DCB Bank Limited Q2FY16 Earnings Conference Call

October 14, 2015

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Moderator: Ladies and Gentlemen, good day and welcome to the DCB Bank Limited Q2FY16 Earnings Conference Call. Joining us on the call today are Mr. Murali M. Natrajan – MD & CEO, DCB Bank Limited; and Mr. Bharat Sampat – CFO, DCB Bank Limited. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Good Evening, Ladies and Gentlemen. Thank you for joining this call.

We have decided that we will continue this call as long as all the questions that people may have in the call are completely answered. So if it takes one or two hours whatever time it takes we will continue this call. So there is no limit to the call today.

Let me begin by giving you some highlights of the performance of Q2:

First of all, I want to say that last year first quarter our tax rate was about 11%, now we are at 34.6% tax. So we are at a full tax rate because we have completely absorbed our accumulated losses in the first quarter of 2016. That'll have an impact on the P&L post tax.

The second point I want to mention is that we have done a settlement with a very important NPA account that became NPA I think in the first quarter of this year. This was a corporate account which we have been holding for last many years and reliably I believe from the market that we are the only bank who has been able to recover the dues from this corporate. So we had to do a settlement and we reversed about Rs.6 crores of principal which also had held up the provision. So that has been a one-off item in provision this quarter. Apart from that, of course, we have been making provisions on floating, we have made provisions on standard assets, and those provisions are also volume-related as well as balance sheet growth.

We have had a pretty decent increase in both Deposits and Advances. I am seeing a good amount of traction in Savings Account as well. We do feel that we will be upwards of 16% growth rate in this year because the first half has been pretty decent for us from CASA growth point of view.

We have had some set back on Corporate Loan book. There is a lot of competition. So many of the loans got repaid because other banks have been able to re-price at a smaller rate.

But, with respect to mortgages even SME has seen some uptick, AIB year-on-year we seem to be doing well and we do believe that we should be able to achieve 25% type of growth this year in Loans.

Obviously, the Deposit growth will depend upon how much loan growth we can achieve this year. But we do not seem to be facing too many challenges at the moment.

If you look at our operating income, please back off Rs.5 crores of one-off interest that we have earned because of income tax refund on both quarters -- last year second quarter as well as this year second quarter. There is a lot of good work that is happening on old income tax cases. So we were lucky enough to get some refund and also earn some interest. If you back off from that Rs.199 crores, Rs.5 crores, and Rs.154 crores, Rs.5 crores, you have a growth rate of income of almost 30%. Even non-interest income that is fee income has done reasonably well on a granular growth rate, which you can find in our 'Investor' deck.

Moving on, the new branches that we have implemented in the last few months we are tracking that very carefully and we are finding that there is a lot of success we are seeing. It is helping us to grow our deposits, it is helping us to achieve priority sector lending, and it is helping us to achieve overall Loan growth on a granular basis. Since we are tracking those expenses separately, we believe that we are pretty much in control of our new branch expansion so far.

With respect to NPAs, our Mortgage portfolio, SME portfolio, Agri Inclusive Banking, Commercial Vehicles all that has more or less behaved. Yes, there are one-off issues here and there, but at a portfolio level I do not see too many challenges in that. In Corporate Loans, we are not very aggressive in Corporate Loans. But having said that given the market conditions we have always had some challenges on two or three accounts which we continue to have, which we are managing and we hope that we will be able to resolve these accounts in the next six months or so provided there is some kind of improvement in the environment because some of these corporates are struggling although their business model is okay, and we have to be very watchful.

On the whole, we are quite satisfied with our performance both on the quarter as well as half-on-half. Even I have looked at the half-on-half numbers underlying income, underlying NIM, all that seems to be okay. The only change that is likely to come in the environment is in case RBI changes the base rate methodology and moves to marginal cost. Because we are doing mortgage business we are taking longer-term, term deposit and that is how we are calculating for the last whatever number of year's base rate has been introduced. We have to see what would be the impact. Conservatively, I have estimated that the base rate may change by 50 to 75 basis points. But the actual application of that would depend upon what portfolio is linked to base rate and what is the fixed rate, etc. So we have not come to that point yet. We have done a very rough calculation on what would be the impact on change of this base rate.

We had a very good presentation to the Board and we felt that now that we have wiped out the accumulated losses and we have seen a very important change in the environment which is 23 banks are coming into the picture very shortly; 2 have already come, 11 payment banks and 10 small banks licenses have been issued. All of them we know are under preparation in terms of launching. We felt that we need to accelerate our branch roll out process, plus we have also given three more areas where we want to concentrate on -- One is we want to actually partner marketing partnership with some of the startups. It does not mean that we want to invest in startups, but in a weekly basis we are getting a couple of presentations on new technologies, new way of doing banking business, aggregation of some of the SME, supply chain, etc. We are pretty excited. We actually sponsored BITS-Pilani startup conclave and we were able to meet about 250-odd startups over a period of a month and a half and we feel that is a very exciting space. So we do not want to miss out on that. So we are dedicating a couple of resources to work with these startups, mentor them, also find out how we can do marketing or other tie-ups which will help us to improve our product set as well as the distribution.

We are going to be working with some of the NBFCs and other entities who have not got a banking license. Some of them have approached us for tie-up either in terms of product or distribution or both. There are a lot of active discussions happening. I cannot explain to you as to which one is going to close or not, but there is a lot of action happening there and we believe that that will be a very important strategy for us to enhance our distribution and products as well.

We find that the payments banks or the new banks they will have a lot of technology emphasis. So we have done a brainstorming. We have studied lot of technology aspect and we have decided that we are going to channelize the resources of our technology towards customer facing and front line enabling type of technologies and this also will help us to deliver better customer experience and we do not want to be missing out on this aspect as compared to other banks. These are the four changes that we are making in our approach to the coming months.

I am happy to take questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session.

Prakhar Agarwal: This is Prakhar from Edelweiss. Just a couple of questions; first, on your branch expansion plan that we have expedited to set to add the 150-branches. So anything in terms of geographical expansion where we are planning or we were initially focusing on cluster base. Any changes in that cluster base approach or some sense on that?

Murali M. Natrajan: Let me take the pain to explain in detail, I am quite sure somebody may be having a question about this or more as well. First of all, so far we have had experience of adding 80 branches in the last two to three years' time. The way we look at these branches is that we have a bias towards semi-urban and rural. Much of our branches have come in semi-urban and rural. Metro branches we have added only where we needed a hub to actually connect these rural and semi-urban. We have used a cluster approach in expanding our branches in Odisha, Madhya Pradesh, Chhattisgarh because these are all states where we were not present about 3.5-4 years ago and we have been very successful in this cluster approach. We will continue to expand branches in some of the states like Chhattisgarh, Odisha, Madhya Pradesh, Telangana, Andhra Pradesh, and Rajasthan. Punjab: We have been very successful in deposit franchise in a cluster approach. We do not have any plans to change our cluster approach or putting majority of branches in the semi-urban or rural areas.

Prakhar Agarwal: These branches will largely start by focusing on your liability products?

Murali M. Natrajan: Our approach to a branch is all products, all branches mean whatever products are applicable to that catchment area we offer. Of course, before we offer any Deposit products we check the credit culture in that particular district because there are many districts in our country where when you talk to the public sector banks that are already established, private sector banks or any other entity, you get to understand what is the credit culture, we try to avoid doing any lending in an area, in fact we may not put up a branch, but if we do put a branch on a deposit franchise we may actually not do any kind of lending that is likely to get us into trouble. Punjab is a very good example of a Deposit franchise. We are very successful in Punjab in getting Deposits.

Prakhar Agarwal: While we will be focusing on branch expansion, so probably we would not be focusing too much on the corporate side of it, we will probably focus more on the Retail part and SME part in terms of growth?

Murali M. Natrajan: We have always mentioned and we will mention it again… even in my document I have clearly said there is absolutely no other change in our strategy except ramping up branches and other three items in terms of technology, startups and alliances. We do not have intention of ramping up Corporate. Our corporate loans are likely to grow by about 15-18% every year. We do not have a big team for Corporate. Having said that this year it may not even grow by 15-18% because we have had a lot of repayments in the last six months. The focus is going to be Retail, SME granular businesses. Most of the loans are likely to be below Rs.3 crores and that is exactly the sweet spot that we are focusing on.

Prakhar Agarwal: So post these 300-branches that you are targeting, any target in mind that will again draw back to 25-30 branches addition?

Murali M. Natrajan: It may not even be 25-30 branches. We believe that once we get to 300-odd branches there is a lot of work to do to just get to 300 branches and make that work. We do not believe that we will be growing more than may be 10 to 15 branches or even 5 to 10 branches in a particular year. This aspect has been discussed both in the Board as well as in the management team. We are concentrating on seeing how to make 150 plus branches including …. There is a lot of work to make the existing branches work also. It is not that once you put a branch it is on autopilot or something. It is a daily activity to make even existing branches continue to perform. We will have a lot on our plates. We do not believe that we are going to expand too many branches in a yearly basis after that.

