



Development Credit Bank Ltd.
Q3 FY 2011 Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Q3FY11 results conference call of Development Credit Bank. 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 should need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Murali Natrajan, M.D. and CEO from Development Credit Bank. Thank you and over to you sir.

Murali Natrajan: Thank you. Good evening to all of you who have been able to join the call today. In the next 10-12 minutes I will just give you a brief overview of our Q3 FY 2011 results and then myself and my team are happy to take questions. On this call today, I am in a different city and my team is in Mumbai, so bear with me if there is any coordination issue which should not be, but just in case. So, let me just go right into the results.

We declared a net profit of Rs. 8.17 crores for the quarter ended December 31, 2010 in comparison to Rs. 4.8 crores of the previous quarter ended September 30, 2010. So on a year-to-date basis, we are at a profit of Rs. 10.08 crores. In comparison to last year of course the results are quite good wherein we had a YTD loss of Rs. 70.29 crores and in the quarter that we did concluded last year we had a loss of Rs. 18.09 crores. As compared to last year of course the deposits have grown by 26% while the advances have also grown by 26%. Capital is pretty much strong at 13.39% under Basel-II with Tier-1 of 11.13%.

Let me touch upon a few points with respect to the previous quarter ended September 30, 2010 and how do we compare in terms of performance. The advances as compared to the last quarter has grown by 3%. Gross NPA is down to 7.07%, last quarter it was 7.61%. Net NPA is now at 1.3%. Our coverage ratio has improved further to 84.73% and the coverage ratio on personal loan which is almost now nearing zero level in terms of outstanding is at 96.68%. There was very tight liquidity condition especially in the last 45 days or so and of course it is continuing this month as well. So, overall, CASA growth was a challenge for us and CASA is marginally down as compared to last quarter for the first time in many quarters. However, our focus area in CASA is retail CASA which is up and almost 90 - 95% of our CASA book is retail CASA. Our term deposits grew by 5% as compared to the last quarter. We are continuing to maintain above 70% retail deposits to fund our Balance Sheet and above 30% CASA to keep our cost of funding down, so there will be no change and we will continue to pursue that strategy.

In the chosen areas, once again we are pursuing secured lending with mortgages, SME, Micro SME. We do agri, micro-finance which is a very seasonal type of business in

order to complete our priority sector lending and also because of the nature of the business is such. In terms of mid-corporate, we have a very measured type of participation.

So you will notice in the presentation that we have sent to you, we have again made good progress on mortgages, SME, micro-SME and we should see some growth in agri micro finance category as well in this particular quarter especially agri.

Portfolio distribution is improving. We are already at about 21% on Micro SME and SME. Over time our intention is to take it to 40%. We are already at about 26% in mortgages, over time this will remain in that range of 25-30%, the balance would be made up of corporate, priority sector lending and various other assets.

We have been able to maintain our NIM at 3.13%. This is primarily because of intelligently managing the cost of funds as well as repricing of assets. But as I see entering into this current quarter I do see that there is going to be a challenge of at least 25-30 basis points on our NIM in this particular quarter because there is a steep increase in cost of funds because of a kind of condition that is prevailing.

Other Income, we had to make a big adjustment in terms of the IRDA rules. We have tied up with Birla Sunlife for insurance distribution. We are a very active partner. We have quite a lot of sales force which are IRDA certified. However, from September onwards, we have to make a lot of adjustments to our sales force given the new set of rules. So, there has been some dip in the income on that. But having said that we did find that towards the end of the quarter we had kind of been able to make those adjustments and I should see improvements coming in the coming quarters.

We are of course putting a lot of effort on Trade, FX and Insurance and we are quite confident that in next two to three quarters we should see improvement in Other Income category.

Interest income is up. Expenses have also increased, primarily because we are investing more and more in the sales force of CASA. Actually, about 1.5 years ago, when we started the journey in the new strategy the question was - okay, you are going to exit commercial vehicle, you are going to exit personal loans, which area are you going to grow and we have demonstrated amply that we are capable of growing mortgages, SME and Micro SME. Now, what we are doing is we are putting in a lot more effort on obtaining low cost deposits, so we should see lot more focus coming in the low cost deposits in our bank.

And our plan is that whatever we save in provisions part of it would be invested to improve our sales force to increase our low cost deposits.

In terms of provisions, we have again reduced our provisions. Overall, NPA on a gross level as well as at net level, in absolute terms also, decreased.

