“Development Credit Bank Q4FY10 Earnings Conference Call”

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Moderator: Ladies and gentlemen good afternoon and welcome to the Development Credit Bank Q4FY10 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need any assistance during this conference, you may signal an operator by pressing * then 0 on your touchtone telephones. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Murali Natrajan, CEO of Development Credit Bank. Thank you and over to you sir.

Murali Natrajan: Thank you. Good afternoon everybody. I am joined by Bharat Sampat who is the CFO of Development Credit Bank and Rajesh Verma, who is the head of Treasury and Financial Institution. I also have Meghana who is the Investor Relations Head.

What I would do is I will take the first few minutes to give you highlights of our Q4 and full year performance and then open the call for questions. Our website www.dcbl.com already has the updated analyst presentation. So, if you have not already taken a copy from there, you may do so.

First of all, the full year loss for this year is Rs 78 crores compared to last year of Rs 88 crores. So, there has been a decline in our net loss position. What is important is the loss for the fourth quarter was Rs 8 crores versus the previous quarter of Rs 18 crores. What we are seeing is that as our balance sheet starts to grow in the last 2 quarters, our income is also beginning to increase and our provisions are narrowing and we already have very good control over our cost. So, that is resulting in better operating profit with the ability to absorb the provisions.

We have successfully dealt with many of the challenges that we faced in the start of this financial year 2009-10 and the balance sheet is in a much better state then what it was before. In terms of planned exit of personal loans, commercial vehicles, and construction equipment, again I am happy to inform you the unsecured personal loans which were causing maximum stress, its net advances is down to less than Rs 100 crores and in about 12 to 18 months, we should be able to completely exit this category. What we have done is we have replaced these loans that are exited with secured advances in micro SME, SME, mid-corporate, agri-microfinance, rural bank which is the PSL category, and also retail home loans.

The balance sheet has grown in comparison to the last year albeit in a small way. Net advances also have grown to Rs3460 crores versus Rs 3274 crores. What we are quite happy with is the performance on CASA front which has helped us to improve the cost of funds. CASA had grown by 18% point to point and the ratio stands at 35.3%.Our strategy is to keep CASA above 30% in order to manage our cost of funds.

In terms of retail deposits, the total retail deposits that are Retail Term Deposits plus Retail CASA now constitute almost 82% of our total deposits. So, our reliance on bulk deposit has been substantially reduced; 12-18 months ago, this number would have been about 50%.

Net interest margin is stable. For the full year, it was 2.79% versus 2.86% last year. Fourth quarter was very good primarily on account of recoveries that we were able to affect on NPA and also we were able to reduce our term deposits rates which helped cost of funds. Coverage ratio, we are now at a coverage ratio of 70%. RBI requires the NPA coverage ratio to be 70% by September end. We are already at 70% coverage ratio. What you are seeing is in both corporate and in retail, there has been a steady decline in gross NPA number. In fact in unsecured personal loan, our coverage ratio is almost 82%. Provisions as compared to last year have reduced. Last year provision was about Rs 163 crores, this year provision is about Rs 126 crores. So, clearly the provision is also on a decline.

The outlook what we see is that we are aiming to come back to positive territory in about two quarters from now on. We have in principle or enabling approval from Board of Directors for raising Rs 150 crore capital. As we see traction in balance sheet which we are confident that we would be continuing to grow our balance sheet we will choose the appropriate time to raise capital.

So, all in all the last two quarter performance is quite encouraging from our own point of view and we feel that given our strong capital position of 15.4% on Basel –I and 14.9% on Basel -II we have enough headroom to grow our assets and then as we move into positive territory, we will choose the time to go for capital raising through QIP route.

That is what I wanted to share with you today. I am open to questions.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with question and answer session. Anyone who wishes to ask a question at this time may press "*" then "1" on their touchtone telephones. If you wish to remove your turn from the question queue, you may press * then 2. Participants are requested to use only handsets while asking a question. Our first question comes from the line of Arun Khurana from UTI Mutual Fund. Please go ahead.