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

Clyton Fernandes: I wanted some guidance on your net interest margins. Your core earnings continues to be very strong and very impressive even this quarter but clearly like you mention also that this is not sustainable and NIMs can come off. But do you not think this 50-75 basis points guidance a bit conservative in your opinion? Like you said it is a rough estimate now, but have you all done any work in terms of what that could be maybe a year or two down the line?

Murali M. Natrajan: First of all, our intention is to maintain minimum NIM of about 350 basis points because the kind of segment that we are operating which is self-employed, I believe that our credit losses could be in the range of 50 to 60 basis points. I am talking about the average of all products put together, I am not including Corporate in that because some years nothing happens in Corporate but suddenly something happens in Corporate. We believe that 350 basis points is a decent enough NIM for us to operate with this kind of a segment. I am talking about given the current market condition. If people become very over aggressive in lending and all it can change. I am just telling you at the moment what it looks like to us. What we did was when this draft circular came we have done some calculation. The IBA wanted our comment, we have said that why we need to use average cost because we are taking Term Deposits one year plus, two year plus in order to make sure that we do not have a big gap because of our Mortgage portfolio. Using marginal cost can have impact on us till such times the marginal cost and average kind of merge. On a very ready estimate we have made it as 50 to 75 basis points. There is no intention to bring the NIM down to that level. There is a lot of work to be done to see as to what part of the portfolio is fixed, what part of the portfolio is one year fixed and beyond one year it is Base Rate, etc. I believe that there could be NIM impact but I cannot comment on what exactly the NIM impact would be at the moment. Hopefully, in about a month or so once we get the final circular and everything we will be able to explain to you.

Clyton Fernandes: This becomes crucial because since you are in your investment mode now for the next 3-years or so. So, obviously, this investment will be driven by core earnings as well.

Murali M. Natrajan: Yes, there is a lot of pressure on pricing at the moment because the deposit rates are coming down. Our Base Rate is likely to come down steadily between now and April. Ultimately, if the Base Rate also come down by that time and you go to marginal rate the impact may not be that much. I am not able to predict it right now. But all I am saying is that I want to keep at least 350 basis points NIM intact so that our model continues to work.

Clyton Fernandes: So by and large your guidance previously which you had maintained are 3.5 that kind of a range, but you are saying that there is some lot of work to do to keep it at that level?

Murali M. Natrajan: I can tell you that there is an immense amount of work to be done between now and April. Some banks have declared that they have already moved to the marginal cost and all. I am not able to comment on that. But my discussion with some other banks and all to understand what the issues are, seems to be similar to the kind of issues that we seem to be, Because you need longer term deposits for us to plug the gap in Mortgage book. There is no choice.

Clyton Fernandes: You mentioned also in your document about disruptive strategy, some of the new players which can come in. So do you mean disruptive strategy is on the liability side in terms of maybe pricing of CASA or could it be on the asset side also?

Murali M. Natrajan: No, I have not seen any pricing disruptive strategy yet. Okay, let me put it this way. We debated this endlessly in our team meetings. We have been able to maintain our SA growth despite the fact two or three banks have had onslaught of advertising on either 6% and 7%. We have had our new acquisitions pretty much intact because of the way we did our acquisition of SA accounts through self-employed. We have seen a lot of technology companies who are able to give pretty much instant kind of fulfillment for customers. We ourselves launched a product called DCB Zippi in three steps, for example, anywhere in India you can open a Term Deposit with DCB, we still have a product called DCB Zippi. So a lot of these companies are coming and presenting. Some of them have enough money to actually implement it, some of them are just conceptual ideas. When I say 'disruptive' it means work with some of these companies I do not know which one is going to be a winner. May be none of them will turn out to be winner but we do not be blind sighted about what is happening in this aspect of banking. It does not mean that we are going to put money in any startup and in any case some of these startups the money required by them is only like Rs.25 lakhs, Rs.50 lakhs kind of thing, otherwise they are all bootstrapping their venture.

Clyton Fernandes: Would you recalibrate this expansion plan if you see the macro environment is not really picking up or maybe the competition is not probably going to intensify as much you are thinking now, so this 150 branches over 12-months would you relook at it maybe 6-months down the line?

Murali M. Natrajan: What we have agreed with the Board and what we have agreed with the management team is that after all it will only take us another 30 to 35 days, maybe even 45 days for us to prepare the full implementation plan. The implementation plan has started. I want to tell you, Clyton, that it is not that on day one 150 leases are going to be signed and then the bullet has left the gun and it will either go to miss the target or hit the target, it is not going to work like that. We are talking about not one factory, we are talking about 150 factories to be installed in 12 months' time. If we find that the macro environment has turned against us or we are facing some NPA issues or some operational risk issues, we will obviously calibrate that, but the intention of the management team is very clear that we want to scale up rapidly and we have set ourselves a deadline of 12-months. It does not mean that some big problem comes and we feel that the model is not working, still you go and implement those 150-branches. Obviously, that does not mean that.

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

Kaushal Patel: First of all, I would like to know the thought process behind your branch expansion strategy, mainly because there was sudden shift from the last quarter to this quarter as initial strategy was to add 30-branches every year till the last quarter and this quarter the surprise came?

Murali M. Natrajan: A) We have absolutely wiped out our accumulated losses. B) 23 new banks are coming. Now the option for the bank is do nothing and continue the strategy. As a management team we are not comfortable following that strategy. Now the debate is what should we do. We find that the small banks and we have been meeting some of these MFIs because we have been having lending relationship with almost all the MFIs who have got banking license. We know their management team, we know their ambition, we know what plans they are likely to come up with. They can lend above Rs.50 lakhs 50% of their portfolio which is pretty much falling into the area where we are concentrating on. So we have an option. We can do nothing. Continue with 25-30 branches or act now. Now the question is what is the action we have to take? Should we go for Corporate Loans? Should we do big ticket items to grow our portfolio? Obviously, that is not what we want to choose because that has its own inherent risk on NPAs and our experience has told us that it is better in this market to stick to small tickets, secured lending. There is no change in our strategy or segment. Now the question then comes is should we make it 50 branches, 150 branches? Since yesterday we have been on call with many of the investors. Some of them are very concerned investors. I appreciate the concern. Some people say, why do you not do 50 branches, somebody says do 300 branches. It is not possible to come to some consensus of all investors and agree on a strategy. The management has to decide what is the reaction that we need to have for this thing. 23 banks have never been given licenses in the entire history of banking in the matter of one month. That is a very big change in the landscape. And I can say nothing will happen in competition or we can choose to act. So we are choosing to act.

Kaushal Patel: There must be some long-term strategy behind this 150 branches, like obviously till today 160 and we are opening the same number upon here. So like what is the bank's vision for next 5-10-years…?

Murali M. Natrajan: We have some very experienced people in our Board. We debated for a long as to what is the optimum number of branches for you to be a meaningful sizable bank. There is no magical methodology or any such way to say that, "Okay, it should be 300, 400, 500 and so on and so forth." Considering our current experience of 80 branches, considering that we have been fairly successful in the 80 branches, we have looked at the metrics, the way we do branch expansion is we prepare 60 months P&L and volumes for every branch that is approved for installation and each of those 60 months is compared to say how it is performing against let us say four months over, at four months where are we, five months where are we, etc. So I believe that at the moment 300 seems to be a pretty decent number for us to work with. I cannot tell you what is going to happen three years later, but I have already said that I do not think that we are going to expand more than 10 or 15 branches every year after that and we obviously would have a decent size of branches. Hopefully, our cost of performance also is much better than what it is today. The other question that investors have asked, "Hey, we are all coming into some Digital age. Why the hell do you need branches?" I was looking at it, there is a branch called Karmeta in Madhya Pradesh. is about three hours from Bhopal. I want to give a Commercial Vehicle Loan to a customer in Karmeta. He may not be near the branch, he will be probably 5-7 kilometers away from the branch. How do I deliver Commercial Vehicle Loan to a person in Karmeta from Lower Parel? It is not possible. But yes, I will tell you where we are investing which is one of my strategy is that some of the NBFCs have done a pretty good job and we are behind that. We want to plug that gap is that you give some kind of a mobile instrument to our RM so that when he visits that customer he can upload the picture, he can upload the assessment, he can upload the security document or KYC or whatever so that the central office or the regional office can quickly approve the loan, send it. The customer also has only cash option. In our country much as we dislike it there is a lot of cash. Customer comes to a branch and pays Rs.3000, Rs.2000 and all. Hopefully, some digitization will reduce this cash but at the moment I have deal with this cash. So we will introduce appropriate digital technology but I do not think there is any answer to replace branches in many of these locations at the moment.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on the branch expansion strategy part, two things – one is what do you think is in terms of cost-to-income ratio for you? Secondly, does this strategy not like which sort of deflates your cycle ROEs that the time you have raised the capital last time around and till the next cycle? So we are looking at single digit ROEs and this will sort of make it challenging for you to raise the capital next time around. So just some thoughts on that.

