains, at the same time we have kind of maintained our yield in all products except Corporate, so that is helping us to improve the NIM, but I don't think this NIM will continue because as we know in the last two quarters we have to book a lot of Priority Sector Lending so I still maintain that we would be in the range 330 basis points. We are doing very well on NRI Deposits, we started this business about two and half three years ago. We crossed the Rs. 654 crores mark, we are working with some of the overseas Banks who don't have presence in India to see if there are any opportunities on the FCNR, so far we have not been successful but we are continuing to make attempts. Even otherwise our effort on NRI Deposits continues. We increased Branch network by just 2, because many Branches could not be started before September 30, 2013. I'm told by my team that we probably will be launching about 7 to 8 Branches within the next 15 days as many of them are coming to a situation where we will be able to launch. Full-year basis we are confident of reaching 120 to 125 Branches. Those are some of the highlights, I wanted to share with you today, I'm happy to take questions.

Moderator Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Mr. Rajatdeep Anand from ICICI Prudential Life Insurance. Please go ahead.

Rajatdeep Anand Congrats sir very good set of numbers.

Murali M. Natrajan Thank you Rajatdeep

Rajatdeep Anand I have two questions – firstly we are puzzled as to how you have managed to increase margins in such an exceptionally challenging quarter, so if you can help us understand that and Cost of Funds, I think is down quarter-on-quarter. You just said in your guidance that NIM guidance remains at 330 bps, so you seem to be indicating a very sharp compression in the H2, so is that guidance a little bit too conservative that is one? Secondly, I am just looking at how distribution of Advances have changed over last few years and I think Mortgages is your key focus area, please help to understand what percentage of these Mortgages is LAP and how do you source these Mortgages, if you can help us understand this part of your Loan book better?

Murali M. Natrajan Sure, let me start with Mortgages. Almost 50% of the Mortgages would be in the LAP category and we have our own sales team who get leads from the market, we call them referral agents, we don't use DSA, so based on these referrals we actually do the entire deal ourselves like for example - salesperson meeting the customer, completing of the file, the credit person going and meeting the customer, valuation, legal everything is done by our Bank using our own sources and our own cost.

Rajatdeep Anand So these referral agents are your employees?

Murali M. Natrajan No, our employees are the RMs, they get lead from Branches, referral agents, existing customers etc. They do the complete fulfillment using the Bank infrastructure, so for example the lead will get passed on to a RM, he will go and meet the customer, obtain all the necessary documents, complete the file and hand over to credit team. Credit will do personal discussion we call it PD, so a credit officer will go and do a personal discussion with the customers as his place and if everything is satisfied including CIBIL check etc, do the valuation, legal, post which we will process the loan and disburse the amount.

Rajatdeep Anand So what will be the typical ticket size in a non-LAP Mortgage and the LAP Mortgage?

Murali M. Natrajan Average ticket size whether LAP or non-LAP is all about Rs. 50 lakh to Rs. 55 lakh for us. We strictly avoid doing any large tickets. Large tickets in our Banks in any Retail Loan including more than Rs. 10 lakh rupees, of say Gold Loan, requires approval at various high levels because we do not want to have such large tickets, if possible, unless and until the customer is really really outstanding, so that is the model that we have been following on Mortgages. So LAP essentially is like a Business Loan, we do verification through a format, we also do verification of the end-use. Many of the times the end use is either buying new machinery or adding more infrastructure to a factory or a shop and in some cases will also be either Real Estate or something. So, all those are very carefully marked in the file, since it has capital implications because if you don't have end use properly identified and marked, it may actually attract more capital, if I'm not mistaken.

Rajatdeep Anand Yes, I think Risk Weight is higher for non-residentials.

Murali M. Natrajan So therefore there is a lot of work that is done by Collections as well as the Credit to get full understanding of exactly how this money is going to be utilized by the customers. Of course, in our country that much only you can do for the end use monitoring even if you are the lead Banker but I'm just saying that having said that there is a due diligence which is done to make sure that end use is understood.

Rajatdeep Anand If you can just explain what exactly the referral agents do?

