DCB BANK

General Q & A about DCB Bank - Mr. Murali M. Natrajan, Managing Director & CEO of DCB Bank Limited *(formerly Development Credit Bank Ltd.)*

The purpose of this general Q & A is to provide information about the performance, business strategy and outlook through answers to some of the frequently asked questions. This is not an offer document. Please refer to the disclaimer page in the Investor Presentation for Q3 FY 2014 which has simultaneously been released today and is available on DCB Bank website as well. This general Q & A may please be treated as an integral part of the presentation mentioned above.

1. Financial Results (unaudited)

Comparison of Q3 FY 2013-14 vs Q3 FY 2012-13

(a) Profit After Tax (PAT) for the quarter at Rs. 36.36 crores was 35% higher than PAT of Rs. 26.91 crores in Q3 FY 2012-13.

(b) Total Income grew to Rs. 126.81 crores which was 26% increase over Rs. 100.92 crores earned in corresponding quarter of previous year.

(c) Over the same period, Net Interest Income grew by 31% to Rs. 93.97 crores from Rs. 72.00 crores.

(d) Non Interest Income for the quarter was Rs. 32.84 crores which was 14% higher than Rs. 28.92 crores earned in Q3 FY 2012-13. Within this, Commission, Exchange and Brokerage (Core Fee Income) grew by 20% to Rs. 26.66 crores as against Rs. 22.22 crores earned last year.

(e) Operating Cost for the quarter was Rs. 80.45 crores as compared to Rs. 69.15 crores in corresponding quarter of previous year, growth of 16% after accommodating branch growth to 115 branches as compared to 89 branches as at December 31, 2012.

(f) GNPA (Gross Non Performing Assets) ratio has reduced to 2.77% from 3.80% as at end of Q3 FY 2012-13 and over the same period, NNPA (Net Non Performing Assets) Ratio has remained steady at 0.77% as compared to 0.74%.

(g) Advances have grown by 23% to Rs. 7,361 crores as compared to Rs. 5,964 crores as at December 31, 2012.

(h) Deposits have grown by 27% to reach Rs. 9,592 crores from Rs. 7,558 crores as at end of Q3 FY 2012-13. Within this, NRI Deposits have grown by 63% to reach Rs.739 crores from Rs.454 crores as at end December 31, 2012.

(i) NIMs for the current quarter are at 3.55% as compared to 3.38% in corresponding quarter of FY 2012-13.

(j) CASA ratio was 24.80% as compared to 28.87% as end December 31, 2012.

(k) On an annualized basis, ROA has improved further to 1.26% as compared to 1.14% in Q3 FY 2012-13. ROE (annualized) has correspondingly improved to 13.28% from 11.66%.

Comparison of Q3 FY 2013-14 vs Q2 FY 2013-14

(a) PAT for the quarter was at Rs. 36.36 crores as compared to PAT of Rs. 33.09 crores earned in immediately preceding quarter.

(b) Total Income at Rs. 126.81 crores was higher by 7% as over Rs. 118.53 crores earned in previous quarter.

(c) Over the same period, Net Interest Income grew to Rs. 93.97 crores from Rs. 91.26 crores.

(d) Non Interest Income at Rs. 32.84 crores was 20% higher than Rs. 27.27 crores in Q2 FY 2013-14.

(e) Operating Cost for the quarter was Rs. 80.45 crores as compared to Rs.78.41 crores in immediately preceding quarter.

(f) GNPA ratio has reduced to 2.77% from 3.43% as at end of Q2 FY 2013-14 and over the same period, NNPA Ratio has reduced to 0.77% as compared to 0.86%.

(g) Advances have grown by 10% to Rs. 7,361 crores as compared to Rs. 6,677 crores as at September 30, 2013.

(h) Over the same period, Deposits have grown by 9% to Rs. 9,592 crores as compared to Rs. 8,788 crores and NRI Deposits have grown by 14% to Rs. 739 crores from Rs. 651 crores.

(i) NIMs have moderated to 3.55% from 3.68% earned in immediately preceding quarter.

(j) CASA ratio was at 24.80% as compared to 26.92% as at September 30, 2013.

(k) On an annualized basis, ROA has improved further to 1.26% as compared to 1.19% in Q2 FY 2013-14. ROE (annualized) has correspondingly improved to 13.28% from 12.50%.

2. Asset Quality

For the past few years, the Bank has been following the strategy of growing secured lending and limiting unsecured exposures.

DCB Advances consists of Retail Mortgages (39.0%) Gold Loans (1.3%), Commercial Vehicles (2.0%), Other Retail (3.0%), SME / MSME Banking (19.0%), Agri and Inclusive Banking (AIB) (11.7%) and Corporate Banking (24.0%).

As of now, DCB Retail portfolio remains stable and delinquencies and NPAs are in control.

Due to weak macro environment, in FY 2012-13, most of the slippages came from SME / MSME. The pace of fresh slippages in SME/MSME have somewhat slowed down in the current year mainly on account of the portfolio de-risking process undertaken by the Bank since June, 2012. There may be more slippages in the coming months. SME/MSME Advances have strong collateral coverage, therefore, we are hopeful of recovering a large portion of SME / MSME NPAs over the next 12 to 18 months.

The Bank has a calibrated and cautious participation in Corporate Banking and as far as possible tries to avoid large ticket size, unsecured lending and infrastructure sector. In the last two years, fresh slippages have been limited in Corporate Banking. At this point a few loans are under stress. However, given the product structure, collateral coverage and the Bank's demonstrated ability to resolve NPAs, the Bank is hopeful of managing stress exposures and avoid major increases to the NPAs.

AIB portfolio has several components for example Tractors, Warehouse Funding, Commodity Funding, Retail Agri Loans, loans to Micro Finance Institutions etc. Majority of the loans are secured. At this point, AIB portfolio appears to be in control and no major stress is seen.

It may please be noted that the overall environment remains difficult and if the same continues for more time, stress levels may increase across all portfolios including Retail and AIB.

Movement in GNPA for the quarter and YTD is as follows:

NPA (Rs. Crores)	Q3 FY 2013-14	YTD FY 2013-14
Opening Gross NPA	235.08	214.98
Add: Fresh Slippages	23.74	62.85
Less: Upgrades / Recoveries	15.61	33.31
Less: Write Offs	35.29	36.60
Closing Gross NPA	207.92	207.92
Slippage Ratio (annualized) (%)	1.43%	1.28%

3. Restructured Loans

DCB is not anymore a member of CDR. DCB was the first bank to resign from CDR in July 2011. The Bank remains selective in terms of restructuring loans. At present the restructured standard portfolio is Rs. 28.74 crores mainly comprising of 3 large accounts.

4. Net Interest Margins (NIMs)

The present business model followed by DCB aims to maintain NIMs in the range of 300 to 325 bps. Recent NIMs are better than target on account of steady SA (Saving Accounts) growth, Priority Sector Lending (PSL) performance, focus on Retail Deposits, replacement of Borrowings with customer deposits, refinance facility from NHB and NABARD and containment of NPAs. Usually, due to competition on PSL, NIMs are weak in the 4th quarter of any financial year and the same is expected in FY 2013-14. The current portfolio mix and deposit strategy of the Bank seems to indicate that maintaining NIMs of around 300 to 325 bps should be possible provided there are no major changes in competition or regulatory situation.

5. Non Fund Income

As detailed above, during the quarter under review, Core Fee Income has grown by 20% over corresponding quarter of the previous year.

The main components of Fee Income for the Bank are Loan Processing Fee, LCs and Bank Guarantee, Commission on Bills of Exchange, ATM Fees and CASA usage related transaction Fees. Due to market conditions, in the last 2 years, fee income from sale of third party products such as Bancassurance and Mutual Fund have steadily declined. DCB has remained cautious with respect to Treasury Operations. The focus is on volume driven Core Fee Income. The Bank aims to increase Fee Income every year at least to offset the increase in Total Costs.

6. Branch Expansion

In the current quarter, the Bank has opened 12 new branches across Andhra Pradesh, Chattisgarh, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan and Tamil Nadu. As on December 31, 2013 DCB has 115 branches in 65 locations (16 states and 2 Union Territories).

In the coming quarter, the Bank targets to open another 15 to 20 branches. If the new branches continue to perform as expected, then the Bank would be encouraged to add 30 to 40 branches every year subject to managing Cost / Income ratio within acceptable range. The main states for branch expansion would be Andhra Pradesh, Chattisgarh, Delhi, Karnataka, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan and Tamil Nadu. The branch expansion would be in accordance with the Reserve Bank of India (RBI) guidelines. As per the current business model, new branches are expected to break even in 18 to 22 months depending upon size and location.

DCB headcount as at December 31, 2013 stands at 2,556. Based on branch expansion plans, the headcount is expected to increase by 300 to 400 every year.

7. Advances and Deposit Growth

In FY 2013-14, The Bank is targeting for 20 to 22% Advances growth and around 25% Deposit growth. DCB is investing in additional sales force and branch expansion with the aim of doubling the Balance Sheet from the current levels in 36 to 42 months.

8. Main Challenges

The Bank has made good progress in the last 5 years and aims to double its Balance Sheet size in 36 to 42 months. DCB has three main challenges. First challenge is high Cost / Income ratio. Since 2009, the Bank has done well in managing the total costs while almost doubling the Balance Sheet. The main cause for the high Cost / Income ratio continues to be the small Balance Sheet size. Therefore, the intention is to steadily achieve business growth through calibrated branch expansion. The aim is to grow Income much faster than Costs and target at least 55% Cost / Income ratio by March 2016. At the moment, there are no major infrastructure costs envisaged for scaling up the business.

The second challenge again somewhat relates to the size of the Balance Sheet. While the Bank has a calibrated and cautious participation in Corporate Banking and tries to avoid large ticket sizes, unsecured lending and infrastructure sector, any Corporate loan slippage to NPA may put pressure on Bank’s earnings for one or two quarters.

Maintaining CASA ratio / growth has been the third challenge. While SA has been growing steadily, CA growth has been weak due to market conditions. The Bank has had a strong focus on CASA and Retail Deposits since 2009. The branch scorecard is properly aligned to generate CASA accounts. DCB continues to improve its products, processes and services to attract CASA. In near term, CASA ratio may come down further, however, as the new branches begins to contribute, the aim is to maintain CASA ratio at 25%.

9. New Bank Licenses

As and when new players enter the market, competition is likely to intensify. The Bank is paying immediate attention to talent retention as the new players may need people with banking experience to build their business. Many aspiring new players are NBFCs. Banks including DCB are already competing with them in loans business. On Deposits, it is difficult to envisage how the landscape will change. The new entrants may need time to stabilize their business model and meet the regulatory requirements.

10. AKFED Dilution

At present AKFED plus affiliates hold 18.46% of Bank's equity. As per the road map submitted to Reserve Bank of India earlier, AKFED plus affiliates stake is to be reduced to 10% by March 31, 2014. As of now this looks to be difficult and we plan to approach the regulators for their guidance. Also, at the moment, the market is not conducive to raise capital.

11. ROE and ROA

The ROA and ROE annualized for Q3 FY 2013-14 is at 1.26% and 13.28% respectively. DCB aims to achieve ROA and ROE of 1.4 % and 15 % in 2 to 3 years.

12. Modified Duration

DCB continues to run a conservative Treasury. Modified Duration of AFS + HFT books has been as follows:

	Q3 FY 2013-14	Q3 FY 2012-13	Q2 FY 2013-14
AFS	0.29	0.69	0.13
HFT	0.25	4.31	0.37
AFS + HFT	0.28	1.07	0.15

As at December 31, 2013, the Bank does not have any unamortized depreciation on above portfolio which needs to be absorbed during the current year.

13. Capital Adequacy and Risk Weighted Assets (RWA)

DCB continues to maintain strong Capital Adequacy under Basel III requirements. Risk Weighted Assets and Capital Adequacy Ratios are as follows:

	Q3 FY 2013-14	Q3 FY 2012-13*	Q2 FY 2013-14
RWA (Rs. Crs.)	7,873	6,589	7,313
CAR (%)	12.86%	13.71 %	13.81 %
Tier I Capital (%)	11.98%	12.63 %	12.89 %

*Capital Adequacy for Q3 FY 2012-13 is computed under Basel II Regulations which were then applicable and hence has limited comparability

14. Capital Raising

At the moment, the market, as stated earlier, is not conducive to raise capital. As on December 31, 2013, the Bank's CRAR under Basel III (Tier I) is at 11.98%. This does not include current year's profits. The Bank may need to raise capital in 12 to 18 months to support its growth plans.

15. MD and CEOs Tenure

I started my journey with DCB Bank in April, 2009. So far, along with my team and with the support from Chairman / Board we have been able to improve a lot of things at DCB. We are now entering a new phase. We have a long way to go. I love banking and financial services. I am passionate about creating value for customers and shareholders. My personal ambition is to build DCB Bank to a meaningful and respectable size. We have a strong management team which is aligned to the strategy and long term goals of DCB Bank. I am motivated to come to work every day. So far, we have received good feedback from the Chairman, the Board and AKFED. As long as the Board is satisfied with my performance I would like to continue with DCB Bank. Of course MD & CEO appointment and renewal is subject to regulatory approvals.

16. Strategy

The business strategy is outlined in page 27 of the Investor Presentation for Q3 FY 2014 which has been simultaneously released today and is also available on our website.