Arun Khurana: One, your margins have come down in a year when the cost of liabilities has also oscillated. This is a very disturbing phenomena which I fail to understand. The second question is your operating cost as a proportion of your NII is more than 100%. So what steps is the management taking in order to curtail the operating cost, because I think this is one of the few banks, whose operating cost is higher than the net interest income and without significant amount of income coming from the other income part of it.

Murali Natarajan: Let me answer the second part first because I am not sure I have understood the first part, so I will ask you to repeat it, but let me first address your second part of the question, okay. Operating cost, the operating cost for 2008-09 was approximately Rs 242 crores as we exit this year, we are at a run rate of about Rs 50 crores and we completed the year at about Rs 200 crores, so we have been able to reduce absolute cost by Rs 40 odd crores in this particular year, okay, by taking various actions in terms of productivity, efficiency, organization, restructure, consolidation, and so on. The cost income ratio is a challenge which happened because of our exiting unsecured personal loans, commercial vehicle, and construction equipment and therefore for the first 2 quarters, the balance sheet did decline. From the third quarter onwards, we have started growing the balance sheet, so the cost income ratio will get addressed as we step up the balance sheet and income. What we believe is that given the current plans of even up to doubling the balance sheet our cost will remain in the current range which would address the cost income ratio for us. In terms of other income, our concentration is on trade, FX, and bank assurance. In terms of bank assurance, we have performed quite well this year. Trade and FX all the enablers have been put in place and as we acquire customers in SME and micro SME and mid corporate, we are confident that also will start growing in the current financial year.

Arun Khurana: See I think you have mentioned that your net interest margin rates slide from 2.86% to 2.75% in the current year.

Murali Natarajan It has covered 2.79%.

Arun Khurana Against 2.86%?

Murali Natarajan That's right.

Arun Khurana My question is in a scenario when the cost of deposits have crashed and on the asset fronts, the yields have not crashed so significantly, why have your margins come down, expectedly the margins should have actually gone up?

Murali Natarajan The cost of fund we have been able to reduce substantially over the last 12 months or so, by 2 actions, one is by offering appropriate rate of interest in retail term deposits and also by increasing our CASA ratio which has gone up from 30% to 35%; however, please bear in mind that we had to replace a lot of the assets which are in the category of 17-18% in unsecured personal loan and 14.5-15% in commercial vehicle, with SME-micro SME which normally come at 12-12.5% and even mid corporate which comes at of anywhere between 10-11%. Also for part of the year, there was so much liquidity in the market that there was a huge competition going on in terms of interest rates. So that has also had an impact on our NIMs.

Arun Khurana I think the liquidity of that size for a bank like yours would make so much of a difference that you could not deploy the funds at competitive rate for you to enhance the margins.

Murali Natarajan If I am not mistaken the entire market struggled for almost about 4-6 months with excess liquidity with a lot of competition happening in all segments of business, whether you talk about microfinance or whether you talk about mid corporate, even larger SMEs where banks liquidity was chasing these assets and they was a very tough competition for at least 3-6 months.

Arun Khurana Okay one thing that you mentioned earlier was that your operating expenses are enough to enable you to double the balance sheet size without incurring any additional operating expense on that front. So what I am trying to figure out is are you in a business where you are running high on operating leverage, or is it that you have already cut so much expense in the past and you are not able to capitalize on it.

Murali Natarajan No, we had as I mentioned to you we had our total cost at Rs 242 crores, which with a lot of action in terms of productivity, efficiency, organization, restructure, looking at various vendor agreements, and so on we were able to reduce about Rs 40 crores this year, right? What we have done is now we are in a position where we have when we start growing the balance sheet in the last 2 quarters which we have done, we believe very strongly that the resources will continue to get recycled, for example let say unsecured personal loans declined further in the next 12 months or so. Those resources will get deployed, may not be one to one, but those resources get deployed in to sales area for fuelling growth of the SME, micro SME, and so on. So our confidence is that we will be able to maintain the cost within this range and continue to grow the balance sheet at least up to double the current level of balance sheet.

Arun Khurana What you are saying is the cost income ratio at the current level now make up incremental basis you would not be incurring a very significant cost, or will you be incurring any cost to double the balance sheet?

Murali Natarajan We will not be incurring the right position. I will not be incurring any significant level of cost. I expect our cost to be within this range only.

Arun Khurana So you do not expect your cost income ratio to fall down significantly from here.