Murali M. Natrajan: If you do not grow also it will be a challenge for us to raise capital. If we lose ground to small banks also it is going to be a challenge to raise capital. Capital raising is always a challenge for a small bank. We have faced that challenge four times now in the last six years and fortunately thanks to some supporting investors, we have been able to raise the capital. We will cross the bridge when we come to it. But let me tell you that many investors want to look at the bank in one year, two year time frame. As a responsible management team, we want to look at it what has happened to the bank in five to seven years' time because we are growing this bank to keep, we are not growing this bank to sell. I have to look at saying what is the sacrifice I have to do of near-term and I cannot see any other option but taking a small divot in profitability in the next 18-24 months to be able to produce much better results in the three to five-year kind of time frame. That challenge is there. We have done some stress test on what can the cost-income ratio deteriorate to, will it go to 70, will it go to 65. I have given you some indications on this thing. It is not that if I say 75% or 70% we will definitely make sure that we reach that cost-income ratio. There are plans that are being unleashed on the existing branches to say what kind of productivity can be achieved so that they fund some of these expansion better than what they are doing today. For example, we have done a peer level comparison saying what is the fee income that ICICI, HDFC, IndusInd Bank, CUB, Federal Bank all these banks are doing per branch. What is the productivity per person per branch, etc. And then we are going on to say how do we get the existing branches and existing set of people to produce more so that part of the cost that is likely to be incurred can get defrayed. There are no easy answers to your question. All I am saying is that I have given you indication on the outer boundaries on which we will operate.

Ashish Sharma: Does it also prepone our capital raising, maybe…?

Murali M. Natrajan: We have done capital raising calculation. We have done all the way up to 2020. We of course want to extend it till 2022 and see. We have applied Basel III and so on. I have always maintained that we will need capital between January to March 2017. At the moment it does not look like there is any change. The other point I want to mention is that in the event regulator allows the promoter to hold 15%, there is no indication that it is going to happen, but I am just saying that in the event it happens, our belief is that promoter will support the 15% of capital.

Ashish Sharma: Just you mention that is it not a strategy where we are looking at building it to sell, but this is clearly defined plan or the thing also will evolve depending upon the situation?

Murali M. Natrajan: Boss, I was asked the question whether you join the bank for selling in 2009. I said no. I am telling you again that the promoter is most interested in the bank. Why would he want to sell the bank especially when it has been having a decent track record in the last six years? If at all there is any opportunity for acquisition we will be looking at such opportunities but there are no such opportunities. Yesterday, one investor called me. He said, "Instead of doing this please do acquisition of some bank." Please come to me with a bank that is ready to be acquired and if it does make sense for us to acquire, we will look at it. We have looked at the environment, we do not believe that there is any such opportunity.

Moderator: Thank you. The next question is from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.

Ajay Khandelwal: So let us just lay out the scenario here. What we are looking at is probably because of change in Base Rate methodology, we are looking at compression in NIMs, because we have expanded our book in last few years, because of some seasoning NPAs also. So seasoning will result in increase in NPAs also, competition is increasing, LAP prices market is becoming more competitive, yields have started coming down already which is a main business for us and we understand that we chose to act but when scenario is such that we could have actually gone for say maybe we could have increased by 50% branches and then let us see what happens next, because it is that our per branch costing right now is like Rs.1.5 crores average on the balance sheet and we are looking at 150 branches expansion?

Murali M. Natrajan: You cannot do the balance sheet. There is corporate office and all on this. Our cost per branch is depending upon how many people we put anywhere between say about Rs.35 lakhs, a metro branch would cost may be Rs.80 lakhs or Re.1 crore. Let me also tell you we have done a comparison of our branch cost of every other competition. In many cases, we are actually either same or less in terms of per branch cost. I do not think we are doing a bad job on per branch cost at all. There is a lot of efficiency we have brought in branch cost.

Ajay Khandelwal: For the numbers, branch cost if we take at Rs.35 lakhs, what would be the employee cost in this new…?

Murali M. Natrajan: It works like this. Let me explain to you how do we put a branch. Take an example of a branch, we will take Karmeta itself, Karmeta, there will be a study done and the business team will say that we are going to put a branch in Karmeta. Then we will say show me, "Why we need to put the branch in Karmeta?" They will come with analysis saying that I am just giving some numbers like this… rice mill is so many, SME are so many, shops are so many, one factory is located here. Full recce will be done on this particular location and say this is what it is. They will also tell us what are the public sector banks in this area if it is in a banked area, not an unbanked area, what is the success of this public sector bank, what type of business they are doing. There will be some study done in terms of the market credit discipline, etc., and we will come out with a plan saying, "Okay, in X number of months this is what we can achieve in this." Then we put a thing, "Okay, can we sell Commercial Vehicle?" Okay, we will put one RM there. "Can we sell micro mortgages?" We will put one RM. "Can we sell tractors?" We will put one RM. Gold, CASA though obviously you will assume that it can be done in almost entire branch. So we will decide whether we want to put eight people, nine people, five people, it will be a very branch-specific decision. I am giving you an average cost of Rs.35 to Rs.40 lakhs on a small branch including everything, and on a big branch like say Bhopal or Bhubaneswar would be Re.1 crore primarily because rentals may be higher.

Ajay Khandelwal: Have we considered a scenario where we could have gone with say 70-75 branches this year and another 70-75 branches next year because we also agree competition is coming, in that case as we have seen business runs away pretty fast with other banks coming up at lesser price, so in that case what we will end up with is we have a branch where the new competition is coming and they are winning away our business at lesser price, so our expenses are there, but at the same time now we are left with customers which are not so well paying in that case?

Murali M. Natrajan: There is some level of ignorance you are showing in this conversation. I am really sorry to say that. That is not the way we run the bank. We very happily look at what is happening on every branch because there is a metric on every branch. If some customers are being lost in any branch we would know and we would know what is the reason. We would know what is the product change that we have to do or the pricing change that we need to do or what kind of people change that we need to do to make the branch work. The branch performance is tracked on a daily, weekly, monthly basis to see what the performance is. Just as some bank may be taking customer away from us, some of the RMs are also smart enough to take customers from other banks. So that is the way it works. We have closed branches also. For example, we did not do very well in a branch in Powai, we were spending a lot of money, we closed the branch, took a write off of Rs.25 lakhs, moved the customers to another nearby branch and then we installed a branch elsewhere. So this is a very continuous process that happens. Why do you believe that only some other fellow will be smart enough to take customers from DCB and DCB is not smart enough to take customers from somebody else? This is what happens in the market on a daily basis. Somebody takes customers from Dena Bank, somebody else will take customers from ICICI. This is a normal activity that happens.

Ajay Khandelwal: Sir, my point is only that whoever has got best pricing…

Murali M. Natrajan: No, that is not the way it is. Why is that my CASA is growing at 16%? I do not have the best price. I am at 4%. That too granular CASA, I do not have large ticket CASA. Please explain to me why the CASA is growing. Why does he does not go to another bank?

Ajay Khandelwal: We are talking about rate of growth with the growth of balance sheet, accordingly, what is the rate of growth of other? So that way sir. Our CASA is growing, true.

Murali M. Natrajan: Are you saying that in the last 6-years DCB faced no competition and we were just allowed to run on expressway without any red light? Is that what has happened? Then what you are talking about?

Ajay Khandelwal: No, sir, my point is we chose right product segment there.

Murali M. Natrajan: Yes, we are still in the same product segment.

Ajay Khandelwal: Sir, competition has increased?

Murali M. Natrajan: That is the reason we are acting. If you are the first mover or second mover in a particular location you have an opportunity to make sure that you capture some market share and retain it. Competition has increased from 2009 to 2015 all the time. There has been no letup in competition. We are growing at about 27% Loan book.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Phillip Capital. Please go ahead.

Manish Agarwalla: Two points; one is can you indicate what is the new employees like to add in next 1-year or 2-years?

Murali M. Natrajan: If you put 150 branches in 12 months we are talking about approximately 12 to 13 type of that is the estimate we have which will be about 1800-odd people. So we are at about 3600 so it goes to say 5400 plus add about 100 or 200 across the entire spectrum for support, etc.

Manish Agarwalla: I know it is very difficult but some indicative number in terms of the average salary based on city wise maybe Tier-1, Tier-2, Tier-3s, how…?

Murali M. Natrajan: Salary levels are pretty much the same across India except probably Mumbai is more expensive because cost of living is high. But when you go to any Tier-2, Tier-6 and all, the cost is pretty much the same we have a particular scale. I would say that if you just take our total salary divided by this thing you will get to the number. Probably it is about Rs. 5 lakhs are something. We are not trying to add lot of people to head office. We are trying to add lot of people in the front office with very limited people in head office to manage this force.

Manish Agarwalla: The other question was regarding 150 branches. Now, we have been adding in the past around 30 to 40 branches per year. Now, with 150 branch in one year, do you see that the breakeven period which we witnessed earlier around 18-22 months that can slip further or are we confident of that breakeven in branches say in 22 months?