So, I would conclude by saying that we are making good progress against the strategy that we enumerated several months ago, we have been consistent in terms of keeping up our performance with the strategy. The coming quarter would have some challenges in terms of liquidity and NIM. So we would be very selective and cautious in growing our assets, make sure that we grow profitably as well as cautiously. I do see some impact on NIMs in the coming quarters. Other than that we are actually pretty much on track in terms of what we had said that we would do.

So with that short commentary, I would like to take questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and then '1' on their touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press '*' and then '1.' The first question is from Rajatdeep Anand from ICICI Prudential Life. Please go ahead.

Rajatdeep Anand: Good evening sir. Congrats on a good set of numbers. The Rs. 3 crores that we have paid as tax, what is that, are we required to pay tax? Because my understanding was that because of the accumulated losses for some period in time, we would not have to pay any tax.

Murali Natrajan: Rajat, thanks for your comment and question. I would just ask Bharat to respond to it right away.

Bharat Sampat: Hi, Rajat, Bharat here from Mumbai.

Rajatdeep Anand: Good evening.

Bharat Sampat: We had in past raise deferred tax asset on debt provisions that we had made and as and when those debt provisions are either applied or debts are written-off, we do not need those provisions, so we have been reversing those provisions. Considering that we have past carry forward losses, on a conservative basis we are not raising any further deferred tax assets.

Murali Natrajan: So, approximately, another Rs. 2-3 crores of that asset would be recognized over a period of time. However, your question is right, given accumulated losses, we are not expected to pay any taxes other than MAT which is Minimum Alternative Tax, which also we believe that if we have certain kind of write-off, we should not be required to pay MAT as well. That is our current understanding.

Rajatdeep Anand: And sir, loan growth for this quarter has been very, very tepid. So, I would like to understand the reasons behind that if it is possible.

Murali Natrajan: First of all I would like to say that our aim is to grow our assets always in line with what kind of deposit momentum that we can achieve, especially last quarter and in the coming quarters, we do see tough challenges in terms of liquidity, even much better rated banks than us are quoting rates in term deposits which are higher than what we are prepared to pay. So, I would choose the asset that I want to grow in the current situation. Having said that if you have our investor presentation that we have put up on the net or probably sent to you, you would find that in the chosen areas, which is mortgages, SME, and also given that we have to complete our priority sector lending we are growing quite well in those areas. You would find that corporate banking is down and that is our strategy. We do not want to be very aggressive in mid-corporate lending. We have about 100-odd customers with whom we want to do business. We do not want to grow that. And what I explained is that given our operating profits are still small, by being too aggressive on corporate lending, we are exposing our bank to even one or two accounts that becomes an NPA, so that is a chosen strategy to keep the corporate banking in check. So you would find that the chosen area which is mortgage, SME, Micro SME, we are growing quite well in fact, year-on-year, as well as in quarter. As far as corporate banking is concerned we would be moderate. The third thing is that we still have some assets of the liquidating portfolio which is commercial vehicle and construction equipment which are continuing to be a declining portfolio, so that also kind of dents our growth. So short answer, in the chosen areas, we are going very well, but overall, growth rate will be in line with the liquidity situation in the market.

Rajatdeep Anand: All right. Sir, on branches, have we gotten any new licenses or have you opened the 2 rural branches?

Murali Natrajan: The two rural branches are expected to open shortly in the next couple of weeks or so, work is going on in full swing. We are informally in dialogue with RBI in terms of new branches given that we are consistently turning out to be profitable. I do not see them objecting to us getting new branches. So in the coming few months I do expect some good news from Reserve Bank of India.

Rajatdeep Anand: All right. Sir, one last question. The slippages that is addition to gross NPA number, what would it have been for this quarter?

Murali Natrajan: If my information is correct there has hardly been any slippage in the corporate or SME area and in retail, old portfolio have marginal slippages. As far as the new SME portfolio and new Micro SME portfolio again, very, very marginal slippages have been

there. Net-net, we probably recovered and upgraded more this quarter obviously than the slippages.

Rajatdeep Anand: Okay. Thank you sir. Those were my questions.

Murali Natrajan: Yeah, thanks, Rajat.

Moderator: Thank you. The next question is from Abhishek Kothari from Way 2 Wealth Securities. Please go ahead.

Abhishek Kothari: Sir, you just mentioned in your opening remarks regarding MFI loans.

Murali Natrajan: Yeah.

Abhishek Kothari: Could you quantify that how much you have in that segment?