Murali Natarajan The cost income ratio obviously will fall down because as I grow my balance sheet and don't increase my cost, and I am talking about cost means total absolute cost, so if I don't increase my absolute cost beyond say 3-5% but keep continuing the income growth, so the income ratio will fall.

Arun Khurana So let me put it this way, may be by 2012 if your balance sheets were to double, 2012 or 2013 for that matter, where do you see your cost income ratio?

Murali Natarajan Our target is in 3 years' time reach a cost income ratio of about 55 odd percent.

Arun Khurana Which is at present?

Murali Natarajan At present, it is about 80 or 81%.

Arun Khurana Okay and I think you are pretty confident of achieving that, and have you drawn a roadmap for the same?

Murali Natarajan Yes, we have completed our internal roadmap for the same. We have actually looked at every aspect of our cost, whether infrastructure like technology, whether operation, sales force where we need to deploy, what are the systems that we need to kind of add, where the capacity will be required in collections and so on, so we feel confident that we are pretty much in control of the cost levels.

Arun Khurana Last question. How many branches do you have as of now?

Murali Natarajan At the moment, we have 80 branches.

Arun Khurana And are you looking forward to applying for fresh branch licenses, RBI is open to giving you.

Murali Natarajan My sense is that when we move into positive territory, we should expect RBI to give us a few licenses. There are two issues with respect to branches, one was in terms of the Aga Khan dilution and second was with respect to the bank's performance. I think with respect to Agha Khan dilution we have already given a roadmap all the way up to 2014 which is what is expected from RBI and with respect to performance, we are confident that in about 2 quarters we should come back to positive territory.

Arun Khurana Alright sir, thank you sir.

Moderator Thank you Mr. Khurana. Our next question comes from the line of Rohit Chopra from IDBI Fortis. Please go ahead.

Rohit Chopra Good afternoon all. Sir a few questions on your asset quality. Your gross NPAs have declined some Rs 373 crores to Rs 319 crores. What is the reason for this? Is this asset upgradation or write-off of assets?

Murali Natarajan First let me explain we have a coverage ratio of 70% the only asset that we have written of is a very large retail loan that we had given in 2007-08 which we have taken a write-off, but that is 100% provided and it is part of the coverage ratio. Suppose if we have not taken that write-off, we probably would have been in a coverage ratio of something like 67 or 68% and we have seen systematic improvement in NPA of unsecured personal loan through upgrades and recoveries. We have also seen upgrades and recoveries in corporate loans as well.

Rohit Chopra So based on your experience so far and the fact that you are saying that you want to exit unsecured book in 12-18 months through natural run outs you think there could be further reduction in gross NPAs?

Murali Natarajan We have not booked any new unsecured personal loan, commercial vehicle, or construction equipment since August of 2008, so the book is on a run down for the last day, you can say almost 2 years now. So the residual book for unsecured personal loan is about Rs 100 crores. The slippages on those books are quite negligible because you know we don't expect old book like that to continue to slip. So my expectation is that it would be through 2 reasons why our NPAs will improve. One, by booking good quality assets in a diversified portfolio which is what we are doing and second through continuous recoveries of our unsecured books as well as the other NPAs.

Rohit Chopra The next question is on net NPAs, your gross NPAs have declined around Rs 54 crores, but your net NPAs have declined by only half that amount, Rs 27-28 crores and that is in spite of making provisions of around Rs 27 crores. So I was just trying to understand why the reduction in net NPAs is much lower than gross NPAs?

Murali Natarajan I think write-off, CFO Bharat Sampat has explained to me that the write-off does not impact the net NPA, that is as per the certified process.

Rohit Chopra Then what could the approximate amount of write-offs be around 35-40 crores?

Murali Natarajan So about Rs 35-40 crores, yes.

Rohit Chopra Could you expect to see some recovery on this write-off?

Murali Natarajan Yes, we are pursing recoveries, we have some levers to recover that amount, but it will take time. It will take us at least about 12-18 months to have some recoveries on that book.

Rohit Chopra Okay thank you. That answers my question.

Moderator Thank you. Our next question comes from the line of Abhishek Kothari from Way2Wealth. Please go ahead.