Murali M. Natrajan The referral agents get lead, some Banks use DSAs, we have referral agents like CA, like a lawyer. These guys give us a lead saying that so-and-so customer is looking for a Loan, so only referral fee is paid, we don't allow the referral agent to complete the file or do the documentation. So some Bank use DSA, some Banks use referral agents, we use referral agents. We also use Branches, they ask their Current Account or Saving Account customers for Loan opportunities and such lead also come to us, so I would say almost about 20% odd will come from Branches, this number is somewhat growing at the moment. As far as SME/MSME concerned almost 70%-80% of the disbursements comes because of the Branch referrals. There also we have a dedicated sales team to complete the fulfillment.

Rajatdeep Anand Sir, NIMs if you can? And reduction in Cost in Funds?

Murali M. Natrajan Bharat has some inputs on NIM then I will add to that.

Bharat Sampat We had raised CDs towards the end of 1st quarter, which was roughly Rs.500 crores and we were at sub 9%, they carried through most of the current quarter. As Murali earlier mentioned, we have raised our Base Rate 35 bps in September. We have during the quarter, if you see the mix of our Liability side, replaced Borrowings. More than Rs. 300 crores worth of Borrowings which were at lending Banks' Base Rate plus plus by our own Retail Deposits which gave us advantage of at least 70-80 basis points on funding cost and separately since we were maintaining high liquidity we were able to make good in money markets, we had a higher yield of roughly 125 bps better than last quarter in money market and short-term Treasury deployment also gave us 25 to 35 bps more. Overall, in any case with environment moving towards higher Interest Rates, SLR book also gave us 15 to 17 bps of higher interest, so all these put together had a positive impact on the Net Interest Margins. Some of the factors as you will realize are temporarily for the quarter which is why Murali said that over the full year the Net Interest Margins will moderate out.

Murali M. Natrajan The other thing is if you don't have too much NPA in any quarter then your NIMs are protected because you don't reverse the interest.

Rajatdeep Anand Yes, I think your rating got upgraded in December 2012.

Murali M. Natrajan No, first it was for Rs. 500 crores, now it was increased to further Rs. 1,000 crores, so we have a Rs. 1,000 crores limit now from CRISIL.

Bharat Sampat Rating is for Rs. 1,000 crores worth of CDs from CRISIL that increase in amount enhancement was towards end June. Our rating moved from A1 to A1+ for CDs up to Rs. 500 crores in February 2013.

Rajatdeep Anand So that is one of the major reasons you were able to get lower cost of funding?

Murali M. Natrajan But CDs were at a very high rate during that time. We had some old CDs that must have got replaced with the higher cost, so I don't think there we had any advantage.

Rajatdeep Anand But you are guiding towards much lower NIM, why is that, you are guiding?

Murali M. Natrajan Just because it has come to 3.68% it doesn't mean that I'm guiding now towards 3.3%. I have always said will be around 3.25% to 3.3% and the one off issues for this quarter we explained you, also remember another Rs. 600 crores to Rs. 700 crores of PSL Assets has to be booked in the next six months and I don't think PSL Assets can ever come at even that 12.7% that we have as Yield on Advances. Obviously the team will not work towards reducing the NIM, that let me assure you, but I am just telling you what is likely to happen.

Moderator Next question is from the line of Mr. Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah You mentioned some time during the call that you replaced your market Borrowings with Deposits, but you said that you specifically replaced with Retail Deposits, am I correct in that?

Murali M. Natrajan Always with the Retail Deposits, we have 79% Retail Deposits.

Prashant Shah But if we see on a quarter-on-quarter basis, it is fallen from 79.5% to 79%, it's a small dip but somehow it doesn't seems to be tie in with what you're saying actually because if you see even the composition of Deposits, your other Deposits which is excluding CASA and Term Deposits you have reached 12% from 10% in the last quarter, so if you would just help me understand what are the other Deposits and how do they tie in with what you have said so far?

Murali M. Natrajan We have a separate strategy for approaching quite a lot of smaller Banks like Co-operative Banks. Co-operative Banks normally, if I'm not mistaken, operate at about 50% to 55% CD ratio and we have a separate team that works on getting Rs. 1 crore to Rs. 2 crores kind of small Deposits from several Co-operative Banks, those are also quite decent in terms of Interest, they come similar to your Retail Deposits and we offer longer Term Deposits. The reason why we offer longer Term Deposits is because first, we are building a Mortgage book, so we need that gaps to be addressed and the second also is when you take a longer Term Deposits you are able to attract lot more customers even if you are paying a little less than the current high yield and the other problem is a lot of Retail Deposits also went away and we had to replace it because all Banks were like approaching almost everyone for Deposits because they were short on Deposits. So even these Interbank Deposits, I don't know whether to call it Interbank Deposits because it is Co-operative Bank Deposits I'm putting it in an Interbank Deposits but even those are small tickets only.

Prashant Shah So what would be the roughly your average ticket size, if you could give a range may be Rs. 50 lakh or Rs. 25 lakh?

Murali M. Natrajan On what?

Prashant Shah Of these Interbank Deposits from Co-operative Bank that you're talking about?

Murali M. Natrajan Interbank Deposits will be very high, Rs.1 crore, Rs.1.5 crores, Rs.75 lakhs like that.

Prashant Shah And you are saying that it will be roughly the Interest Rates will be close to what you're getting on your the Retail Term Deposits?

Murali M. Natrajan Normal Retail Term Deposit is what is offered there.

Prashant Shah So that is what your Other Deposits are?

Murali M. Natrajan Ya, but not all of it, but lot of it this quarter.

Prashant Shah And just one question I wanted to ask you, when you show your NRI Deposits separately are they classified as Retail Term Deposits or are they classified as other Deposits?

Murali M. Natrajan Retail only. They are all Retail customers, of course the tickets size of those customers will be much better than local domestic customers, so it is the nature of the transaction, sometime it will be like $50,000, $75,000, $100,000 like that will be big Deposits.

Prashant Shah And another one thing I wanted to ask you was, you mentioned that you booked Rs. 75 lakhs of MTM loss on your investment portfolio, the full thing is going to Other Income or you have put it as Provisions?

Murali M. Natrajan No, it won't be Provisions. It is Other Income.

Prashant Shah Because one other Bank came out with its results, they have classified some part of it as Provisions so that is why I wanted to ask you that.

Murali M. Natrajan It is Other Income.

Prashant Shah Could you just give us the breakup of Provisions for the quarter?

Murali M. Natrajan Provisions for the quarter in the sense like?

Prashant Shah On standard assets and on NPAs?

Murali M. Natrajan Sridhar, our Financial Controller would like to explain and I will add on it.

Sridhar Seshadri We have a Standard Assets of about Rs. 88 lakhs and we made a Floating Provision that will be about Rs. 1.2 crores, so between them it is about Rs. 2 crores out of the total Credit Provision and rest about Rs. 5 crores would be the credit loss on existing stock of NPAs.

Murali M. Natrajan So the way we do it is, Floating Provision is based on monthly credit reviews of our portfolios and we have set triggers on delinquencies, stress, anxiety etc. for each of these portfolios whether it is SME portfolio or AIB portfolio etc. when they breach the trigger or come below the trigger it kind of informs us as on how much is the Floating Provision that would be required at this level, so it is a very scientifically drawn process by which we are making these Provisions, so the Floating Provision is not on how to arrive at a Profit but it is separately done on the basis of what the stresses are in the portfolio.

Prashant Shah But these Floating Provisions you have given, I mean they will be at a lower rate than the Standard Asset Provisions or will be similar rate?

Murali M. Natrajan No, there is no rate. There is a portfolio, there are certain buckets in which we put those portfolios whether it is delinquent, stress, anxiety, etc. depending upon how that whole thing arrives, there will be an amount that will be arrived, based on the percentage that has been defined in the Board note, it is 1% or 75 basis points I can't tell you that.

Bharat Sampat Standard Assets would be based on the stock and Floating Provisions will be based on the stress on the Assets.

Prashant Shah So basically when you talk about stress it could be basically on your expected Cash Flow versus actual Cash Flows and such other triggers?

Murali M. Natrajan For example, if two accounts in Anxiety bucket have moved out in a particular quarter, obviously the Floating Provision will reduce in that particular quarter.

Prashant Shah So Floating Provision, in case there is a reduction like you said you don't maintain, reverse it back?

Murali M. Natrajan We will make lesser Provision for that quarter, you can't reverse any Provisions.

Prashant Shah Okay so it will maintain on Balance Sheet?

Murali M. Natrajan Yes.

Moderator Next question is from the line of Mr. Prakash Kapadia from IAlpha Enterprises. Please go ahead.

Prakash Kapadia Two questions from my side. Basically one on Retail Mortgages, is there some internal targets say over the mid to long-term currently, we are doing very well on the Mortgages portfolio and it is 41% of our Advances. Is there some cap or target like you wanted to be at 50%-55% over the next two years or so? And is a high Base Rate deterrent to grow this business as compared to a larger Bank, that was my first question? And secondly if you could throw some perspective on the SME and MSME, it has de-grown 9.5% obviously you have been talking over the last few quarters in terms of slowdown and risk mitigation and cutting the ticket size, so are we hopeful of recovery in the near term or we find it too risky, so we are okay if that's not growing?

Murali M. Natrajan Whether it is Mortgages or SME or MSME, our segment is SME. So we do very very little of salaried customers in our Bank, maybe 10%-15%. So I mean majority of our Loans are going towards SME?MSME. For example, if I give a Loan against Property to a Businessman, I haven't put it in the SME/MSME bucket, I put it in the Mortgage bucket because it is an installment loan but essentially when Mortgages are growing and I'm growing LAP you can say that I'm still continuing to grow SME and MSME. Now in SME/MSME majority of our loans are working capital overdraft, CC etc. there we always operated at anywhere between 60% to 75% coverage of hard collateral. What we found through our analysis almost now 18 months ago is that where the collateral coverage is less and the ticket size is higher, ticket size being more than say Rs.5 crores, we found some stress developing on that portfolio, so we took a call and went to the Board and said we want to de-risk this Business, so we identified some 30-40 accounts which we had to exit slowly slowly or they had to bring more collateral, given the risk appetite of other Banks and I'm not criticizing it, I'm saying that every Bank has to work on their own risk appetites, Banks were happy to take those type of risks, so those Loans are moving out. For example, there is the customer who has been with us for seven years and he has an outstanding of about Rs. 12 crores or Rs. 13 crores they want to go to Rs. 21 crores and they don't want to give Re. 1 of extra collateral, so we let go because we feel that while we will make only 3% on this, why takes a Rs. 21 crores risk on a 3% margin and to sell a property of Rs.20 crores is not easy, even if we repossess and all, it is not easy. It takes a lot of time, given the current market environment. That is how we redefine things. Now there is good news and not so good news, the good news that the small ticket loans are starting to pick up because we had to reorient the entire sales team to sell small ticket loans, its picking up, the branches have started to contribute all that is very well but if I exit even one Rs. 14 crores loan it doesn't match to the growth and that is the reason why you see that portfolio in a declining mode. Our idea is I thought we will finish the entire reshaping by 18 months, it seems like we need more time on that, but that is not stopping us from doing more on the other businesses. Second thing is Mortgages, we operate very conservatively in terms of LTV but we work on self-employed segments. Self-employed segments by nature is slightly risky, however you need to have a very sharp underwriting and evaluation team which I think we have. In Home Loans, high Base Rate is a problem because you have 10.85% and you want to make even like 1% margin it goes to 11.85%, so it is not easy to do Home Loans at that rate, even so at self-employed is still have a play of say about 25-30 basis points, so Home Loans we only do about 11% or so just slightly above, LAP can be at 13.5%-13% depending on the geography etc. Ideally we are watching as to what is the gap that we are creating on our Treasury longer buckets. So from time to time, ALCO determines we need another Rs.300 crores to Rs.500 crores to close the bucket on taking longer Term Deposits and so far we have not had the problem in the growth of the Mortgages and we are hoping that over time we might get from NHB etc. longer-term finance as the Bank rating improves that should also help our buckets.

Moderator Next question is from the line of Mr. Subramaniam PS from Sundaram Mutual Funds. Please go ahead.

Subramaniam PS I had three questions, first one was on the branch roll-out you said that 120 branches is what you want to target, what I wanted to understand is the current OPEX, that we have seen for the quarter, does it include some of the costs for the potential branch roll-out or is it that with these rollouts happens the cost might increase at a faster pace because we have just opened 2 branches and the OPEX is still it is growing at around 15%?

Murali M. Natrajan The OPEX has grown also because even the existing employees salaries have gone up otherwise it is a challenge given the new Banking license coming in we have to be careful about that, which is one. Secondly even before you put the branches you have to hire the employees because they have to undergo training on systems, process, and controls and so on. So these 7 or 8 branches that are likely to come by end October or 15th November, we have already hired employees for those branches and they are part of our cost base at the moment and even sometimes you have to take the premises, 30 or 45 days in advance because you need time to refurbish that, so some of all those costs are already in I would say. Having said that I have always maintained that we are targeting slightly below 65% for this year because we not only want to exploit the existing branches but we also wanted to keep putting new branches specially in Tier 2 to Tier 6, so I should see some pickup in costs, but hopefully correspondingly we will have a decent Income growth also as you put on these branches.

Subramaniam PS Just touching on the Income growth part of it - on two parameters I just wanted to know what is happening, one is that we have the strategy that some of the Agri Rural Advances contribution from these newer branches should help us grow the book, but what we are seeing is that the Agri book is actually declining and the second part of it is again the Non Interest Income, fee income traction is still not there, so just wanted to know how these two things would actually pan out for you?

Murali M. Natrajan Agri portfolio, when you say Agri portfolio there are many portfolios in that Agri, there is Tractors, there is Loan against Commodity on Warehouse Receipts, there is Loan for Warehouse Construction, Micro-Finance Term Loans etc, out of that what happens is that commodity, customers come and liquidate their commodity those are very lumpy type of loans like Rs. 3 crores-Rs. 4 crores that type of loans, so in this period if you see all across years, in the last 3-4 years if you study our Balance Sheet you will find Agri would have dropped. In fact this year I would argue it has not dropped to the extent that it dropped last year, so that part of the Agri book always drops and picks up again in the following six months. The underlying Advances such as Warehouse Construction, CC/OD that we do or even Tractors all those are growing steadily so I don't have any worry in that particular book and probably this year we should do quite well again.

Subramaniam PS But if I just look at even the year-on-year growth numbers, I'm not talking about the quarter-on-quarter growth numbers but even year-on-year what we see is actually a 4% decline, if you could just break this up into some portfolio growth?

Murali M. Natrajan Why would I want to keep a lot of low aiding PSL for too long in our book? That does not make any sense. So some of the books for example, if we give a short tenure loan to MFI and we want to make sure that the yield is low let it run off quickly because why unnecessarily have that longer-term in our book, so AIB Advance will have that movement up and down definitely in the first two quarters, as for reasons I mentioned, but the core businesses such as Tractors and all are growing quite well in our portfolio, year-on-year we should see an improvement again. What was your other question?

Subramaniam PS That was on the fee income?

Bharat Sampat Non-fee income vis-à-vis last corresponding quarter last year seems flat,but if you see underlying commission exchange brokerage that has moved up from Rs. 216 million to Rs. 240 million that you can see on Page #19 of our Investor Presentation.

Subramaniam PS What I was wondering as the growth in Fee is much slower than the growth in overall Balance Sheet or overall Assets typically for most

Banks it tends to grow in line or slightly ahead of that so just wanted to know?

Murali M. Natrajan We are not very strong on Corporate Banking. So, if you are not very big on Corporate Banking I can't see that type of big Fee Income happening, ours is all granular Fee Income on processing fees, ATM fees, commission exchange on small Trade Finances that we do for SME and Retail portfolio. Our aim is that every year we should be able to grow Fee Income such that part of our cost is taken care of and then last quarter the Fee Income we were quite hands-off on both Assets and SLR trading, therefore, we are quite fortunate that we didn't lose money in that situation.

Subramaniam PS And one last data point, what would have been the core growth in the core Agri portfolio, the non purchase part of it?

Murali M. Natrajan That we are not making it public at the moment. As we break it down, we will release it to all investors when we break that portfolio down.

Moderator Next question is from the line of Saikiran from Espirito Santo Securities. Please go ahead.

Saikiran In your opening remarks you mentioned that the slippages is primarily from SME and MSME book and you also explained that some sort of corrective actions are taken up. Do you expect now this has peaked off in terms of Asset quality challenges? And the second question is on the Advances growth, we have seen this quarter very high Advances growth on the Corporate Loan book, can you just explain what the reason behind it is?

Murali M. Natrajan When Corporate Loan grows you guys have a problem and Corporate Loan doesn't grow you have a problem. I don't have an answer for these questions honestly. We are in the Corporate Business so it will grow so I could not say why to grow, last quarter why did not, last quarter I've have explained to you that we have a lot of run-off in that quarter. If you see from the start of the year till now it is flat, if you see that, like you see in the March numbers now it is flat.

Saikiran If I look at at least numbers what I have, at least shows that it is almost like 5% YTD growth?

Murali M. Natrajan No. I will tell you March 31st was Rs. 1,566 crores and September 30th is Rs. 1,564crores, so it is flat according to me.

Sai Kiran Maybe that is my mistake?

Murali M. Natrajan Please see Page #11 and I have said that we will always grow Corporate at 14% to 15% every year, so if I see year-on-year probably are at about 15% at the moment. Second thing is obviously when we are able to look for opportunities in AA account or AA- type of customers on an opportunistic basis, on a secured basis we are looking for those opportunities and we also hoping that such opportunities will give us some Fee Income as well on Bank Guarantee, LC, Trade, etc., so that is how it is, I don't think we are planning to grow out of our skin on Mortgages. You will notice that we will be in that 15% to 18% range only in the growth. Now SME, I believe that except maybe 2-3 accounts a lot of risk have been contained or exited by us in the last 12 months in a very dedicated manner. What we have done is we have identified those accounts, put a team of two people, keep working with the customers either the person brings in more collaterals or they take out the Loan to another Bank, so I believe that a lot of these Loans have already been dealt with but we are still left with about two or three loans which could be a problem for us in the coming 6-12 months, if we are not able to handle that but the new Loans that we are booking are with 100% collateral. I am confident about the quality as well as the behavior of the portfolio.

Saikiran Couple of data point's one number of employees and the Risk-Weighted Asset numbers?

Murali M. Natrajan Number of employees around 2,400, so there has been an uptick on the number of employees and Risk Weighted Assets in Rs. 7,313 crores.

Moderator Next questions from the line of Mr. Amit Ganatra from Religare Invesco. Please go ahead.

Amit Ganatra Just a few questions one is just a clarification, your MTM losses have been fully booked or you have taken that six months, two quarter?

Murali M. Natrajan No, our MTM losses as on July 15th valuation was Rs. 76 lakhs, which has been completely taken. We also used the dispensation of transferring about Rs. 59 crores of worth of securities to HTM because we had that opportunity and then we had another Rs.1.5 lakh loss on MTM September 30th, which is also been booked.

Amit Ganatra So basically there is nothing which remains?

Murali M. Natrajan As of now there is nothing left.

Amit Ganatra The other question was basically from a long-term perspective, now I was doing the Du Pont analysis of your performance for last two years, so now you are comfortably delivering 1.2%-1.19% kind of ROA for last to 2-3 quarters and if we look at from where basically this improvement has happened largely it has happened due to 3 factors, one is that your credit cost has now stabilized from a very high level, they are now have been stabilized and a certain predictability has come across there. So there is no significant increase. But the significant increase has come from two accounts, one is the NIM expansion and the other is the OPEX, so the operating leverage basically, so OPEX to Asset Ratio is coming down. Now over next 2-3 years basically Tax as an element also has come as a part of your ROA because the PBT is equals to PAT for you. So just wanted to understand from here on if I have to basically try to just understand that from where does this increase in ROA have to come from?

Murali M. Natrajan We have a lot of scope still to improve our Cost Income Ratio.

Amit Ganatra But it can come from two things either basically Income expanding faster than your cost which means that NIM expansion or a Fee Income growth or it is just that the Balance Sheet?

Murali M. Natrajan Our idea is with the same resources to produce more. If you see our employees are around the same range of about 2200 odd is what I would say in the last maybe two or three years, in fact we had an expansion of employees and we have kind of shift of them to better products, so our employee cost acceleration we want to keep it much lower than the income acceleration, so our existing Branches, our existing capacity will start to produce better results for us which is what has been happening. So our stated objective is to grow Income at high-double digits of +20% and contain costs at 10% to 11% on an annual basis.

Amit Ganatra But is NIM expansion further possible?

Murali M. Natrajan How can there be NIM expansion possibility because we are not planning to do Unsecured Loans or Personal Loans or Credit Cards.

Amit Ganatra But largely now the operating leverage part which will….

Murali M. Natrajan Operating leverage will be a very important one but we can do more if we don't expand to newer Branches, but I need to put more Branches also because I want to be able to independently do PSL without depending on other entities and you can see one of the reasons why we have been able to keep a better NIM is also because a lot of dependencies on PSL is now with us rather than worrying about buying portfolios on a large scale, so that is also one of the reasons why overtime we have been able to kind of either improve or maintain our NIMs.

Amit Ganatra What about the Fee Income part?

Murali M. Natrajan Fee Income part I have just answered I think you were dialed in, our aim is that every year we want to grow fee in such a way that at least much of the cost increases are taken care of. The Fee Income largely will come from Trade, Accident Insurance and other Insurance provided that we sell to our CASA customers. CASA related fees is natural, when you have SA and CA acquisition , SLR Trading and Asset Income which sometimes can be erratic but steadily we have been able to do that as well.

Amit Ganatra And just for clarification can you please repeat Risk Weighted Asset numbers?

Bharat Sampat Rs. 7,313 crores.

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

Mona Khetan How much would be a total Floating Provision?

Murali M. Natrajan It is about Rs. 3.6 crores.

Mona Khetan Where would we stand with our Credit growth expectation at this point of time for FY14?

Murali M. Natrajan We are targeting for about 22% to 25% growth but given the environment we are very clear just because I have told you in the call I'm not going to take any undue risk to deliver on those numbers but looking at various volumes of Mortgages, Commercial Vehicles and also the investment that we are doing in people, we have a reasonable idea that it will reach 22% to 25%.

Mona Khetan I just missed on the Restructured book number, where we stand on the Restructured?

Murali M. Natrajan Rs. 28 crores of five accounts.

Moderator The last question is from the line of Mr. Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora I just wanted to understand one thing our Cost of Funds have declined during the quarter and our funding liability profile is relatively Retail based, so most likely the trend for the Cost of Funds will not be very volatile like some of the other Banks which are having a Wholesale kind of Liability franchise. So when you have increased the Base Rate during this quarter what is the rationale that we are looking at? Is it that we are cutting now on spreads on incremental lending or what is the strategy going ahead there?

Murali M. Natrajan Base Rate has increased because we are anticipating that all the Deposits that are coming up for renewal and the Deposits that we have booked especially in September are coming at a much higher rate. In our ALCO meeting, we are going to see how the renewals are happening and how the new Deposits are coming. So the entire Cost of Fund impact of Term Deposits from Retail is not fully played out in our financials. So Base Rates are always increased slightly in anticipation, as we see the performance of Deposits and our Base Rate calculation indicates that we do that every month. It indicates that we are already reaching that level where we should raise 35 basis points. However, if we find that the Cost of Funds start to decline, which I'm not sure it is going to, we will obviously bring down the Base Rate. We increased the Base Rate after almost 2 years or so, we never raise our Base Rate and we were not the first Bank to raise the Base Rate in this whole crisis.

Rohan Mandora Because we have maintained the Base Rate steady even when the funding cost was rising, so that is why I had this question.

Murali M. Natrajan And we never had an idea to raise the Base Rate so that we don't do lending but we do raise customer rates when we want them to exit, we have done on a case-by-case basis like that where we were not happy with an accounts for credit reason, we sometime increase the rates so that the customer happily takes away the loan to somebody else.

Rohan Mandora In the previous concall we have mentioned that we had on one or two large Corporate Accounts under stress and 3 to 4 SME accounts, so does the outlook stays same or this account which has slipped during the quarter in SME whether these are stressed accounts or are they fresh accounts?

Murali M. Natrajan No, we have the following categories of accounts in SME and Corporate - Regular, Anxiety, Problem, NPA. So Regular account sometime go to Anxiety from where it may go to Problem. From problem it goes to NPA or it can go the other way also like from NPA it can come back to Regular as well, so these accounts are reviewed almost every 15 days by various Credit teams and Business team on what is happening on these accounts and what actions are necessary to protect our earning. So every year we would see that one or two Corporate accounts would be under stress even under normal situations so I'm not seeing any Corporate accounts under stress this year more than what it was last year or so and usually we are in a position to handle these accounts. I'm just saying that in case we are unable to handle accounts and it slips to NPA there will be pressure on NPAs that is basically what I'm saying.

So, operator that will be all from us and thanks to everyone for joining the call. If there are any further questions, please feel free to write to us, to Bharat Sampat, to Meghana and it will be our pleasure to respond to you and we will talk again in next quarter, thank you very much.

Moderator Ladies and gentlemen on behalf of DCB Bank, that concludes this conference. Thank you for joining us, you may now disconnect your lines.