Murali Natrajan: Yeah, I will give you a long answer as well as a short answer if that is okay with you. First of all, in April 2009 or May 2009, we decided as a team that we are not happy with Andhra Pradesh MFI at all. We also were not happy with lot of these private equity companies aggressively pursuing micro finance institutions to grow at 40% - 60%. I am very familiar with unsecured lending, the model pursued by Citi Financial and GE, so we know the kind of pitfalls and if it is done what you call as uncontrolled, these can be quite a dangerous situation. So, cautiously, what we have done is we decided to limit our exposure to Andhra Pradesh and we also decided that we will spread out our exposure to various MFI both social MFIs and for-profit MFIs, so that was our strategy since May 2009. As we stand today, we have approximately – this is not published information, so I am just giving you some approximate number. MFI total exposure for us is approximately Rs. 118 crores. We have done hardly any disbursements in the last three or four months since the Andhra Pradesh blow up happened. Out of this, Andhra Pradesh is approximately Rs. 12 crores. I expect about 30% or 40% of that already being covered by cash collaterals. We have only two accounts that are showing stress in Andhra Pradesh, each Rs. 1 crores with some cash collateral backing, rest are all doing fine and rest of India is doing fine so far.

Abhishek Kothari: And sir, with RBI today, they came out with a report that you can go for restructuring up to March 2011. How much of these loans would you think would get transferred into restructured account?

Murali Natrajan: No MFI as yet has approached us for restructuring. The challenge is that if any other bank does a restructuring who are also lending to the same MFI as us there is a very likely chance that we have to participate in the restructuring. So, as of today, I cannot tell you how many accounts we will restructure. As far as I can say Andhra Pradesh we

have two accounts which are showing stress. Each of them is Rs. 1 crore or something. Rest of India we have seen no issues at all payments have been coming on time. As and when anybody approaches for restructuring we will deal with it on merit.

Abhishek Kothari: Okay. And so what would be your guidance on NIM going forward with the stress on interest rate that we have factored in?

Murali Natrajan: We prepared our business model 18 months ago saying that we will be quite happy to operate about 275 to 280 basis points NIM. We have kind of been doing much better than this. But of course, even the market helped us because our cost of funds were much in control. This quarter I do see our NIMs having a challenge of at least 25-30 basis points because we plan to be very cautious in terms of increasing our base rate and BPLR so as not to cause any issues to our customers.

Abhishek Kothari: Okay. That is it from my side. Thank you.

Murali Natrajan: Thanks.

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

Mani Arora: Hi, good evening sir.

Murali Natrajan: Yeah, hi.

Mani Arora: First of all, I would like to ask about the mortgage portfolio, so last quarter we saw there were source in the acquired mortgages, so do we have some kind of source mortgages this quarter as well?

Murali Natrajan: Yeah, source mortgages is our core business. We acquire about Rs. 30-40 crores of source mortgages that is our own sales team doing that job every month. Out of that about 30-40% is usually loan against property and the balance is home loans. In this quarter I think, we acquired a very, very small portfolio of approximately Rs. 30 or Rs. 40 crores. Acquiring is not main way in which we do our business, but we find an opportunistic some advantage to it from either a priority sector lending or matching with our target market, we do that type of products.

Mani Arora: Right sir. Another question is on the yield. So, I was just going through the presentation and I saw that the yields have been revised historically, so any calculation changes?

Murali Natrajan: Revised historically?