Abhishek Kothari Sir could you give me the NPA breakup; I mean what was the slippage during the year?

Murali Natarajan You want the slippage during the year. See started at Rs 290 Crore and we have gone to Rs 319 crore, in fact you can keep it as Rs 373 Crore which is about Rs 80 odd crores. Most of the slippages are coming from unsecured personal loans.

Abhishek Kothari Percentage wise how much would it be? Percentage of your advances.

Murali Natarajan We stopped originating any new loans and unsecured personal loans since August 2008, so the denominator has been continuously declining.

Abhishek Kothari Complete slippage as a whole?

Murali Natarajan Yeah, so the slippage, if I look at it the NPA out of the Rs 300 odd crores, unsecured personal NPA would be approximately Rs 170 crores and provided provision would be approximately about Rs 140 crores out of that.

Abhishek Kothari And what is the Tier 1 ratio?

Murali Natarajan Tier 1 is 12.4% and Tier 2 is 3%.

Abhishek Kothari Okay and what would be your NIM guidance for the next year?

Murali Natarajan The way we have planned our balance sheet for the next 2-3 years, we are looking to be higher than 2.5-2.6% on NIM.

Abhishek Kothari And what would be the reason from going from 2.8% to 2.5% or 2.6%?

Murali Natarajan I think we have had a phenomenal amount of hard work put in CASA, so we have been able to in fact in the previous quarter we were at 38%, now it is at 35%. We are expecting CASA ratio to be above 30% that is our plan. We do expect a lot of retail term deposit to be raised to fund our asset growth. So it will be a challenge to keep the NIM at that level. But even at about 2.5-2.6% our models work.

Abhishek Kothari Okay. Thank you sir.

Moderator Thank you. Our next question comes from the line of Vivek Verma from Edelweiss. Please go ahead.

Kunal Yes sir, this is Kunal from Edelweiss.

Murali Natarajan Yeah Kunal.

Kunal First thing just taking forward this question on NPA, would like to know exactly like the movement of NPAs for Q4 and for full year, so slippages reduction, recoveries, and write-offs.

Murali Natarajan The NPA as of March 31, 2009 was Rs 290crores and we ended at about Rs319crores for March 31, 2010. If you add 40 odd crores of write-offs, so it is about Rs 359 crores. That means we have slippages of about Rs 69 crores right? Much of this slippages is almost about 40 odd crores comes from personal loans, the balance comes from commercial vehicle, construction equipment, and the little bit in corporate.

Kunal And for Q4?

Murali Natarajan Yeah. Q4 specifically as of December 31, it was Rs 373 crores published and then we ended at about Rs 369. So Q4 actually there has been a decline and Rs 319 is after we took the write-off of about Rs 40 crores.

Kunal Okay so the slippages were not there incremental slippages if you see.

Murali Natarajan In unsecured personal loans and corporate, we actually have steady improvement happening in gross NPA. We don't have an issue of NPA in SME, micro SME, priority sector lending, and other portfolios. I mean this is very minute NPA.

Kunal Okay and how much would the slippages be? Actually you have mentioned that may round about 4 crores is the slippages are less recoveries or reduction, so what would your gross slippage be for Q4.

Murali Natarajan The gross NPA as on 31st December, 2009, was Rs 373croers , now it is Rs 319 crores, you add that Rs 40 crores on say right off so that becomes Rs 359 crores, so Rs 373 crores minus Rs 359 crores is Rs 14 crores of improvement.

Kunal But this would be on net basis.

Murali Natarajan This is gross NPA I am telling you. There is upgrade and there is other. I am not carrying that information with me. What you're saying is that….. what is upgrade that we can send it to you separately that is not an issue.

Kunal Sir what's the outlook over here with respect to your NPA considering we are now carrying round about Rs 95 crores of unsecured. How do we see it over may be the next two years in the NPA?

Murali Natarajan My expectation is that, if I was to break it between retail and corporate, my expectation is the entire retail NPA including unsecured personal loans we probably are at peak level. So from here on month on month we should see improvement. So I do expect us to end at a much lower level at least starting now or at least by the first quarter of this year. We've looked at our corporate book repeatedly, my expectation is that we should not have any further slippage in corporate.

Kunal Okay. Any major write-offs which are expected right now?

Murali Natarajan No. I think this year whatever we have taken that's what is there. And all our write-offs also is the one that I mentioned to you in the corporate. There are no other write-offs.

Kunal Sir Can you give me some outlook on CASA. This quarter we had seen sequential decline from 38 to 35%.

Murali Natarajan The growth has been there. Actually speaking what happens is that, our aim is to have retail - retail CASA so which means that we are actually targeting traders, businessmen which are accounts of Rs 70,000, Rs 100,000 to Rs 150,000 and then cross sell fee products like trade-FX and so on. At times what happens is that you do have a situation where one or two big accounts from CASA can switch to either retail term deposit or it can even go out for any large payment that customer might have. So I would expect that we should be able to maintain CASA ratio above 30% in this year.

Kunal If I just look at the loan book breakup, may be on the priority sector side it has gone up significantly in this quarter, and the incremental growth was also significant and driven by it. So how do we see the overall proportion of priority? I think it was about 25% or so for Q4.

Murali Natarajan So, every year we have to meet 40% in equity sector lending. We don't run priority sector as something that needs to be achieved, we run it as a separate business vertical. We have a separate team, who concentrate on agri, micro finance i.e. in direct lending to micro Finance, warehouse funding etc. There is a series of products. We've gone through list of products and rated them as high, low and medium risks. What is the pricing, what is the kind of advantage of doing it, how do we meet the weaker section quota, how do you meet direct Agri quota and so on and so forth. So this year we have met priority sector lending, if you don't meet the priority sector lending then the impact of that is quite negative for the bank. It is not just financial impact even it does not help you to achieve or ask for branch license and so on. So I would expect always this portfolio to be in that range of about Rs 800-1000 crores. We make sure that the yield of this portfolio is acceptable, because that is how we can maintain the overall yield.

Kunal How much would the restructuring be?

Murali Natarajan Restructuring is a very small amount in the context. The portfolio that is its all in the corporate portfolio, the portfolio that is restructured amount is about Rs 32 crore. And approximately seven accounts, the outstanding on that Rs 32 crore is approximately Rs 20 crores.

Kunal What level of TIER1 would we be comfortable raising money?

Murali Natarajan Sorry, if you can just explain that for me?

Kunal Sir at what level Tier-1 means currently and overall Teir-1 is 12.4% so maybe there is a specific target that one….

Murali Natarajan You want to make sure that Tier-1 is always about 10-10.5%.

Kunal Okay it should always be 10-10.5%. Thanks a lot.

Moderator Thank you. Our next question comes from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.

Sunil Kumar Hello sir. Just wanted to check on the margins you briefly touched on beginning that margins have improved mainly because of re-pricing of deposits and NPA recovery, so wanted to check the margins have consistently improved like say last two quarters September to this quarter from 2.5% to 3.3% around. How much is due to NPA recovery?

Murali Natarajan What happens is that you consistently pursue in corporate especially you are consistently pursuing recovery and all of sudden you meet with cut throat because you can't exactly time these things. So I think almost about maybe Rs 80-90 lakh income would have been a reversal from a previously NPA account. My guidance on NIM is more to stay with the look if I am starting to grow my assets which we are in the last two quarters. The CASA the focus is very much there on CASA there is a scorecard in place for branches to work on CASA. The product that is complete, CASA is reviewed very frequently and that too we have focused on CA more then SA so that the margins are even better. In fact our CA is about 45% so what we're trying to do is to make sure that one CASA continues to grow month on month, year on year and is well above 30%. Second we rely on retail term deposit and not on bulk deposit because we don't want to have more than 70% of our deposits on retail term deposit because that is the stability to our balance sheet. So all that put together is what I expect our NIM to be about to go in 2.6%.

Sunil Kumar Right sir, thank you so much all the best.

Moderator Thank you, the next question comes from the line of Anand Laddha from HDFC Mutual Funds. Please go ahead.

Anand Laddha Hello sir, just missed a little bit on your NPA movement. Could you just tell us again what the slippage was for the full year and what was the write-off for the full-year?

Murali Natarajan Okay we started at Rs 290 crore when we would have ended up at Rs 359 crores so take up about Rs 40 crores of write-off you are at Rs 319 crores. That Rs 40 crore was already fully provided amount.

Anand Laddha Sir this Rs 40 crore is the write-off for full year or for the quarter itself?

Murali Natarajan This is for the quarter by the provision has been taken much earlier. And much of the slippages if you look at Rs 290-359 crores much of the slippages have come from unsecured personal loan commercial vehicle construction equipment, right? What I would like to say is for the last few months what we are witnessing is that in all these categories there is a steady decline in the NPA.

Anand Laddha But just wanted to understand on the commercial vehicle and construction equipment we have a lot of new players I mean not all of existing players in that we have seen a very good recovery decent up gradation happening in that. Was it in our case little different that we wanted to completely move out of these two segments?

Murali Natarajan The commercial vehicle, construction equipment small ticket vehicle loans etc I don't believe that we have too much of cross sell possibilities with those customers from the way our business model works. Secondly unless we build a lot of scale across India I don't see that being a very viable type of products for us so I would rather concentrate on retail home loans where historically the loss rate have been something like 15-20 basis points plus it fits in very well with our focus on Micro SME and SME where we are selling both personal products as well as business products.

Anand Laddha Can you tell me the closing retail book in terms of personal loan and CV, commercial vehicle and commercial equipment? What is the closing book?

Murali Natarajan In terms of net advances closing book approximately Rs 90 crore is personal loan, commercial vehicle construction equipment and small ticket all that put together is about Rs 280 crores.

Anand Laddha Okay Rs 370 crore still books lying in the book. Any guidance in terms of growth for next year on the advances side?

Murali Natarajan The team is aiming for 25-30% growth on advances and it will be diversified portfolio which means that we will be focused on Micro SME, SME, mid corporate, retail home loans so it will not be any one particular product, will be trying to have a diversified growth all the sales teams are already in place and I'm seeing traction at different levels on each of these business.

Anand Laddha Okay, thank you sir.

Moderator Thank you, our next question comes from line of Jayprakash Toshniwal from Taurus Mutual Funds. Please go ahead.

Jayprakash Toshniwal Good afternoon Sir, you mentioned that you want to reduce unsecured landing book for the moment so what could be the impact on our CASA or as retail liability franchisee?

Murali Natarajan If I reduce unsecure personal loan I'm not sure why it should have at impact on CASA.

Jayprakash Toshniwal Okay so you don't see any impact on CASA build up kind of thing?

Murali Natarajan See unsecured personal loans is a standalone product, it was not being sold to branch customer that is what you're alluding to. It is a separate standalone product that we discontinued in August 2008 considering we have are a small bank with a small balance sheet I don't believe that it is right product for us because it is quite volatile and since 2-3 years can have challenges when unsecured category like credit card and personal loans. So we have exited this in August 2008. CASA is different, we're concentrating on Micro SME and SME to sell CASA especially CA and the product we sell are trade, FX, cash management those are the product we sell so I actually don't see any link between the two.

Jayprakash Toshniwal Okay sir thank you.

Moderator Thank you, a next question comes from the line of Rajgopal Ramanathan from Centrum Broking. Please go ahead.

Rajgopal Ramanathan Just two questions from me one is, you have spoken about significant change that you expect to bring about in the balance sheet mix. Now in such a situation where do you expect your loan yields to be moving to that question number one and on the sustainable basis what ROA do you think you can attain it may be over the next two years?

Murali Natarajan My first focus is on going to, reaching a positive territory making month on month profits for the bank so their focus is on making sure that the costs are in control the NPAs are reduced and balance sheet starts to grow so that the income starts to move up which we have seen some evidence of it in the last two quarters. The yield that we expect is different for different products for example Micro SME where we target less than Rs 10 crore of annual turnover. We expect yield to be 13-13.50%. Whereas slightly larger SME like Rs 10 crore to Rs 100 crore would be 11.50-12%. Mid corporate normally would be about 10-11%. Retail home loans that go through some kind of challenges in the market but over the time we expect at least 160-170 basis points margin in that particular book. The loss rates are expected to only about 10 basis points on that. In terms of the priority sector landings the way we have put a separate vertical in place a sales team and portfolio management team we expect that to yield us about anywhere between 10-11%. But the most important thing is that we're moving towards secured advances or example when we lend to SME the primary security is stock and book-debt that based on which draw down happens, the secondary security is the commercial or a residential property which maybe covering at least 60-70% or even 100% of the advance so I expect the NPAs to be much better than how we have been performing before. Even if NPAs happen at least the recoveries and the provisions would be much lower to our profitability. So the way we are expecting is that come back to profitability this year that is in 2010-11 and as we exit the following year which is 11-12% by fourth quarter we should try in aim for on run rate of about 14% ROE and at least 80 basis point ROA that's the intention at the moment.