Murali M. Natrajan: There are two important factors for succeeding in a branch location -- the choice of location and the quality of team that you install. These are the two critical factors. In fact many times if you install a very good quality team you do not even have to worry about the location. But I am just giving saying largely location and quality of team is very-very critical. I am assuming that since we have all the products, we are not short on any products, we do not do Personal Loan and Credit Card, other than that we do almost every product that customer needs in the catchment area. Now having said that in the 80 odd branches when we keep analyzing it on a monthly basis… at least I do it on a monthly basis but the team might be doing it more very frequently. We find that the branches where we have failed to deliver a break even in 22 or 24 months are invariably because of poor team not even location. Of course we are taking corrective action, but at the same time there are 10-12% of the branches where we have surpassed even some of the best names and one of my friends just mentioned about people running away with customers from DCB, etc. So some of the best names out there in the market are at a lower balance sheet than us in those locations and they are not in Maharashtra or Gujarat. Let me explain to you. Because that is not where we grow those branches. Having said that I believe that we have to intensify our monitoring of the new branches so that there is no slippage of these 22 to 24 months. If we find that we are having some challenges on that we will have to fine tune our strategy of roll out of these branches.

Moderator: Thank you. The next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: In response to one of the earlier questions you mention that you have a good relationship with most of the MFIs, driven by the competition you know where they would be heading. So, would you be able to give some broader categories as to where you expect the competition to intensify – would it be LAP or would it be Vehicle Loans, which would be those categories where you expect the competition to intensify?

Murali M. Natrajan: I am just giving you because all of these people are my friends at least so far, because they are not in banking yet. First of all some of the MFIs are totally surprised that they have been able to land a banking license and they probably will stick to their netting of dealing with these small customers like the MFIs customers or slightly higher level, small MSMEs that type of this thing. Lot of them are going to struggle in terms of organizing their treasury, organizing their AML KYC for CASA type of products, organizing their operational risk for a liability type of products, etc. We see opportunities in helping them to establish in some of these capabilities without having to hurt our business. Now, coming to some of MFIs which are likely to be much more ambitious than what I just now mentioned, I believe they are going to be from Credit Card business to Personal Loans to SME, MSME and some of them are even talking about being reasonably big in corporate as well. I do not think they are going to leave any segment that is being currently done by these and all these people are being advised by many consultants as well who have a fair degree of knowledge of the market. So they would possibly be competing with almost every one of the bank -- public sector, private sector in almost all products except that they have a restraint which is that amount of loan about 50 lakhs cannot be more than 50% and they have to achieve 75% PSL. Other than that there are no constraints on these banks.

Gaurav Maheshwari: So do you expect them to vacate that position of Rs.20,000-25,000 loans and that would be obviously lesser than…?

Murali M. Natrajan: I am not so sure they are going to vacate their position because that may actually be earning them pretty decent returns. Now that they have a bank, they may not also have to worry about some state level problems or something…they may not, I am not saying it may not happen but things like what happened in Hyderabad or Andhra Pradesh may not be a concern for some of these companies.

Gaurav Maheshwari: What about the Vehicle Loans? Do you think them…?

Murali M. Natrajan: Oh! Yes, they are going to do Auto Loans, they are going to do Commercial Vehicles, and frankly I am not going to make any assessment that they are going to be not doing this or not doing that, they have a full-fledged bank license, why should not they do it. They have to do below 50 lakhs. So the Vehicle Loan is below 50 lakhs.

Moderator: Thank you. The next question is from the line of Kritika Tanera from PiSquare Investments. Please go ahead.

Kritika Tanera: I just wanted to know that what will be the per branch profit we will be recording, if we can just get the estimate?

Murali M. Natrajan: That is not a number that we want to disclose please. Of course, we have branch wise profit but without branch wise profit we do not do any because otherwise how to establish the pay back, break even and all these things. So I am sorry I really cannot disclose that.

Kritika Tanera: We have mortgages of approximately 44%. So like majorly what sector our mortgages into…?

Murali M. Natrajan: We are a SME bank, we like self-employed small businesses. So 80% to 90% of my balance sheet whether on liability or on loan is SMEs.

Kritika Tanera: Due to the agriculture sector slowdown, will there be any impact on the banking sector growth?

Murali M. Natrajan: I think if you have done a lot of commodity lending, our commodity lending is pretty limited. The commodity price does cause some stress in the system because the customer has to bring in margin and so on. But we have not seen any major slippages in our Tractor or any other portfolio despite the fact that there has been some weak monsoon, we have not seen that.

Kritika Tanera: Can I just know the reason for the increase in the NPA of the bank?

Murali M. Natrajan: We had one SME loan which had been with us for four years, slip into NPA, that was about I think Rs.9 crores… of course it is going to take time to resolve although we have property and everything, but it takes a lot of time to resolve, because the customer has passed away and his sons are not interested in the business, so there is some confusion happening in their business. That is how it has become NPA. Other than that I do not know of any big ticket issue in this quarter at all. And in fact restructure wise we have only Rs.47 crores 5 accounts on restructure.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from M3 Investments. Please go ahead.

Himanshu Upadhyay: The first question was on NPA side. We stated in this Q&A document that recovery is getting more and more difficult day-by-day. Is it a trend which has bottomed out or you are still facing the trend is moving more and more in that direction…?

Murali M. Natrajan: Typically, what happens is in Retail, SME type of portfolio, as you build the portfolio, over a period of time some seasoning causes the NPAs to be there. Then over a period of time the recoveries should overrun the new slippages and that is how you kind of maintain your NPAs as well as your provision. What you are finding is that I think may be the courts are overrun with cases and there is a lot of delay in terms of getting closure on a particular loan from a legal process. We went through all the recovery processes and recovery issues. We also find that there are cases where the SME has come forward and said "Look, I want to sell this business. This is the buyer. Let us close the transaction. Let the bank release the property, etc." There also it is taking time to close because there is a lot of haggling going on in terms of the price because of the way the market is. So I would say that recovery efforts may take even 6 or 9 months for us to improve… there is a lot of effort going on but I think there is a challenge in terms of the market conditions.

Himanshu Upadhyay: Again, we have stated that part of reason for increase in NPA was because of seasoning of mortgages?

Murali M. Natrajan: Seasoning of portfolio, both mortgages, AIB and SME.

Himanshu Upadhyay: Can you give an average duration type of thing or how has been…?

Murali M. Natrajan: We started mortgage in September 2009 and systematically we have grown I think, we probably crossed Rs.5,000 crores if I am not mistaken, and we started SME also in September 2009, we are at about Rs.1300 or Rs.1400 crores of SME, and SME strategy that we introduced three years ago is starting to work and we are finding success in terms of steadily now growing the portfolio, we hope that trend continues. In AIB, various products we have started, in various times Tractors we must have started about 3.5-years ago, 3-years ago, KCC we must have started about 2-2.5-years ago. So there are various portfolios going at different maturity.

Himanshu Upadhyay: But do you expect the increase in pressure on NPAs because of seasoning would continue from here on?

Murali M. Natrajan: I do not see a systemic problem at the moment with any of our portfolios. If the customer dies and the sons do not want to take the business, I cannot say it has got to do with any poor credit decision or something. What would I do it? It is an event that has happened and sons are not interested in the business. So they do not want to repay the loan, they want to sell the business. So it is taking time to resolve. Therefore, it has become an NPA as an example I am saying. But in

Corporate, we always see stress in 2 or 3 accounts, we continue to see those stress even this year.

Himanshu Upadhyay: On branches, when we initially had a process of opening a branch, where we said that we will need a minimum population of this many SMEs, we want to be the first three private sector banks. So, all those parameters would be used to have, are we going to make any changes in those….?

Murali M. Natrajan: No change in that. For example, there are some learnings where we found that we have opened in an absolutely rural place where there is no linkage with any nearby and all. We find that those branches have not done well. Whereas if we put a rural branch which has some proximity to a bigger location, we find that there is success. So there is a lot of science that we have applied. We have consulted with success of other banks and see how they are doing on branch banking and what learning we can incorporate. We continue to be the same thing -- cluster approach -- we had with the first or second private banks unless and until it is a hub. All those principles are being followed with some fine-tuning here and there. That is why for example if I have to do 150 branches I have to actually identify about 300 locations and reject about 150 for us to come to that 150. It is a lot of painful work.

Himanshu Upadhyay: About the branches you stated South India is a difficult market. So we have basically decided on some states we want to focus on. So from here on for expansion it will remain the same in particular places where we are doing will be focusing more or we will be geographically diversifying?

Murali M. Natrajan: No, right now the bias in the management team is to do more in the successful location and let me tell you about Tamil Nadu; Tamil Nadu we opened a branch in Trichy, We opened a branch in a place called Minjur. Believe it or not they are the top performing bank branches for us despite the fact you have other very-very well entrenched player. That does not mean that I am going to open far too many branches in Tamil Nadu, but I am just telling you that we opened a branch in

Trichy, we opened a branch in Minjur which is north of Chennai, we opened a branch in Coimbatore, which is doing reasonably well for us, we are doing a successful business in Salem on Commercial Vehicle for last about 3 years or so. So it is not that we will fail in Tamil Nadu but that is not our primary state for expansion.

Himanshu Upadhyay: For next two years, the focus would be on the places where we have been doing …?

Murali M. Natrajan: Where we have been successful. That is going to be our bias.

Himanshu Upadhyay: You will be requiring around 1800 employees or let us say whatever a big chunk?

Murali M. Natrajan: We will need 3000 plus employees to actually have 1800 on the ground, because there is a lot of churn in the frontline as you know people join, leave and all the stuff happens in frontline.

Himanshu Upadhyay: What is the churn for the company?

Murali M. Natrajan: About 20 odd percent in the frontline. Fortunately, there is no change in the management team or corporate office but in frontline it is around 20 odd percent.

Himanshu Upadhyay: Again, I would like to understand what type of infrastructure in HR would be required because front line staff we need to train a lot of them?

Murali M. Natrajan: This will be a pretty long conversation but let me just try to briefly explain to you we have a very-very well developed HR infrastructure, it has to be scaled up, for example, we have 6 recruiters right now for what we are doing, maybe we need 18 recruiters or something, as an example just scale up the whole model. We have outstanding training program which has been developed in-house, which are given to our employees. The satisfaction of those training levels which we track are above 90%. We do a lot of upskilling of our branch and frontline staff in terms of explaining to the concept of whole bank, including treasury, explaining product and so on. So it is a more of scaling issue and not the capability issue at the moment I would say.

Himanshu Upadhyay: Again, would we be looking for hiring from outside means other banks or something like that?

Murali M. Natrajan: Our bias would be to hire at least 33% of that in freshers and at least about 20% odd from FMCGs. While there is a lot of pool on banking but we find that our success rate of freshers is pretty much similar to hiring any experienced banking person in frontline.

Himanshu Upadhyay: Again on the culture part, means, are we confident that we will be able to get because generally it is getting more and more difficult to get the right kind of people and culture is very-very important?

Murali M. Natrajan: You ask any CEO in any industry whether they are a Fortune 500 company or a small bank like us, the challenges are the same in terms of talent, hiring talent, management talent retention and so on because we are talking about a very aspiring mobile Gen-Y population here. We have a separate unit in HR which looks after this youngish crowd. So there is a lot of work to be done, but we are confident that those capabilities can be built.

Himanshu Upadhyay: We have this whole expansion strategy. I understand that whole thing. But when we see about so many challenges, when we read the Q&A, the number of challenges what we have stated, if a lot of competitors are entering and again competition is going to be so high, would it not have been prudent means to keep on doing the same thing and wait for better time…?

Murali M. Natrajan: It is your view point that keeping still is a less risk. That is not my view point. I am on this side. I see what is happening in the market, and I see what kind of competition is developing. So keeping still and trying to be this 25 branch expansion is not a strategy. We have debated that in our management team and we believe that is not an option that we are going to pursue. Now you may have a different view, you may see the results differently, I have to see what the bank has to be in 5 to 7-years' time, not in 1-year time. If you use a 1-year timeframe, yes, it looks like a lot of risks to be taken but the fact of the matter is 6-years ago, there were a lot of risks to be taken to bring the bank to this level as well. So, we cannot be blind sighted by this competition that is developing and I think I will just hunker down quietly work in a corner, and expect this whole competition to blow over and I will emerge victorious. It does not happen like that in real business.

Himanshu Upadhyay: One small request; we will be having this reason or whatever strategy, expansion let us say 45-days. If we can have a presentation means what we had in 2010 or when we stated that we will be moving in this strategy, if you can update it, just it would be helpful?

Murali M. Natrajan: Please give me an example of one bank or one listed company which has explained so much in detail in Q&A by MD and CEO in the web site. I think this is the maximum explanation we can give it to the investors with due respect.

Himanshu Upadhyay: Thanks, but what I am saying, I appreciate what you have given but when there is a big change when you are saying that you will be fixing your model or making the complete launch around 45-50 days and making…?

Murali M. Natrajan: No, the model is ready, the expansion plans and the execution plan is what I said, the model is pretty much ready, the model is a tested model, I am not going with any untested model, I am only scaling up the tested model. So the model is ready, the implementation plan is underway, we will prepare something in 45 days. Again, I am assuring all the investors that if we find as we go down the road that there are challenges that we face which is not in sync with what the expected outcomes are, we will fine tune our approach. Okay, it is not that we will put okay, does not matter we are having loss on every branch, every month and nothing is working and still we will do 150 branches and it is not going to be a spray-and-pray approach. It is going to be a very systematic approach to make sure that there is a discipline in terms of implementing this 150 branches.

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

Jigar Valia: My question is on CASA. So with the historical pace of expansion, also in keeping the CASA rate at the same focus end, you manage to grow pretty handsome, get 17%. But of course with that which was good but it always lag the credit growth or the business growth to an extent. So there have always been a pressure on the CASA ratio as such. So even when you had this business expansion of 25-30% target, there was always one thing which at the back of the mind is that "Will CASA be able to keep pace or not?" Second, now that you are doubling the branches in the next 1-year but clearly the business targets will not grow as proportionately in the same timeframe. Does it give you an opportunity to really increase or improve your CASA ratio and would CASA growth faster than business?

Murali M. Natrajan: So if we put 150 branches, please appreciate that about 25% of them had to be in unbanked location. That is the way the regulators work. Our attempt has been to find some really profitable unbank location. So far we have been successful, I would say 80% of the time to find a decent unbank location so that we do not lose too much money in that whole process, but that is a cost of doing banking in India. I am sure even the small banks will face these challenges at some point in time. There CASA growth is not that easy. That is one. But, when we talk about rural, semi urban and all, we are finding quite a lot of success in CASA growth, Tamil Nadu for example I do not think is a very heavy CASA place at all, I do not think it is a very heavy deposit place for that matter, we have had some success but not a whole lot of success there. So, we are trying to put region wise strategies on how to make sure that we retain our CASA ratio at 25%. It is not easy, let me put it this way. But, minimally we are saying that how do you grow SA at 20%? CA has a lot of challenges, CA has a lot of AML, KYC challenges also and you can see in the press the kind of challenges that have emerged in some of the banks. So, we have been very cautious about trying to be too smart about trying to grow CA because why would somebody close a well running current account somewhere and want to come to a new bank? Forget whether it is DCB or anybody. Why would he do that? Usually a new business somebody starts or a new venture starts you have a much better chance of getting the CA of that account than existing business unless he is really unhappy with his existing bank. SA on the other hand is a lot more easier because there are a lot of customers who want to try out new products like cash back or some novelties in terms of account number and so on, there are a lot of customers who want to try out and then you can develop that relationship. So I would say that our intention is to keep a CASA ratio of 25%, but as you put on a lot of branches it may actually dip a little before bouncing back to 25%. At the moment I think we are at 23, 24%.

Jigar Valia: Of the cost impact that you mentioned, how much of it would be recurring and how much of it could be just one-off?

Murali M. Natrajan: No-no, when we put a branch we approximately spend depending upon the square feet, the branches are usually anywhere between 800 to 1300 square feet unless we are making it a hub office where it could even be like 1800 square feet or something .So I have done some analysis and again do not hold me to this analysis, it is a ball park analysis. If I look at the total cost of the 80-odd branches that we have put, out of that 52% is employee cost, and if you take 52% employee cost, you take…first of all, we do not have union staff, you take the fixed staff like a teller has to be there whether you have business or not as an example. If you take the fixed cost out of it, there will only be 33%, the rest is all front line staff, they have to produce results, otherwise either they will be shifted to another branch or they will be replaced. So from that point of view rent, rate and taxes which you pay like electricity, rent, this, that and others is only about 21% of the entire cost. In effect, fixed cost is less than 25%. Most people have reacted into, we are putting 150 branches and then of course we will shift the branch, we say, "Okay, this is not working let us shift the branch to 5 KMs away." We probably take a write off of about Rs.20 lakhs or something on the fixed asset depends on how many years, we can even shift the computers, we can shift the cables, we can shift a lot of them, we can kind of cannibalize all that from the branch and use it. It is not such a big problem. Even safe I can use, I can shift the safe, I can sell the safe to the landlord because he may find another bank, say, "Okay, safe is there, you please come." They may take it. We have also done it. We have taken locations from other banks where the safe was already available.

Jigar Valia: But there is not going to be a significant one-off cost in the form of technology or promotion expense or something like which you are building into the P&L impact that you could?

Murali M. Natrajan: When you launch a branch you have to do a lot of micro marketing activities, you have to organize them. So those are all usually built into the branch model.

Jigar Valia: It may not recur in the same quantum

Murali M. Natrajan: It may not, but on the other hand to be relevant in a particular location, for example, in rural location, you have to pay in some walls, you have to have some micro activities, some mela, All those things are done at a local level. That is a very continuing process, part of the cost of the branch.

Jigar Valia: Of the 150 new branch target, how many of them would we have already identified?

Murali M. Natrajan: We have at the moment identified about +300+ locations. There is a lot of debate going on at the moment as to which one because I told you we apply a lot of filters to say whether we can be successful or not. I believe about in any case I have said we are going to do 25 to 30 branches in a year. So part of the 25 to 30 branches are already identified and work is going on in terms of that.

Jigar Valia: Just to elaborate more on this last question of mine, the strategy to shift from 25-30 branch to 150 branch for next year was driven more by your branch identification team would have identified, there is a good enough potential and we can do 150 good locations, why not to waste time and be there at the first opportunity available rather than spread over a few years or was it more driven by the disruptive fears and the challenges which are there?

Murali M. Natrajan: It is both top down and bottoms up. At any point of time we have a list of about 60 to 70 locations where we want to put branches may be it is more, but I am just saying that when we do our management reviews, we see presentation from our regional heads or business manager saying that we need a branch here, we need to do this, this is the opportunity, etc. The rest is that we have given some mandate to come and identify and come back with the location. So we are now going through the filtering process on that.

Moderator: Thank you. The next question is from the line of Ajitesh Nair from Premji Invest. Please go ahead.

Ajitesh Nair: I understand the skepticism and the consciousness of the competitors' threat from these NBFCs which are turning into banks and the payment banks which will come up. But, most of these NBFCs are already there in the market, right, they are already doing asset-link businesses. So additional threat from them will that be a big issue? Secondly, we are 25 basis points of the market. There is a 50% market out there which is under severe stress, mainly the Tier-2 PSU banks and many of them operating in Tier-2, Tier-3 centers. Going after them, that business not an option for us…I am saying that market opportunity for a bank of our size is significantly large to be if I can use the word, paranoid about the increasing competition which may come over. So just wanted to know your thoughts on that?

Murali M. Natrajan: For capturing business we need to have front line. First of all, DCB Bank brand is not such a big brand that the hordes of people are walking into our branches and we are just simply ringing the cash register. That is not how it is working, right. We are actually having a lot of outbound team including some of the branch staff who actually go and source business. Secondly, whatever location you take, the competition is already pretty tough. On top of it you have almost 8 MFIs if I am not mistaken in the license that have given license, who are being given licensed to say, you can do 50% of your loans above Rs.50 lakhs which falls straight onto the kind of business that we do which is below Rs.3 crores. We have no option but to be paranoid…I want to overreact, I am saying that the management team is overreacting and we are not apologizing for it, we want to over react, because we do not to be in a situation where we have seen and having not reacted to hugely developing competitive landscape. Now other banks may be having bigger branches and maybe they are not worried about it. But we are still in the infancy stage of how we are moving. Now, the unfortunate situation that we are faced with is that, yes, we have a ROE challenge, ROA challenge, we have cost-income challenge. But, these challenges were much bigger six years ago from where we have been able to systematically bring the bank to the current level and we are in a situation where we can take some bold steps and the steps that we are likely to take I have no idea why there has been overreaction but it is a choice of the investors, It is likely to cost in 2-to-3 years' time maximum of about Rs.80 to 100 crores. And the other advantage is that if I spend any cost now, I also get a 35% tax advantage on that right now. All my life when I was doing CA, when you do any project plan you factor in the tax benefit of spend as an important element of the project plan, which is also available to us now, because we are in the full tax rate. So I feel that we want to be seen a slightly disproportionate in our response. But what I want assure once again to all the investors is if down the road we find that it is not working as per plan or the outcomes are not what it is coming out to be, we will definitely fine tune our strategy. I am just declaring our intention that in 12 months' time, we want to be double the balance sheet. Now, if it happens in 13-month or 14-month, we find that we need to kind of instead of doing 12 branch per month, we have to do 7 in some month that is the point. I want the management team to gear up to face the competition that is emerging, now you are talking about Tier-2, Tier-6. This is where exactly the small banks are going to be operating. And I have a suspicion that because of the fact that they have deeper knowledge of some of these locations, we do not want to be blind sighted on them capturing these small SMEs and MSMEs, they probably even have a better technology in terms of assessment so that is why I put a strategy saying that we need to fix our customer facing and front line technology.

Ajitesh Nair: Is the frontline technology changing, is this something that you can do differently which can bring down your customer acquisition cost, improve with the sales productivity if you use technology? I am just curious in understanding how that part…?

Murali M. Natrajan: You hit the nail on the head, what we are finding is that is one of the reasons why some of our sales people are not as productive as some of the other entities, even smaller NBFCs with some Rs.100 crores portfolio I have seen is that the adoption of frontline facing technologies like a tab or a mobile phone, etc., is sophisticated, of course there are issues in terms of security risk and all, which as a bank we have to be a lot more cautious, and we are sending something in WhatsApp and all, that is not easy to do for a bank. But having said that we believe that there is a gap that we need to fix and fix pretty quickly and the number of technologies that are emerging, presentation that we are seeing sometimes it is very mind boggling and confusing as to which one you need to adapt, and there is always a risk of adapting something and then finding that something else has changed and you need to change again. So listen, all these choices have been trusted upon us at the moment, the way things are changing in the environment. We did not choose that, if you have a choice, let us not give 23 licenses, let us give 2, that would have been a different matter but this has been forced upon us by the environment.

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

Debanjan Neogi: After hearing all the thing on the expansion plan, in your Q&A you have already outlined the kind of profitability hit which is going to take place like in FY18. So could you throw some numbers beyond that like you have already mentioned it is going to be a payback like round about 44-50 months also you have mentioned in your Q&A. So like after that if you are looking like in the long-term investment kind of a thing beyond like 4-5-years, so what are the kind of profitability numbers we are looking at after that time?

Murali M. Natrajan: I would not be able to give you the profit numbers because that would be incorrect on my part…I have put it in my Q&A, but all I am saying is that we are looking at an ROA of 100 bps and ROE of 14% if the plan continues in FY2021 and we are actually internally targeting saying that how do we reach 16% ROE and 120 to 130 basis points type of ROA in 3 to 4 years' time. That is exactly how we are trying to work on this. Hopefully, we do it earlier than that. But the last thing that I want to do is give you a rosy picture, despite putting 150 branches this is what we are going to do. I have given you some outer numbers in terms of Rs.35 crores, Rs.50 crores, I have given some outer numbers, it does not mean that we will somehow make it happen to that outer number.

Debanjan Neogi: What is going to be roughly the capital expenditure for the entire thing?

Murali M. Natrajan: 150 into say 30 lakhs. Another thing that has happened – one is quantifiable and one unquantifiable benefit that is likely to happen. The unquantifiable benefit is while the entire investor community has been pretty excited and worried about them skeptical which rightfully they have every right to do so. The employee community in our bank has been the most excited. And I believe the frontline retention could be probably less of a challenge because they also see that "Oh! The bank is going to be 300 branches and so on." Whether we do it in 12 months or 14 months, that is not the matter. But the fact is that the bank has expressed its intention, is going to help us retain some of the key talent and the quantifiable benefit is we believe that our purchasing power would be much better. So we may actually see some cost reduction in our implementation of the branches because I may not have to pay the same amount of money for the ATM that I am paying now for putting in a branch or whatever.

Moderator: Thank you. The next question is from the line of Nisha Rupani from TCS Securities. Please go ahead.

Nisha Rupani: Can you share the average business per branch that you are looking at from these new branches initially? How would you like the average business to grow over the next 5-years?

Murali M. Natrajan: Very difficult to talk about the new branch average business. All I am saying is that we have done a peer comparison of average business, average deposit, average fee, average NII, etc., including the top performing branches like banks like HDFC, ICICI and the old private sector banks like CUB, etc., There are gaps that we have identified and we are working towards improving the productivity on that. It is not possible for me to tell you what would be the business per branch because we put a metro branch, some of the metro branches have like outstrip even our most unimaginable expectations. So, when we approve a branch we actually do month-on-month sale, month-on-month CASA growth, month-on-month fee for 60-months and then approve. That would have already taken into account what is our existing branch performance as well as what is the potential of the location and what is the peer comparison.

Moderator: Thank you. The next question is from the line of Prakriti Banka from Pramerica Asset Managers. Please go ahead.

Prakriti Banka: Just from the previous quarter to this quarter the only thing that has changed is the number of licenses that have been given out because the applications are about 100 in February.

Murali M. Natrajan: Who knows? If it becomes on-tap more will come into the banking sector. I am really very scared.

Prakriti Banka: That is just what I want to know because …

Murali M. Natrajan: That is a huge change, it is a mega change happening in the banking industry now 30-years I have never seen 23 banks unleashed in one go.

Prakriti Banka: But this 100 license applications were received in February.

Murali M. Natrajan: I believe 100 license, 100 applications are received there are some people who are in my team, who have been seeing this banking license since last 20 years or so, always 100 to 150 people apply for licenses. This time around RBI has taken a very-very bold step and it is a very welcome step. I am scared of losing out to competition especially the small bank and we believe we have to act. That does not mean that we are going to fail in terms of achieving our target. Yes, we are also as competent as some of those banks.

Moderator: Thank you. The next question is from the line of Manish Manwani from Bonanza Portfolio Limited. Please go ahead.