- Mani Arora:** Yeah, when I checked with the previous presentation last quarter, so there seems to be a difference?
- Murali Natrajan:** That should not be the case. Bharat, this is Page 26. As far as I know, yields have been consistently been worked out the same way, right?
- Bharat Sampat:** Murali, I will take that. I think Mani, you are comparing with initial September presentation which we have put onsite. November, we reviewed the entire presentation pack. Under corporate presentation on web site, in November itself, we had reloaded the presentation with all the final changes done. Compared with that there are no changes. We had tightened the numbers in November.
- Murali Natrajan:** And yield has gone up slightly primarily on account of increase in BPLR and base rate.
- Mani Arora:** Yes sir. And regarding the overall business growth, when you say when liquidity is tight, what kind of growth are you targeting? The bank has grown good so far. Though it has got back on track and the growth seems to be good. Can we say it will be evenly paid somewhat similar to this quarter or probably lower?
- Murali Natrajan:** Yeah, I think it will be like this. If you see our last year we were approximately Rs. 3,100 crores as of December 31, 2009 and then ended at about Rs. 3,400 crores as on March 31, 2010. So the last quarter growth last year was pretty good. At the time I think the liquidity conditions were very, very different from what we are seeing now. Okay? What we think we would be growing is more like a full year growth of about 20-22%. So we are at 26%, so I do expect a moderate growth in assets this quarter.
- Mani Arora:** That too is just firstly because of a higher base in Q4FY10 and secondly, because of the current liquidity condition?
- Murali Natrajan:** Yeah, absolutely. And also I would say that we are very clear that we want to be a highly deposit led bank. So, we put a lot more effort in getting our low cost deposit act together. Once we are able to double or triple our Balance Sheet, it gives a lot more flexibility as well as Balance Sheet strength to be able to stretch some of these ratios.
- Mani Arora:** That is there. Sir, one last question is regarding the provisioning. You are expecting the Bank to probably maintain the same momentum this time around also, so...
- Murali Natrajan:** See, consistently, for our difficult portfolios which were personal loan and commercial vehicle, the provisions are coming down quarter-on-quarter for us. Over a period of time, just like I mentioned in the last call also, over 6 or 8 months time we should see the provisions to become either zero or we should start getting some write-back. We are targeting at least 15-20% reversal of our provisions in retail business in about two years'

time. So, that is where we are headed. We are very cautious and we are booking good quality assets I believe in mortgage, SME, Micro SME, so I do not expect poor performance in this category so on.

Mani Arora: How much would be unsecured portfolio we have at this point?

Murali Natrajan: Unsecured portfolio when you say unsecured means like there is no collateral, for example that would be like the entire microfinance of about approximately Rs. 118 crores is unsecured. And personal loan, Bharat, what about Rs. 15-17 crores is left?

Bharat Sampat: Rs. 17 crores is left.

Mani Arora: Okay.

Murali Natrajan: Yeah, the corporate portfolio has various levels of security. Some cash and book debt, some plant and machinery that type of thing. SME, Micro SME mortgages, essentially we take hard security like either residential property or a commercial property as collateral. So to that extent those are very much secured portfolios.

Mani Arora: Yeah, that is definitely reduction, because last quarter figure I have is I think approximately Rs. 208-odd crores...

Murali Natrajan: But every month we are running off some of the assets. Like especially personal loan is now down to something like Rs. 15-17 crores.

Mani Arora: Yeah, that is there. So, definitely a run down.

Murali Natrajan: Intention is to have 80% secured portfolio and 20% maximum unsecured portfolio. That is the stated intention. So, we will operate within that zone basically.

Mani Arora: Okay. Thank you so much sir.

Murali Natrajan: Yeah.

Moderator: Thank you. Our next question is from Emma Donald from Wessex. Please go ahead.

Emma Donald: Hi, following on I think one of the gentlemen earlier asked about interest rate hike. I think that you commented that this first quarter you are expecting between 25 and 30 basis points increase. So, if RBI increasing the rate hike, how would that affect your margins? I mean would you be looking to raise your deposit and lending rate by same model or not, how does it affect your margin the rate hike?

- Murali Natrajan:** Definitely, in order to continue to grow our deposits, especially in the Term Deposit area which comprise of almost 67% of our deposits, we will have to not only reprice our existing deposits which are coming up for renewal, by at least 30-40 basis points or even more. New deposits that we had also would come at market rate. I am told today that one year deposits are almost at about 9.5-9.7% type of range. So, that is definitely is going to happen. You will see increase in cost of funds. How much can we pass on to the customer? There is always a lag in terms of what we can pass on to the customer. It depends on two factors. One, we want to make sure that some of the other banks also increase their base rate and we are in line with increasing the base rate. That is one. And secondly, we also segment our portfolio to make sure that we do not end up increasing rates to good quality, really high quality customers because there maybe a tendency for them to leave and then go to another bank. All said, I do expect our NIM to compress by at least 25-30 basis points in this quarter. Does that answer your question?
- Emma Donald:** Yeah, thanks.
- Moderator:** Thank you. The next question is from Amit Ganatra from Religare AMC. Please go ahead.
- Amit Ganatra:** Can you provide me the number of risk weighted assets total?
- Murali Natrajan:** Bharat, is that published information or you can provide that? Bharat?
- Bharat Sampat:** Yeah, it is approximately Rs. 4,800 crores.
- Amit Ganatra:** And also, just wanted to repeat a couple of points, see, during the earlier remark, you mentioned that the SME and Micro SME is currently about 21% of the total portfolio. You mentioned that we would like to bring it up to certain level. What was that level?
- Murali Natrajan:** Our strategy is to have about 40% of our asset in SME and Micro SME. And about 25-30% in mortgage, that is retail mortgages, that is our intention. Currently, we are at 21% on SME and Micro SME and mortgages is approximately 26%.
- Amit Ganatra:** So mortgage 35% or 25%?
- Murali Natrajan:** Mortgage will be about 26-30%.
- Amit Ganatra:** So basically, mortgage you are at level where you want to be in that sense?
- Murali Natrajan:** But every month as a base growth we will also add in the mortgages.