Rajgopal Ramanathan Okay and that would probably presume that your credit charges would be what as the percentage of loans?

Murali Natarajan We want to operate credit charges at lower than 1% maybe 80 basis points or so, it will depend like retail home loans I don't expect it will be more than 15 basis points whereas in Micro SME it would even be 80 basis points.

Rajgopal Ramanathan On a blended basis you would expect this to be anywhere between 60 to 80 basis points.

Murali Natarajan Correct that's how we have built the model for the next two years.

Rajgopal Ramanathan And another thing you just mentioned that you are probably looking at close to around 25-30% growth in loans. Now I understand that when I read your presentation there has been a significant amount of contraction on the balance sheet obviously because you have been binding down your assets. Now if you are targeting a 30% growth in loans it would probably presume is that you might have to focus on acquiring bulk deposits as well since you're changing the mix and you also guided to the fact that NIMs might essentially sought of taper off over the next one year or so how would you be in a position to blend all of this and ensure that the goal towards profitability is reached by the end of the first half to itself?

Murali Natarajan Much of the profitability would be reached as we reduced the provisions because our operating profit is starting to expand so much of the profitability goal would be achieved by actually reducing provisions. If the provisions last year was Rs 163 crore this year we ended at Rs 126 crore, next year at expect it to be about Rs 50-60 crore. So that itself will bring back a lot of profitability. So we had a problem so we are dealing with the problems and it is on the way down what I would like to. With respect to contraction the balance sheet contracted in 2008-09 actually we had marginally grew the balance sheet from Rs 5943 crores it went to Rs 6100 crores something right? If this is on the back of almost Rs 400 crore of exit book in terms of personal loan and other advantages which have stocked up by the diversified portfolio. As we move forward the amount of portfolio that needs to run off is very limited like about Rs 280-300 crore so month by month what we put on would be quite sufficient to kind of given us some traction on balance sheet. So I don't expect the balance sheet to have the contraction impact beyond maybe 6-8 months time.

Rajgopal Ramanathan Okay and as you said may be over the next two years you are expecting a ROA of around 0.8% right?

Murali Natarajan As we exit FY11-12 I do want to be in a run-rate ROA of 80 basis points and the higher the better of course but definitely 80 basis points.

Rajgopal Ramanathan Thanks.

Murali Natarajan Operator we have time for one more question.

Moderator Sure Sir, the last question comes from the line of Nitin Kumar from Quant Broking. Please go ahead.

Nitin Kumar Hi sir, my question is promoter holding your bank shareholdings right now is 23%. So what are the plans to reduce that and is there any timeline on that?

Murali Natarajan Timeline that what sought by RBI and which we have given to them is they had given up time till March 2014 to reduce it to 10%. And we have given a step-by-step timeline. Any new issue of capital whether is the rights or QIP the promoter may not be able to subscribe as per than roadmap. So the way I want to plan is that I want to make sure the return on equity is acceptable to the investors so we will be raising capital in line with our growth that we achieve and the profitability that we achieve so between now to say 2014 we plan to raise capital step-by-step as we grow which will dilute promoter to 10%.

Nitin Kumar Okay sir, thank you.

Murali Natarajan Great, it was wonderful talking to all of you. If you have any further questions or you want to have a meeting with us please write to Meghna, AdFactors also would be able to assist you in this matter. You can go to website and download the presentation or any other material that you need or if you need any other further information or assistance please feel free to call us. Thank you very much. It has been a pleasure to talking to all of you.

Moderator Thank you on behalf of Development Credit Bank that concludes your conference call. Thank you all for joining us and you may now disconnect.