Manish Manwani: Opening so much branches will put the strain on the management bandwidth. How do you plan to address that?

Murali M. Natrajan: The implementation plan we have gone through and it is also under preparation in another 45 days there will be lot of work done. We have identified the gap that is required in terms of the management team. So there are positions that we need to fill up, not too many but a few which has been discussed with the respective seniors in the board as to how we want to fill up, some of the things like internal audit has to be strengthened as an example, operation risk team has to be strengthened, the project team has to be strengthened, the business team is looking at expansion in terms of supervision has to be strengthened. I think we need to enhance our analytics team. So we have gone through piece-by-piece as to where the gaps are or what needs to be done, which hopefully in the next 45 days or so, we will be able to address.

Manish Manwani: Given so much technology disruption in the banking sector, have you thought of other non-branches way of reaching customers…?

Murali M. Natrajan: I explain to you, technology is extremely useful, there is no question about it, it helps you in fulfillment, it helps you to speed up the process and it helps you to communicate with the customer, but if you have to sell a Commercial Vehicle in Karmeta, which is three hours from Bhopal, I would like to know how will I be able to do it remotely from here and if the guy wants to not pay my loan, how will I digitally collect that money. It is not easy. So there is a lot of digital. There is a huge amount of scope for improving digital capability in our bank. I do not deny that, but it does not eliminate the option of branches. I am not even having 2,000 branches for me to say that I do not need any branches. I have only 160 branches.

Manish Manwani: Sir, you are opening, that means double the branches in one year, so it will be repeated every year or it is just a one-off?

Murali M. Natrajan: No, I do not think we can repeat that every year. That would be pretty difficult on delivering performance for the investors. We are saying that we are going to do that in 12 months. Again I am saying….

Manish Manwani: After 1-year means how do you plan means for…?

Murali M. Natrajan: After that we probably will grow only about 10 to 15 branches which would be some of the gaps that gets identified in terms of our franchise. Now, again telling you that we will start this journey, we will continue to perform in this journey, we will keep watching how we are doing this. If we find that there are some problems that we are facing, we will fine tune our approach. There is a strict discipline in terms of how we implement this. That is the assurance I can give to the investors.

Manish Manwani: On the brand equity side, have you planned for any expanding on …?

Murali M. Natrajan: Yes, but the problem is that when you have say 80 or 100 branches and you spend a lot of money on brand, it does not give you the kind of… so we would rather first get the foot soldiers front line, branches in order, we have very good plan for brand building, that also will cost money, unfortunately that may also dent cost-income ratio. So instead of doing that as a first step we are actually trying to get the distribution and get the sales people and frontline on the ground, then we will do the brand building.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Securities. Please go ahead.

Mangesh Kulkarni: Sir, you have given us a broad picture about the expenses you are likely to make on this new expansion strategy year wise. But I think you have also mentioned that you identified 300 branches and going to decide on 150 branches in next say 35-40 days. During the third quarter also we will be spending out of these Rs.9-15 crores whatever you have mentioned in FY16?

Murali M. Natrajan: Let me explain to you how a branch is put up. Say for example, we have agreed on a location, we will actually hire the people in that location and put them in the nearby branch for increasing their understanding of the bank, training, induction and all those things. So that when the branch physically when it comes up it takes about 45 to 60-days for a branch to come up, including furnishing, agreeing on the spec, etc., etc., So normally the people cost and all will come ahead of the actual rental because we are able to negotiate with the landlord and say "Listen, till such time the refurbishment happen, we will not pay you any rent." Those kind of negotiations can be done in most of the cases. So a lot of people cost would come slightly before the actual branch cost. That is why I have given you that indication.

Mangesh Kulkarni: Out of these Rs.9-15 crores cost escalation you have mentioned something will start coming from next quarter onwards?

Murali M. Natrajan: Yes, it should come from next quarter.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, in just 150-branch expansion plan, so you have just mentioned that for the next 45-days you would be finalizing the location where the branch would be put up. So, after fourth quarter onwards, I just wanted to know this 150-branches, would it be equally spread over the months or let us say after 45-days, then you finalize, how would it be for the next 12-months? Secondly, you are articulating that group balance sheet would double in the next for every 3-years to 42-months. After this expansion, do you see that number growing our balance sheet doubling before that period?

Murali M. Natrajan: The way it works is that we have about 300 odd locations that we have identified and we will filter and come down to 150. Now, once we decide on the 150 does not mean that the same 150 that we identified will happen because by the time you put a branch there may be some issue, for example, there are cases where we do not find the kind of location at the cost that we have budgeted available. Scrap this location, bring a new location to the picture. That is why we need to have a longer list than 150 branches for us to be able to implement 150 branches. I am giving you practically what has happened is that many times we just have to scrap a location and take another location because we have just not been able to implement, the landlords are too pricy, the location is such that there is no visibility, or the location that we are getting is just illegal property which we cannot rent out. There are so many complications that comes in our country. May be the technology people say that I cannot give you technology connection here because it is too unstable, anything can happen in these things. So, now coming to implementing the branches I believe that it would be uniformly done on a month-on-month basis. Initially, obviously, it will be slightly slower because it would not be exactly 12 or 13 per month, initially it might be slower and then build up as we gain experience then success in implementing these branches. Implementation of the bank, success in our bank is defined as not installing the branch, but meeting the metric month-on-month that is what is defined as success, putting a branch is not such a big deal… yes, there is a lot of hard work to be done by admin, technology and all, but actual success is always measured on whether they are getting the business or not.

Jai Mundra: Related to this, if you can provide some color on the region wise preferences that in terms of this branch opening?

Murali M. Natrajan: You see our 'Investor Presentation', it will be the same, it will be Telangana, it will be Andhra Pradesh, it will be Chhattisgarh, Rajasthan, Madhya Pradesh, and Odisha. So we have already mentioned that where we have been successful we will add more branches.

Jai Mundra: In terms of location, in terms of metro, semi-urban?

Murali M. Natrajan: That would be biased towards Tier-2 to Tier-6, and we also have to take care of the regulatory framework on expanding branches.

Jai Mundra: On this growth, so balance sheet we have been saying off to double and every 36 to 42-months, so how would you look at that number?

Murali M. Natrajan: I believe that if we successfully implement this strategy and make the branches work, there is a lot of confidence in our team for making this work. We actually might end up at 30% to 35% better balance sheet then what is our current strategy in say by 2022. That is what our current estimates are…, this may change, but at the moment that how it looks.

Jai Mundra: So we have mentioned around Rs.80 to Rs.100 crores of cost because of this expansion. So I just wanted to understand sir the broad assumption that you may have had in terms of the expenses for the branches and employee costs?

Murali M. Natrajan: So, what we done is we have 80 branches experience, we have some rural branches, we have urban branches, and we have metro branches and all. So, we have experience of that for the last 2-2.5 years. So we take that experience and we modeled on 150 branches with similar distribution, similar business, similar break even, etc., and we did that on a month-on-month basis for about 5 or 6 years and then added all the 150 branches and said what would be the dent in P&L in 1 to 12 months, what would be the dent in P&L in 12 to 24 months, 36 to 48 like that. Like that we have given you an indication that it will be about Rs.9 to Rs.15 crores in FY16 and Rs.50 to 65 crores in '17 and Rs.20 to 35 crores. So approximately we will see it comes to about max of Rs.115 crores and minimum of about 79 crores. That is why I said about Rs.90 crores.

Jai Mundra: I just wanted to know the current CA proportion

Murali M. Natrajan: We do not disclose that.

Jai Mundra: What kind of CASA ratio that we are looking at let us say after this whole branch expansion?

Murali M. Natrajan: We want to retain at 23% to 25%, but as the branches are installed they take time to deliver CASA. The strategy is not that first get CASA, then get loan because they have all products, all branches therefore in some branches, we may be leading with the loans, some branches we may be leading with the deposits, like Punjab we lead with the deposit as the first option. So the overall intention of the bank is to maintain 25% CASA but I do expect the CASA ratio to dip first before we build back the ratios. What we are confident is 16 to 18% growth in CASA.

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

M B Mahesh: When you mention the Rs.90 crores odd for the P&L, is it possible for you to make us understand how are you moving the revenue line as well because…?

Murali M. Natrajan: I do not think we can disclose that.

M B Mahesh: If you are increasing your branch network – nearly doubling it, the ultimate objective is that you end up gaining a fair bit of deposits or you get a fair bit income. Anyway on the retail side, you have a fair good of mix on the deposit side, so why are you not changing your loan growth assumption …there was a discussion today on CNBC where it was mentioned that you are still looking to double the balance sheet in about 3-years' time?

Murali M. Natrajan: The last of the branches will come by end of 2016 and the branches start to perform and break even at 22 months. Some of the branches may have lower amount of loans, some of the branches may have higher amount of loans. The current methodology that we are following at 25 branches per year, I have always indicated that we will double our loan book in 36 to 42 months.

M B Mahesh: But should you not revise that number right now because you are now…?

Murali M. Natrajan: We will revise that number as we gain experience on these branches, but I can tell you that the revenue of these branches have been modelled in our breakeven and P&L and the impact on P&L. That is why I have said that if we implement these branches successfully by 2022 we will be at least 30% to 40% better in terms of our current strategy of 25 branches per year.

M B Mahesh: Any specific reason why you are still very conservative on your growth in CASA as well as your fee income line?

Murali M. Natrajan: We want to make sure that we do not project the pictures that everything will be alright and there are payment banks going to come which is going to attack on CASA, small banks are going to be going hell for leather on CASA, I want to see what kind of picture emerges in the market before becoming more aggressive, but 15% to 18% seems like a doable proposition at the moment.

M B Mahesh: This is a mass departure from your side because when you started off as StanC and other places, you also mention that, look, you can always do a lot more from a specific branch location. But as you have gone ahead in time you seem to be more or less following most of the other banks strategy of having a branch-led network. So just trying to understand, why we are having this mass change in the business model? Second one is that your employees still appears to be reasonably high for the kind of branch network that you have. So why do we have such a kind of an employee base which is largely different from what we see in some of the other banks?

Murali M. Natrajan: Let me answer the last question first. In part, we have a foreign bank type of model where for Mortgages or SME or some of the other business like Commercial Vehicle, we not only have characters in branch, and we also have a dedicated sales team which is not attached to any branch. That is the way foreign banks work. We have also adopted that methodology on Mortgages, on Commercial Vehicles on even may be not Tractors, Tractors are all branch based, on SME. So that how we have kind of modeled it. And we also have very centralized operations. If the branches do not do operations the more of the sales people sit in the operations. The second point I want to make is that the amount of things that has changed in the last six years in terms of PSL, competition, the width that is available to a local bank like DCB for doing a product that foreign banks probably will never do, for example imagine me presenting to Standard Chartered board and saying that I want to do tractors. I do not know. It will be a nonstarter from the first discussion itself. So, the business model flexibility that is there for a local bank like DCB versus what is there in Stan Chart is a huge learning for me. And we bring it out that as we expand the branches and make it work, there is a huge amount of value that gets created in terms of the SME banking, in terms of how customers view us in a particular district and so on. If we had option of putting branches in Stan Chart where you do not get easily licenses in a foreign bank, it may have been a very different story also. The first three years of the bank, we made it work with 80 branches. So I think going from 150 to 300 branches I would argue, still a very-very small share of the branches. When I look at the RBI data, the number of branches that is getting added by both private sector and public sector is pretty huge still.

M B Mahesh: Everyone keep continue to question is on the entire branch itself, but I think you have a fair point which you mentioned earlier. Just wanted to check, is it not possible for you to double the balance sheet without making any changes to your employee base right now?

Murali M. Natrajan: I do not think so. I think when you are dealing with a lot of installment loan product, the installment loan product starts to mature, the repayment starts to become bigger and bigger and you need to have higher and higher sales to be able to grow the balance sheet. That is the nature of the beast in Commercial Vehicle, in Mortgages, and in some parts of SME, not all parts of SME. Plus whatever these have a quality of the bank, there is a natural attrition that happens in CASA and in loans, which have to be overwhelmed for you to grow the balance sheet. Therefore, there will be continuous requirement for adding people and building our sales team.

Moderator: Thank you. The next question is from the line of Anurag Mantry from Jefferies. Please go ahead.

Anurag Mantry: Sir, a couple of questions actually more strategic in nature. Just wanted to understand your view on how you look at the competitive landscape say 3-5-years down the line in terms of where you see competition mainly kicking in – is it maybe in the lending side or in Deposits, in transactions or the entire gamut?

Murali M. Natrajan: I think the competition is going to be very crazy, I think we all have to pass on our people in six to nine months' time, I expect competition to be really-really crazy, there could be some high decibel advertising campaign and all. So we as a bank have really to prepare to deal with this situation. I do not think it will be any segment-specific or anything like that. All the learned people have told us that if there is any disruptive banking technology that comes in, bank itself might become irrelevant and all. I hope that does not happen at least for the next 17 years because I have been given 17 years to retire in this bank.

Anurag Mantry: Do you have any sense of where probably in terms of geographies where the new banks might target their base in terms of maybe in the top?

Murali M. Natrajan: I feel that it will be definitely Tier-2 to Tier-6. Some of the banks want to be ambitious and want to do a lot of metros. Of course, metros are very useful, but I feel that sometimes the rental costs are so high in metros, it becomes very difficult to break even in a branch in 20 to 24-months. I think it will be still smaller locations where these banks will concentrate on. That is my guess.

Anurag Mantry: Lastly, any views on when you probably envisage consolidation coming into the entire space?

Murali M. Natrajan: Tough to say my friend. I have no idea but all I know is that once in three-four years, there is some consolidation that happen. I hope we will do a good job and we get opportunities to acquire some bank in the future.

Moderator: Thank you. The next question is from the line of Viral Mehta, he is an, Individual investor. Please go ahead.

Viral Mehta: Are you looking for any acquisition targets or so for the expansion?

Murali M. Natrajan: We have looked at the banking landscape for acquisition, we have looked at NBFCs and so on. Either they already have some big problems which we do not want to take or there is no value in those propositions, but the price demanded by them are pretty high. We are very confident of growing the bank organically. If you see our balance sheet between 2009 to now, we have done a pretty decent job of growing organically and we are confident that there is enough organic opportunities in our country for bank of our size to capture. It does not mean that we will not look for acquisition, we will continue to look for it, but our main stay is organic growth of balance sheet.

Viral Mehta: Since we are focusing on growth in Tier-2 to Tier-6 cities, there is a perception on Tier-2 to Tier-6 cities, they generally prefer PSU banks for having their accounts or deposit being capped in and any private bank is looked at the last option for getting money in case if they are not getting it from the PSU banks or something? Is it still the same or the changes been observed out there?

Murali M. Natrajan: Sir, I cannot comment on PSU bank, but I will give you one example; I went to open one branch in Chhattisgarh. There was a bank opposite our branch which has been there for last couple of years or so and I found a lot of customers waiting outside for the inauguration. I asked them as to what is the reason why you are all waiting. They said that we want to open an account in your bank. I asked him why you want to open an account in a bank. He said that “here we get respect”. So generally I have been working only in private sector and foreign bank and given the competition that is there whether it is PSU or whether it is public sector, if you do not respect the customer, there is very little chance of succeeding in this environment.

Moderator: Thank you. The next question is from the line of Gaurav Sood from Panav Capital. Please go ahead.

Gaurav Sood: You have talked about the branch opening charges would be about 30 lakhs to say up to 80 lakhs. So would you be capitalizing those costs or…?

Murali M. Natrajan: What I said was the fixed furniture, wall, technology, painting, creating the desk, chairs and all, these infrastructure cost which will go as a fixed asset in our balance sheet is approximately Rs.30 to 35 lakhs depending up on the size of the branch, if it is a large branch it may even be Rs.60 lakhs but I am just giving you an average of Rs.35 to 40 lakhs. So this would be capitalized as an asset and will be depreciated over a period of whatever is our depreciation policy it will be depreciated over a period of time. Now, the running cost of the branch would be the rent, the main cost would be rent and employee cost which would be hitting the P&L on a monthly basis.

Gaurav Sood: Sir, the other question was given the fact that RBI is coming out with a new way methodology to calculate Base Rate, and the fact that competition is going to increase, so will the NIMs in the industry shrink over a period of time?

Murali M. Natrajan: It is hard to say whether the NIMs will shrink or not because the marginal rate method if it gets introduced what will happen is as soon as the deposit rate goes up, the customer will be hit with the rate. In an average rate situation what I believe is that the hit to the customer would be gradual. So while on a declining interest rate, my customer may gain faster, he may also get hit faster in increasing interest rate scenario. So, it is very hard for me to say what will happen to the NIM. We believe there is some challenge in our NIM that we need to tackle.

Gaurav Sood: But given that the increased competition and one of the phenomena that is happening over the last 1-year because the working capital loans were not being priced down, a lot of Tier-2 corporates became very active in the call money market and the CP market.

Murali M. Natrajan: We are not in big time in Corporate Loan business. We have only about 20 odd per cent of our Loans in Corporate. So we do not have the problem. I can tell you that generally the competition has been increasing year-on-year. So who knows? NIMs may shrink but therefore we have to become much more efficient in delivering our services and save costs.

Gaurav Sood: So you highlighted that in your model given the kind of customers you are targeting, you are looking at NIMs of 3.5% as a base case?

Murali M. Natrajan: Yes.

Gaurav Sood: That is where you would want to stand say even 2-3-years down the line.

Murali M. Natrajan: That is how we are modeling, but if the huge change in landscape happens and regulatory changes happen then we will have to rethink our model.

Thanks everyone for dialing in and I hope I answered all the questions. If still any question is left unanswered, please feel free to write to us. You want to come and meet with me and Bharat please drop in a line and we will find some time to meet with you so that you understand what we are trying to do and how we want to take this bank forward. Thank you very much.

Moderator: Thank you. On behalf of DCB Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.