- Amit Ganatra:** No, no, but in terms of percentage mix basically mortgage is where it is intended to be, but SME will still keep on growing?
- Murali Natrajan:** Yeah. Now, for example, let us say, if I am able to at a much higher CASA ratio, hypothetically, let us say, if I am able to reach a CASA ratio of 40-45% I may actually take on lot more mortgages.
- Amit Ganatra:** Okay. Also, mortgages, you mentioned that you acquired for Rs. 30-40 crores this quarter?
- Murali Natrajan:** Approximately, yes.
- Amit Ganatra:** So basically, out of almost Rs. 98 crores got added this quarter right in mortgages?
- Murali Natrajan:** One minute. Bharat, you have that page with you? Just a minute.
- Bharat Sampat:** What we have added in this quarter in mortgages, our final figure is Rs. 1,016 crores as of December 31, 2010 and which as of September 30, 2010 was Rs. 918 crores.
- Amit Ganatra:** Yeah, basically, Rs. 1016 crores minus Rs. 918 crores, so Rs. 98 crores got added, right?
- Bharat Sampat:** Correct.
- Amit Ganatra:** And out of Rs. 98 crores basically you said Rs. 30 crores to....
- Murali Natrajan:** Rs. 35 crores or something is....
- Amit Ganatra:** Acquired outside?
- Murali Natrajan:** Yeah.
- Amit Ganatra:** Rest is basically in-house sourcing? So when you say acquired from outside, you mentioned that your own sales force, from your own sales force or what do you call acquired from outside?
- Murali Natrajan:** Acquired means if some NBFC or some bank will tell us that they want to sell their mortgages. We will have a courtesy call and do a 100% due diligence, we will do a cherry picking, choose those portfolios and buy them outright.
- Amit Ganatra:** But do you get good spreads in such acquisition? Because mortgage as such also is very competitive product.

- Murali Natrajan:** It depends on the entity from who you buy and what is their liquidity compulsions and so on. So, it usually is net worth and what you do through acquiring in a mix sense.
- Amit Ganatra:** Okay. Thanks.
- Murali Natrajan:** Yeah.
- Moderator:** Thank you. The next question is from Jignesh Shial from HSBC. Please go ahead.
- Jignesh Shial:** Yeah, hi. First of all, I would like to ask you about this cost to income ratio. I might have missed out, because I was just a little late on logging in. But I am seeing cost to income ratio is rising up since last three quarters, can you explain like what is the basic component, and how are you going to control it, or what would be the current scenario going further?
- Murali Natrajan:** Yeah, our intention is to bring it down below 60% in about three years' time, that is our intention.
- Jignesh Shial:** Three years?
- Murali Natrajan:** What we are doing is that we are actually investing behind low cost deposit sales force at the branches. We have approximately 80 branches. We have capacity to add more people at the branches so as to source CASA and other retail deposits. Of course, most of the people that we have there also deliver on some fee income. In the past year because our provision numbers were high, we had very little room to invest behind sales force. What we are doing is as we continue to save on our provisions and our portfolio improves and save on our provisions we are investing behind branch sales force in order to grow our low cost deposits. So, I expect this investment to continue for another six months or so. So I expect that our cost-income ratio would be at this level or slightly lower over the next 12 months. And the subsequent years it starts to come down because the sales force would have become quite productive. As far as the sales force is concerned on assets we think we are quite good in capacity, I do not think we need to add further capacity to our asset sales force.
- Jignesh Shial:** Okay. So it is basically you are adding on the sales people that is one of the reasons why it is rising up like this?
- Murali Natrajan:** Absolutely. And of course there is some pressure which is felt across the industry in terms of the rising salary and so on. But that is only part of the reason that is not the entire reason.

- Jignesh Shial:** Okay. Other area is on the same slide on 23, I am seeing your Other Income, it is almost similar or you can see even flat like Rs. 299 million, Rs. 269 million and then Rs. 260 million, so what is it like? Generally an area where the other financial institute is doing really well like, it is growing up like anything, so how do you see it going forward like, what would be the future for this thing or how you are going to focus on this part?
- Murali Natrajan:** Yeah, there are three or four areas of focus in Other Income. One is Bank Assurance. Another is trade. Third is foreign exchange, both retail foreign exchange or customer related foreign exchange as well as on proprietary trading. Fourthly is on processing fees, as we acquire new customers for loans. Then, last item is the usual CASA related charges that come. The challenge that we have had in this particular quarter is that while we were ramping up our bank assurance fees quite well, some of the changes in IRDA rules took us about two or three months to completely reorient our sales team. That process got completed somewhere in end of November and we actually saw a much more encouraging performance in December when the previous two months as the sales force were getting adjusted to the new product, etc., So the plan is to continue to work on trade, FX, bank assurance, processing fees, etc., and SME, Micro SME and retail. I do not expect a dramatic improvement in at least two quarters, but I do think that work that we are putting on is showing encouraging signs in terms of volume and some about two quarters later we should see improved performance in other income.
- Jignesh Shial:** Okay. And as I am just understanding it, your counterparty balances for your treasury income has been capped on or it has been stopped just two quarters ago, so has there been any improvement on that side or it is just the still no improvement there?
- Murali Natrajan:** Rajesh, do you want to take that?
- Rajesh:** See, what we are saying is that our counterparty limits are improving and we are having sufficient limits on the Forex and on the trade finance side and besides that we have got limits on the money market side and we are actively using those limits.
- Murali Natrajan:** See, what is happening is as we are improving the performance more banks are happy to talk to us. Have we seen the entire benefit of that in our financials? Not yet. But it is heading in the right direction.
- Jignesh Shial:** Okay. I missed out this part, but how much advance growth, you said you want in next two or three quarters to increase your Balance Sheet and you want to be a good deposit base bank, so how much advance growth you are seeing it for at least like you are seeing liquidity crunch happening across and RBI is already having like last quarter it was 24% growth in credit and all in deposit is also growing up. So what advance growth generally you are seeing it up for next quarter or next year at least?

- Murali Natrajan:** On a full year basis, we should be at about 20-21% range. And our deposit growth will be in line with that asset growth. Having said that given the liquidity conditions, it is the cost of deposit on marginal basis is high, we would choose the assets that we want to participate and rather than just go on adding to the Balance Sheet, but I think 20% should be doable is what I feel.
- Jignesh Shial:** Okay. This is for FY12, you are saying?
- Murali Natrajan:** And March 2011 we are in, yeah, correct.
- Jignesh Shial:** Okay. And as I understood correctly, your NIM should be 2.75%-2.80%, compression should come out by 25-30 basis, that is what you are expecting for this quarter at least?
- Murali Natrajan:** Yeah, I think so.
- Jignesh Shial:** Okay. That is it from my side. Thanks.
- Moderator:** Thank you. The next question is from Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Hi, thank you. Hi, Murali and Hi Bharat.
- Murali Natrajan:** Hi.
- Hiren Dasani:** Is the NIM likely to stabilize after the 25-30 bps or you think there could be a further downside?
- Murali Natrajan:** In my view it should stabilize, because we do expect conditions to improve by April 2011 or so because this is also a busy season so there is a lot of work going on by various banks in terms of completing their priority sector lending and follow rest of it. So I think we should be stabilized at that level.
- Hiren Dasani:** Okay. And on your loan yield chart which is there I think on one of the slides, they have not improved at all over the last couple of quarters, so whereas I am sure you would have increased the base rate and PLRs and all?
- Murali Natrajan:** It would not improve because what we are doing is we are getting rid of personal loan which used to yield us 17-18%. We have commercial vehicle construction equipment which was yielding 14-15%. So we got rid of them and we are putting 12-12.5% SME, about 13% micro SME, about 10-10.5% mortgages in the retail side and so on. So, our aim is to work very hard on the cost of deposits and good quality assets at the

appropriate yield. So, I do not expect our yield to be better than this unless we increase the base rate further, but that would only be when we see a cost of fund increasing.

Hiren Dasani: Is that mix change impact still going to play out further? Because today if you look at it....

Murali Natrajan: We will have about Rs. 150 crores of commercial vehicle I guess. How much is that, Bharat commercial vehicle?

Bharat Sampat: 3% of the retail, right - if I am not wrong.

Murali Natrajan: Yeah, so every month some Rs. 10-15 crores goes off, every few basis points matters and priority sector lending this quarter would never be at very high yield, those are usually moderate to low yield type of asset. But, those are usually there in your book for about 6-8 months only, so it does not drag you for the full year I guess.

Hiren Dasani: Sure. And any updates on the proposed fund raising plan or it is still in the....

Murali Natrajan: Our capital is pretty strong at 11.13% on Tier-1. Depending upon market conditions, since we have the shareholders approval already, we may go in for a QIP anywhere in the next six months or so. So the plan is still there, but depends on market conditions I guess.

Hiren Dasani: Okay. And assuming that the liquidity becomes kind of normal as you are expecting from April 2011 onwards, normal in a sense not as tight as what it is today, what is the kind of growth you would be looking at for the next financial year?

Murali Natrajan: Next financial year our current intention is to be at about 20-25%. If things dramatically improve, then we will relook at our target.

Hiren Dasani: 20% is broadly in line with the expected system loan growth probably?

Murali Natrajan: You must understand that we have come from a very difficult two year situation. So there is a whole lot of caution with which we operate. At the same time, I want to be getting our deposits at completely right or when I say completely right that means largely getting it right so that we are not craving assets without a corresponding good quality low cost deposits coming in. So if we are able to do that better obviously we will increase our asset base.

Hiren Dasani: Yeah but if you look at the retail deposits per branch or retail CASA per branch there is a limit to what you can do in terms of per branch level, right? So I think you have

covered a fair bit and would it be fair to assume that incremental improvement has to happen with the new branches?

Murali Natrajan: New branches do not immediately give you deposits, it takes you about 6-8 months to produce good results, that too if you get everything right like from branch manager, to your process, to everything else. So, rather than betting on always new branches I would say that if I look at our current CASA per branch it is about Rs. 22 crores. I think there is a scope for us to be at at least Rs. 35-40 crores. So given the current set of branches we do believe that we have at least an area of improvement of 33% per branch in terms of productivity over the next two years. So that is what we are working on. So have we reached the ultimate capacity of our existing good branches? I do not think so. We can add more sales force which is what I mention a few minutes ago. So by the time we get to that point I am quite sure we will have few branches from RBI which should help us to continue our CASA journey.

Hiren Dasani: Okay. Thank you.

Murali Natrajan: Yeah.

Moderator: Thank you. The next question is from Sneha Kothari from Subhkam Capital. Please go ahead.

Sneha Kothari: Sir, my questions are answered. Thanks.

Moderator: Thank you. The next question is from Sai Kiran from Indiabulls Securities. Please go ahead.

Sai Kiran: Sir, just quickly if you can just tell us what is our base rate currently and how it has moved in the last six months?

Murali Natrajan: Bharat, do you want to take that?

Bharat Sampat: Our base rate moved from 7.75% to 8.25% in September 2010. November 2010, it moved further to 8.50%.

Sai Kiran: And after November 2010, we did not had any hikes as of now?

Bharat Sampat: Not yet.

Sai Kiran: Okay. And secondly, what is the formula for our base rate in terms of calculation?

- Murali Natrajan:** Largely, in principle let me explain. The way we are doing it is that we take three months deposits rate average. We add the statutory costs like SLR and CRR. We add the administrative expenses which are not allocated to any of the business.
- Sai Kiran:** And then ROEs....
- Murali Natrajan:** And then the expected ROE, credit cost, etc., then depending upon whatever the product is we add the product cost and the tenure premium and so for example, let us say if our base rate is 8.50%, and we were to do a term loan of three years, there will be, what do you call as a tenure premium added to that and a product cost added to that to produce the rate for the customers.
- Sai Kiran:** So is it more of an historical deposit cost average or it is an incremental three months deposit cost which you are taking?
- Murali Natrajan:** Three months averages.
- Sai Kiran:** Historical, right?
- Murali Natrajan:** Recent three months average.
- Sai Kiran:** Good, recent, okay, fair enough. That itself means that there is much scope for our base rate to move up primarily because of the liquidity conditions tightening and then the three months deposits rate across a system has moved up higher than the one year deposit rate. Is it a fair assumption to make?
- Murali Natrajan:** Yeah, it can be, but what happens is that not all the – see, 90% of the deposits comes at higher rate but there are lot of plus, minus that keeps happening. For example, a customer who was given a deposit for six months, suddenly he comes up and says that I want to withdraw in the second month, so there is a pre-payment penalty or a lower rate that is there, so all that place into the average. So I cannot strictly say that how exactly it was so. But your comment is of course valid.
- Bharat Sampat:** Small correction here. The base rate internal call we have taken in November 2010, but it got operationalized in early December 2010 from 8.25% to 8.50%.
- Sai Kiran:** Early December 2010?
- Murali Natrajan:** Yeah.
- Sai Kiran:** Fair enough. And it is the right assumption to make that we have got leeway to change your base rate once in a quarter?

- Murali Natrajan:** No, we can change base rate anytime I think. I do not think it is a quarterly thing.
- Sai Kiran:** Fair enough. That is it from my side.
- Murali Natrajan:** Base rate can be changed at any point in time as far as I know.
- Bharat Sampat:** RBI mandates that once in a quarter at least you must reset it, but you can reset it more frequently.
- Sai Kiran:** Okay, fair enough, that is it from my side. Thanks.
- Murali Natrajan:** But I do think that if things continue like that I do expect base rate in the industry to go up and if that happens we will also increase.
- Moderator:** Thank you very much. The next question is from Subramanian PS from Sundaram Mutual Fund. Please go ahead.
- Subramanian PS:** Hey, good evening everyone and congrats on a good set of numbers. Just wanted to know this provisions that you have made against your unsecured loan book, could you just share with us what would be the cumulative provisions that you have made on this book so far till date?
- Murali Natrajan:** Bharat, do you want to take that? I think total NPA is about Rs. 158 crores and we have made provisions of Rs. 153 crores. Is that correct, Bharat?
- Bharat Sampat:** That is right.
- Subramanian PS:** Okay. Thanks. That is it.
- Murali Natrajan:** 97% is provided on that. This will have a long tail, so in about six or eight months we should be 100% provided, beyond that if we do a good job, we should see some recoveries.
- Subramanian PS:** No, because the number you are talking about in terms of 15-20% reversal of retail provision, that was on this number, right, on this Rs.150 crores?
- Murali Natrajan:** These are the provisions we have made on commercial vehicle, construction equipment, etc.
- Subramanian PS:** How much would that be sir cumulatively, all of that put together?
- Murali Natrajan:** Bharat, that is what about Rs. 50-60 crores?

- Bharat Sampat:** Around Rs. 33 crores or so.
- Subramanian PS:** Okay. So, just Rs. 180 crores?
- Murali Natrajan:** There will be slower recovery on personal loan and much better recovery on commercial vehicle, because there is an underlying security.
- Subramanian PS:** Sure. Okay, thanks a lot, sir.
- Moderator:** Thank you. The next question is from Praful Kumar from Principle Mutual Fund. Please go ahead.
- Praful Kumar:** Good evening sir. Thanks for taking my question.
- Murali Natrajan:** No problem.
- Praful Kumar:** One thing on mortgages, of the total Rs. 1000-odd crores book, what exactly, is this LAP or is this home loans – what is the target segment, is it individuals or in terms of salaried guys or self employed?
- Murali Natrajan:** Largely, I would say in the portfolio, 40-odd per cent would be I think loan against property and the balance would be home loans. We are much more in home loans. Our LAP will be much more self-employed category. Salaried category also would be there, but essentially in home loans. In loan against property largely it will be self-employed guys.
- Praful Kumar:** Any developer lending we do?
- Murali Natrajan:** No, no, we do not do that.
- Praful Kumar:** All right. Sir, secondly, on the question which I think Hiren asked that when you are shifting a portfolio from say unsecured to secured and you are seeing your deposits cost getting higher, you are talking about 25-30 bps margin contraction, how the split between the two in terms of the cost side and the lending side? If you can just give some sense on where do you think your cost of deposits would be say next quarter?
- Murali Natrajan:** Cost of deposits could go up by even 50 basis points and it is very tough to estimate, but say, 50-odd basis points and then our yield may not go up beyond 25 basis points, that is how I came to that conclusion.
- Praful Kumar:** Sure sir. Thank you and all the best.
- Murali Natrajan:** Thanks.

- Moderator:** Thank you. Ladies and gentlemen, we will take one last question from Darpin Shah from Almondz Global. Please go ahead.
- Darpin Shah:** Thanks. Congratulations on good set of numbers.
- