"Development Credit Bank Q2 FY 2011Conference Call"

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Moderator: Ladies and gentlemen good afternoon and welcome to the Development Credit Bank Q2FY11 earnings conference call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Murali M Natrajan, MD and CEO of Development Credit Bank. Thank you and over to you sir.

Murali Natrajan: Thank you. Good evening and thank you for joining this conference call. My name is Murali. I am joined by Meghana who is the Investor Relationship Head. We have Sridhar Seshadri who is the Financial Controller, then we have Praveen Kutty - Retail and SME Banking Head and Bharat Sampat - CFO of the Bank. Let me take about 10 minutes to brief you on the results for the quarter ended September 2010 and we will open the floor for questions.

DCB declared Q2 profit of Rs. 4.82 Cr. If you compare this with the same quarter last year, we were at a loss of Rs. 16.93 Cr. This year the first quarter loss was Rs. 2.91 Cr. So, if you look at a half year we are at Rs. 1.91 Cr. Based on our own internal projections we were expecting to return to profits in the third quarter. We are happy that we are performing somewhat ahead of our plan. As compared to the same period last year Deposits grew by 22% and Advances grew by 30%, so we reached advances of Rs.3,840 Cr. and Deposits of Rs. 5,495 Cr. So, we have been growing almost consistently since September, 2009.

In terms of Balance Sheet, it reached the size of Rs. 6,938 Cr. As of June 2010, the same number was Rs. 6,373 Cr. and last year around the same time it was Rs. 5,590 Cr. So, we are making good progress is what I would like to say.

We continue to focus on Retail Term Deposits. Our strategy is that we should have a minimum of 30% in CASA and at least 70% in Retail Term Deposits. When we look at the figure this quarter again, our CASA ratio is about 34.6%, we grew CASA by about 3%. Retail Term Deposits are at 78.7%. So for a bank of our size this type of Deposits gives a lot more stability. From a deposit point of view it was not a very easy quarter because the money market was tight. Despite that the branches have done a reasonably good job and we are hoping that they will continue to do so in the coming quarters as well.

The Advances also grew, as I mentioned to you. As we ended the quarter June 2010 it was Rs. 3,479 Cr. we ended September 2010 at Rs. 3,840 Cr. We did a good job in our

Net Interest Margin as well which is at 3.14%, again as per our model and strategy we are quite happy to work at 2.75% type of NIM. As you know that we are continuing to exit Personal Loans which used to come at 17% to 18% interest rate and are focused on secured lending which comes anywhere from 10% to 12% type of rate. So, we have worked on Cost of Funds to keep our NIMs in that range.

Moving forward, as the money market is a bit tight, I do expect some compression in our NIM but as per our strategy we want to be at about 2.75% to 2.80% of NIM.

Capital adequacy is strong at 13.57% in Basel II with 11.26% in Tier I. I think one of the improvements that we have been working very hard on is Provisions. In terms of Provisions this quarter (September 30, 2010) was about Rs. 16 Cr. If you compare it with last year around the same time (September 30, 3009) it was Rs. 33 Cr. and the first quarter (June 30, 2010) of this year was Rs. 25 Cr. So, we do see an improvement in provisions. Our provisions coverage which is supposed to be 70% as of September, 2010, as you know, we reached 70% in March, 2010 itself and at this point in time it stands at 79.6%. So, it is a very strong coverage on provision. The gross NPAs are reducing step-by-step. We are now at 7.61% and net NPA is below 2% at 1.86%.

This quarter we received two important ratings. One from CRISIL for long-term and another from FITCH. CRISIL upgraded us from 'BBB/Stable' to 'BBB+/Stable' FITCH upgraded us from 'BBB/Negative' to 'BBB/ Stable.' So, those are the items I wanted to share with you with respect to our results. I am happy to take questions.

Moderator: Thank you. The first question is from the line of Jayprakash Toshniwal from Taurus Asset Management. Please go ahead.

Jayprakash Toshniwal: Sir, in your opening remarks, you said you wanted to come back to profit in the third quarter but you came back in second quarter, so where did the surprise come from?

Murali Natrajan: It is not a surprise. It is just that we were working hard on all aspects of our strategy, Balance Sheet, income, provision, maintaining the cost at the same level, so, we are quite happy that we are making progress slightly ahead of what we literally thought we would reach.

Jayprakash Toshniwal: Okay. And what kind of recovery are you expecting from your written down portfolio for the full year and how much did you do in the first half?

Murali Natrajan: We cannot share that type of information with you. We have in absolute terms reduced our NPAs. Let me just give you the figure. Our gross NPA as of last year around the same time (September 30, 2009) was Rs. 357 Cr. and as of today, the same gross NPA is at Rs. 310 Cr. So, apart from one technical write-off I do not recall any technical write-off in our portfolio, much of our NPAs are in the Retail Portfolio and as you would know Retail Portfolio just as it takes time to increase it also takes time to kind of come off. We have approximately 300 people in collections which we have had since last year and a half or so, and we are seeing consistent performance from the collections team. So we hope that this number will continue to come down.

Jayprakash Toshniwal: What was the recovery amount in the first half? Can you share the same?

Murali Natrajan: No, I cannot share that with you. That information is not in the public domain.

Jayprakash Toshniwal: Okay. And my last question is any operational changes which you want to highlight during this quarter?

Murali Natrajan: What would be an example of that?

Jayprakash Toshniwal: Like any new initiative which you have taken in the operations to reduce your cost to income ratio?

Murali Natrajan: See, our cost to income ratio which I think I have maintained even in the previous call, if I recall, we have reduced our cost from approximately Rs. 242 Cr. to run rate of about Rs. 200 Cr. if you notice even on a quarter-by-quarter basis. Our cost to income ratio is not that much of a problem on cost as it is on the absolute size of our Balance Sheet. So, our concentration is while maintaining the cost at the current level, grow the income through the same initiatives that I talked about CASA, secured lending and so on. So, I expect our cost to income ratio to come down step-by-step over the next three years. As far as the cost initiatives are concerned, the same initiatives in terms of negotiating with vendors, improving efficiency, improving organizational productivity, improving branch performance, those are the kind of initiatives that are ongoing; there is nothing new or special about it as compared to the last quarter.

Jayprakash Toshniwal: Okay sir. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika: A small clarification on cost to income ratio. It has shown a rise in on both Q-on-Q basis and Y-o-Y basis if you are comfortable with this. Can you please explain it more?

Murali Natrajan: Yeah. If you see our cost to income ratio for Q1 FY 2011 was 69.14% and Q2 is 71.59%. As we know every year you are allowed to transfer securities from HTM to AFS which we did in the Q1 FY 2011 and I think we had an approximate gain of Rs. 4 Cr. or Rs. 5 Cr. in Q1 FY 2011. That explains why we have a slightly better cost to income ratio in Q1 FY 2011. Like I said in the previous question, we are actually working towards growing our balance sheet faster than the cost growth. What we have is a lot of infrastructure like technology, systems, processes, but not enough in the Balance Sheet to support. At the same time, we also have 80 branches only, we continue to work in improving the performance of the branches so that wherever we have branches that are not performing we can grow our income in CASA so that that improves our cost to income ratio. I expect our cost to income ratio to come down step-by-step in the next two to three years, as we continue to grow our income as per the strategy which I outlined.

Naga Deepika: Sir, my next question is pertaining to your unsecured portfolio. You said in the last con call that it will run off. What is the current outstanding amount?

Murali Natrajan: Somewhere in the middle of FY 2008 approximately it was Rs. 750 Cr. Now, I think approximately Rs. 30 Cr. is left on that unsecured personal loan. I think over a period of another six-odd months it should be over. What is very important to understand is that these personal loans used to be at about 17% to 18% interest rate. What we have done is we have removed those and replaced them with more secured advances like Retail Mortgages, Micro SME, SME which come at a lower interest rate like 12.5%, 11.5%. But we have worked on Cost of Funds to keep our income first, initially stable and then starting to grow. So, Personal Loans are only about Rs. 30 Cr. left.

Naga Deepika: I understand that. But in the provision coverage you have mentioned that the Personal Loan provision was around Rs. 161.7 Cr.

Murali Natrajan: Yeah. More than 90% of that would be on the Personal Loan. Coverage ratio would be approximately 94% on that.

Naga Deepika: Okay. And in the last con call you said you want to open two branches and you have got the license also from the RBI. What happened to that….?

Murali Natrajan: We have those two branches. One is in place called Netrang and another place is called Mandvi. We have done a recce of the two places to identify our branch location. I think there is some paper work going on in terms of the premises and so on. So, hopefully, by end of December, we should open these branches.

Naga Deepika: Okay, sir. Thanks a lot. That is it from my end.

Moderator: Thank you. The next question is from the line of Rajatdeep Anand from ICICI Prudential Life. Please go ahead.

Rajatdeep Anand: Apart from profit sizing what has pleasantly surprised is the growth in advances book. Now, if I look at the breakup that you have given in the quarterly presentation, most of it seems to be coming from Retail book. So, of the incremental about 400 Crores that you have lent to retail, how much of it is mortgages and what is the rest?

Murali Natrajan: There are a couple of moving parts here. Let me explain between June and September. What happens is that typically, Agri and Microfinance tend to kind of have a lot of repayments between April to September. And then from October end onwards it starts to build up. So, you will notice that in September, we are almost down by about Rs. 300 Cr on Agri and Microfinance. So that is seasonal. I mean it probably might happen in all the Balance Sheet because these are all like one-year, one-and-a-half year….

Rajatdeep Anand: Yes, it happened last year. I am saying in the retail segment…

Murali Natrajan: I am coming to that. So that is the first thing. In retail segment, we have growth from two sources – we have acquired certain portfolios from other companies on mortgages. We have mentioned here as acquired portfolio approximately Rs. 300 Cr. And we have sourced approximately Rs. 170 Cr. of mortgages through DCBs own efforts.

Rajatdeep Anand: Rs. 175 Cr., sir?

Murali Natrajan: Rs. 168 Cr.

Rajatdeep Anand: Rs. 168 Cr. Okay.

Murali Natrajan: And the rest is SME and Micro SME. This is also part of our strategy to grow.

Rajatdeep Anand: All right. So what is your mortgage product? I think it is 7.95% fixed for last year but thereafter what is the…..

Murali Natrajan: Not last year. That was before the base rate introduction and all.

Rajatdeep Anand: All right.

Murali Natrajan: That was last year I think. That offer got over by December of 2009, if I am not mistaken.

Rajatdeep Anand: Sir, what is your mortgage product now?

Murali Natrajan: We have two products. One is loan for property and one is loan against property. Both are priced above base rate. Our base rate has now been increased to 8.25%. It was 7.75%. And in loan against property, we gave approximately 60% to 65% LTV and in loan for property we have maximum of 80% to 85% LTV. These are priced based on base rate. So, that is the way I think most pricing is being done in the market.

Rajatdeep Anand: So, Rs. 168 Cr. that you sold of mortgages yourself. What is the split between loan against property and loan for property?

Murali Natrajan: I do not have that split and I do not think it is in public domain. But typically, one should expect about 30% to 40% as the loan against property. I do not think that can be more than that.

Rajatdeep Anand: All right. So, uptake in retail credit that we saw, is entirely mortgages?

Murali Natrajan: In our vertical we keep Retail and SME in the same management. But you see that we have also grown SME by about Rs. 136 Cr. So we have grown every product except AMRB, which is seasonal.

Rajatdeep Anand: Right, thank you sir.

Moderator: Thank you. The next question is from the line of PS Subramanyam from Sundaram Mutual Fund. Please go ahead.

PS Subramanyam: Sir, my question is on this advances growth where the retail has actually grown significantly. You were also pointing out that there has been some tightness on the liability side, because money market seems to be tight. Just wanted to understand what is the thought process behind actually growing your advances book fast by acquiring portfolios from others when liquidity is tight so they presume when you acquire a portfolio the yields would not be as attractive as those which you source directly?

Murali Natrajan: Yeah, one of the things that as a Bank we are trying to achieve is to get a lot of customers through the door so that we have cross-sell opportunities of both CASA as well as other fee opportunities. So, during this quarter we did have an opportunity which seems to be quite well within our strategy in terms of growing our secured mortgages. That is why we acquired this portfolio. As far as the money market is concerned our focus very much remains on growing Retail Term Deposit. And for a Bank of our size, we always feel that we should have at least 70% of our deposits in Retail. That process is continuing.

PS Subramanyam: Okay. So in terms of the growth that you have clocked this quarter, do you think this is more kind of a one-off thing which has happened because you wanted to acquire this portfolio, I mean this is the first time …….

Murali Natrajan: This quarter the portfolio has come, next quarter the AMRB starts to come up, our engines on Retail Mortgages have started to perform well, our engines on SME and micro SME is also showing decent traction. So, I am not so sure that that is the one-off thing. I think we should be able to grow our Balance Sheet steadily.

PS Subramanyam: Okay. So you are saying that there might be some pressure on margins but the higher scale would enable you to gain some more cost efficiencies as you grow at 30% plus?

Murali Natrajan: Cost efficiencies will start to come as our Balance Sheet starts to come in the range of at least double the size of what we have at the moment. We are not making any substantial investments in head office and systems because I think we have those capacities. Where we are investing is bringing in more and more sales people. What we have done is we have proper score card to evaluate performance in almost every business. Whether you talk about SME, micro SME, branches, we have a score card which is measured every month and therefore we are able to weed out good performers, at the same time weed out bad performance and retain and reward the good performers. So, we will be investing behind sales staff. So I should expect the efficiencies to start coming in as our balance sheet grows, probably, slightly more higher than what it is today.

PS Subramanyam: Okay. And sir, on your provision number, is it fair to presume that the whole provision number that you put out would be for NPAs or some of it is also investment provisioning that you might have done?

Murali Natrajan: No, NPAs only.

PS Subramanyam: Okay. Sure thanks a lot sir.

Moderator: Thank you. The next question is from the line of Deepak Radhakrishnan from Unify Capital. Please go ahead.

Deepak Radhakrishnan: I just wanted to understand do we have guidance for reducing this gross NPA figure of Rs. 310 Cr.

Murali Natrajan: I do not have guidance, but …..

Deepak Radhakrishnan: It largely remains flat in the last three quarters.

Murali Natrajan: Yeah. See, what happens is that part of it is corporate NPA and part of it is retail NPA. Retail NPA is, say, for example, we have about approximately Rs. 160 Cr. of Personal Loans and we have provided most of it, like I mentioned to you coverage ratio on that would be almost 94%. So, if a customer cannot pay one installment and he has defaulted for six installments, it is not possible to collect all the six installments. So it will be collected in one installment at the time only, as the customer's financial ability improves. So, retail NPAs do take time to come down. Our aim is to create book in secured lending which does not incrementally add to these NPAs, number one. Number two, at the same time, continue our collection effort. So, I do expect these numbers to slowly come down over the period of next 12 to 18 months.

Deepak Radhakrishnan: You are talking about adding your employee base. How much would that be? What is the strength that would be…..?

Murali Natrajan: It is not in public domain I think that data, however, we will continue to add people mostly in the front line and people who do processing to support the front line volume. And that would be in line with what type of growth we are trying to achieve in our Balance Sheet.

Deepak Radhakrishnan: And the last question is on the non-interest income. What is your strategy in your non-interest segment?

Murali Natrajan: We have three strategies in non-interest income. One is getting CASA. When CASA comes, automatically, there is income that comes through various types like draft issue, cheque book and so on, depending upon the products. So, CASA itself should drive income and we are seeing some of it. Next is cross-sell of Bank Assurance. We are tied up with Birla Sun Life Insurance. There we have been doing a fairly decent job, although there have been changes in the regulations, we have been able to quickly adjust our sales force to continue the momentum. So, with things settling down, we expect that again, in the next 30 days or so, we should be able to pick up momentum on the cross sell of Bank Assurance. We are tied up with ICICI Lombard for General Insurance. For our SME and MSME customers, self-employed customers, we do a lot of General Insurance. Then we have a separate product team called Trade wherein we are training a lot of our RMs in the branch, SME, Micro SME and Corporate so that they can pitch Trade to our customers. And all these are starting to slowly yield the results. And we do have a dedicated focus on these fee items.

Deepak Radhakrishnan: So, would there be any more branch additions this year or would it take another year for you to get licenses?

Murali Natrajan: Hard for me to guess how much time it will take for us to get branch licenses. Normally, if you consistently deliver profits, then there maybe a favorable response from RBI for branch licenses. Having said that we have 80 branches and we have a lot of work to do on some of the branches, so we continue to push hard on those in the meanwhile.

Deepak Radhakrishnan: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Mani Arora from ICICI Securities. Please go ahead.

Mani Arora: I just wanted some clarity on the employees, but I guess you do not share that information?

Murali Natrajan: I do not think that we have put that in the presentation, so I am not able to tell you that right now.

Moderator: Thank you. The next question is from the line of Ramnath V from Birla Sun Life Insurance. Please go ahead.

Ramnath V: One question that I had was on the capital raising plans given the fact that you stepped up your growth and stuff like that, when do you expect to come to the market and if you can just give some guidance on that?

Murali Natrajan: We have enabling resolution from the Board which we got I think somewhere in June, 2010 for QIP of Rs. 150 Cr. and Rights of Rs. 200 Cr. We will choose an appropriate moment to come to the market.

Ramnath V: Sure. And I just missed the data in terms of the loan that you purchased this quarter.

Murali Natrajan: Yeah. If you have the presentation I have it on the Page 19…

Ramnath V: Sure, I will take it.

Murali Natrajan: But I will tell you anyway, it is approximately Rs. 340 Cr.

Ramnath V: Sure. Sir, it is a slightly 1 to 1.5 year kind of an outlook in terms of what is the loan growth that you will be targeting in? Where do you see the CASA ratio which is at around 34% coming down to around 30% or will it be remaining at these fairly high levels?

Murali Natrajan: 18 months ago, when we were setting the agenda for the Bank, two border conditions we had put for ourselves which is that we should have 30% CASA ratio and at least 70% Retail Term Deposit ratio. We are hoping that as we turn profitable and deliver consistent growth we should get a few branches which will also support our CASA strategy. So, our aim is to keep it at 30%. In terms of growth, we are aiming for 20% to 25% growth in Balance Sheet. If you are able to do better than that without having, to what you call as these parameters being maintained, like 30% CASA and 70% that is what our aim would be.

Ramnath V: Right. Thank you.

Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra: Just a couple of clarifications. One is in the presentation when you provided the Balance Sheet; there is some difference between the Borrowings numbers which is provided in the presentation and the normal statement which you file at the exchange. The Borrowing numbers shown here is approximately Rs.560 Cr. in the Balance Sheet, whereas the presentation only shows around Rs. 400 Cr., so what is the right number of borrowings?

Murali Natrajan: In the presentation what have we put?

Amit Ganatra: Rs. 463 Cr. in the presentation.

Murali Natrajan: One second, let me just take the number. Yeah. Page #24. Correct?

Amit Ganatra: And if I look at the filings that you do to the exchanges, it is not very clear, but it seems it is Rs. 500 Cr. plus as on March, 2010 itself it was Rs. 503 Cr.

Murali Natrajan: Why don't you clarify that, Bharat?

Bharat Sampat Primarily, Balance Sheet figure which we have put in the presentation on Page #24, they are just some highlight numbers, they are not necessarily the full Balance Sheet, what is not there on the liability side over there is subordinated debt of Rs.101 Cr. We have been putting presentation that way but RBI now has required that sub debt be put under borrowings in the SEBI disclosure. So, it is included there.

Amit Ganatra: So what would be the total borrowings including subordinated debt?

Bharat Sampat: Rs. 101 Cr. more.

Murali Natrajan: About Rs.500 Cr.

Sridhar Seshadri: Rs. 564 Cr.

Amit Ganatra: Rs. 564 Cr. Okay. Second clarification is that with this acquisition of this mortgage portfolio, basically, is it correct that the total amount of your mortgage will be Rs. 462 Cr. plus Rs. 456 Cr., so that is the total outstanding mortgage portfolio now?

Bharat Sampat: Rs. 462 Cr. plus Rs. 456 Cr. is right.

Amit Ganatra: Right. And the third question is, during the con call you mentioned that basically your current NIM is around 3.14%, but as a matter of strategy you would be comfortable with 2.75% to 2.8% as NIM….

Murali Natrajan: Yes.

Amit Ganatra: And obviously, the current credit cost, if I do it the average assets this quarter and if I analyze it is so 90 bps. It could also come down. So, basically, in terms of NIMs currently, maybe you are enjoying 40 to 50 bps more than what you would target. What is the credit cost that you would like to target for this kind of NIMs?

Murali Natrajan: We have set some targets. Since we are doing secured lending, I would like to target anywhere between 25 to 50 basis points because for example, in mortgage, the kind of segment that we are operating is that our aim is to not have more than 16 to 17 basis points as the credit cost in mortgage. In micro SME, much of our lending that we are doing on 80% to 100% or 70% to 100% coverage in terms of collateral, so, while there maybe some what you call as 'defaults' but the losses are unlikely to be very high. So we are targeting for 30 to 40 basis points on that portfolio. So that is the way we have kind of planned our go-forward strategy.

Amit Ganatra: So, net-net one were to conclude so your average assets can come down at the same point of time correspondingly the provision for NPA as a percentage average assets will also come down, right, …..

Murali Natrajan: That is the intention. In fact, much of our provisions are still coming through from the previous loan book. The new loan books are too new for me to comment but at least the kind of focus that we have put on credit early warning signals, operational risk, we expect to do a much better job as we move forward.

Amit Ganatra: One confusion that comes in that now unsecured personal loan as a percentage of total portfolio is hardly anything?

Murali Natrajan: Yes.

Amit Ganatra: But the yields on advances are still quite strong. Even if I see quarter-on-quarter, the yield on advances has actually gone up.

Murali Natrajan: What happens is that in case of unsecured personal loan like some 17-18%, you have to look at it net of the NPAs, right, because NPAs kind of take away the earnings.

Amit Ganatra: No, I agree but anyways once the asset is recognized as an NPA, then you will not book the interest income, right?

Murali Natrajan: Yeah, but those were not NPA, say, in the middle of 2008. Later on, we have almost approximately Rs. 160 Cr. of NPAs in personal loan which do not earn us anything from that point of view…

Amit Ganatra: No, what I was trying to understand was that this NIM contraction which is supposed to happen. Will it happen purely because of the cost going up or also the yields will start coming down from here?

Murali Natrajan: See, the question is that as to how much competition we face in this segment that we operate. So far we have been able to kind of deal with those competitions, especially on the SME and MSME, side. It is very hard to compete in Corporate because there are much, much stronger players who are able to offer much better rates. So we are very choosy about where we expose ourselves in that. In any case for a bank of our size, we are going to be extremely careful on Corporate, which is what I have reiterated. On SME, MSME and all, we get anywhere between 10.75% to 12.50% type of yields. In AMRB, we get anywhere between 9.5% to say about 10.5%. And in Mortgage, the Home Loans come at a lower rate but the loan against properties come at slightly higher rate like 10.5% to 11%. So a combination of all that plus managing the cost of funds in both term deposit as well as through CASA is what we are working on.

Amit Ganatra: But does that mean that the shift will move incrementally significantly towards secured mortgages or SME and this will also continue to do strongly?

Murali Natrajan: We like to keep each of these at about 25 to30% contribution to our Balance Sheet.

Amit Ganatra: Okay. So then basically, the current composition is also quit similar in that sense, so it ……

Murali Natrajan: Very much similar in sense. When we do this thing we are working on a balanced and diversified portfolio without letting any one portfolio run up too much.

Amit Ganatra: So, the decline in NIMs, going forward will it be much more gradual in that sense, because…

Murali Natrajan: In my view it will be gradual, but it depends on sometimes market conditions as well. See, you have to appreciate that we are still a small bank with small Balance Sheet, so, it sometimes can be like a storm in the teacup right, therefore that is why we operate in a very cautious manner, especially in the last 18 months we operate in a very, very cautious manner. Once we become double the size of our Balance Sheet we will have a lot more resilience.

Amit Ganatra: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Abhishekh Bhattacharya from BNP Paribas. Please go ahead.

Abhishekh Bhattacharya: I just wanted to understand what is your view on the overall credit growth in the SME sector, in particular? Incrementally, are you seeing credit growth happening as it was in the previous quarter of last year?

Murali Natrajan: Part of our growth is being achieved by customers whom we have acquired three or six months earlier. So that is the correct reflection of credit growth. Part of it is by new acquisition of SME customers. So that I cannot say, but of course, when we acquire customers, normally, we look at, I mean, as part of our credit, we look at their projected sales and what they are planning for. I do see about 10% to 15% credit growth happening in that segment, at least from the limited number of customers that we have that is the experience we have.

Abhishekh Bhattacharya: Okay. And one more question I had was on the other asset side. There was a sharp increase in the other assets which you reported in the presentation. What explains that?

Murali Natrajan: You mean the increase in other assets that we have reported?

Abhishekh Bhattacharya: Yeah, from Rs. 190 Cr. to Rs. 250 Cr. in this quarter.

Murali Natrajan: If I am not mistaken, our Treasury team has a limit with which they operate in terms of applying for IPOs and they immediately liquidate after the listing. This maybe the money, I think this probably the money that is outstanding at this point in time. It would have got squared up in the first week or so.

Abhishekh Bhattacharya: Okay. Thank you. That is all.

Moderator: Thank you. The next question is from the line of Sunil Kumar from Birla Sun Life Insurance. Please go ahead.

Sunil Kumar: I just wanted to check on our expansion strategy. Since we are profitable now, would you like to show one more quarter of profit and then would go to RBI for more branches…?

Murali Natrajan: We would like to approach RBI as soon as possible for more branches. At the same time, I have to be conscious that my Balance Sheet and P&L also should be able to absorb the expansion of branches, because branches are such that they do not break even for at least 18 months or so. So, to that extent I had to be cautious and even RBI is not likely to give us huge number of branches because they would not see the financials as strong enough yet to give lot of branches. That is my sense. So our approach is going to be that keep delivering consistent performance, keep working on the NPAs, and approach RBI for at least few licenses and I hope that works out well. See, like I said, this is the small balance sheet and we have been very cautious about it till such time we really build strength and resilience in the thing and then we will have much more confidence in asking for more branches.

Sunil Kumar: Okay. Sure. And just one thing on the margins, I missed that point. You mentioned about some outlook on margins.

Murali Natrajan: When we set out ourselves last year in terms of how we want to build this bank, we were targeting NIM of about 2.75% to 2.8%, 30% CASA and about 70% reliance on Retail Term Deposits. We are happy to say that we have done better than that. We are at about 3.14%. I am not saying that we are planning to reduce NIM. I am just saying that as we grow, if we have to bear with some of the Deposits that are coming at a higher cost in the market now because of the conditions, the NIM might go down to 2.75% to 2.8%. That is what I feel.

Sunil Kumar: Okay. In about 12 months timeframe, right?

Murali Natrajan: In about maybe 6 to 8 months' timeframe.

Sunil Kumar: Okay. Sure, right, sir. Thank you.

Murali Natrajan: Thanks. So we have time for one more question.

Moderator: Sure sir. The last question is from the line of Jigar Walia from OHM Stock Broker. Please go ahead.

Jigar Walia: Congratulations to the team for a very articulated performance, not for the quarter, but for the last four to six quarters. Sir, one question from my side is on the priority sector, was there any MFI deal that we closed or was there any postponement of MFI or the drop was purely because of the seasonal agri bill?

Murali Natrajan: The AMRB portfolio is not all MFIs. I do not think that it has more than 25% to 30% MFI. Most of our MFI lending is either term loans to large MFI or selected portfolio purchase. And these are very short tenure 12 to 18 months type of thing. So, there is a normal repayments that keeps coming in and then it starts to build up by October or so. However, in terms of strategy, I have to tell you that we have followed a very diversified approach in MFI rather than just relying on either Andhra Pradesh or Rajasthan. Both from a geography point of view as well as from a various MFI point of view, we have followed a very diversified portfolio so that we do not end up exposing our bank to any particular geography or entity.

Jigar Walia: Right sir. So, one can say that by the end of next quarter, everything gets covered up by October or something like that, Rs. 300 Cr. is something which will rebound on the Balance Sheet advances…

Murali Natrajan: Every year we have seen rebounding between October to March. But you must appreciate that this is a very competitive arena because most banks when they try to complete their PSL, there will be a lot of pricing and other challenges. We have done so far well. Last year we have done well. Previous year also we have done well. So, we are moving confidently in that.

Jigar Walia: Can we have the number for how much is the outstanding for commercial vehicles or construction equipment, retail portfolio?

Murali Natrajan: Commercial vehicles, construction equipment are approximately Rs. 176 Cr. That has been declining steadily.

Jigar Walia: Okay. And when are buy portfolios on MFI, priority AMRB front, even in that case, the yields would be equal or better than the mortgage bought-out deals or our own mortgage generated deal?

Murali Natrajan: It will be in the range of anywhere between 10% to 10.5%.

Jigar Walia: Okay.

Murali Natrajan: And mortgage bought-out deals also like I said attitude of the bank is not to try and maximize yield as a sole idea but to take balance risk and balance yield. As opposed to previous strategy of okay, let us do personal loans, we are getting 18%, let us expand the NIM, we are trying to take a very balanced risk here, that is why. If we go for good quality portfolio obviously there will be some competition and then obviously the yield may not be that great.

Jigar Walia: Okay. Thank you very much.

Murali Natrajan: Thanks very much and we will keep in touch.

Jigar Walia: Sure sir. Thanks.

Murali Natrajan: So, thank you very much, everyone for participating in this call and asking the questions. Anyone who has any further questions that we can answer, please get in touch with Meghana. We will be more than happy to interact with you. Talk to you again next quarter.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Development Credit Bank, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.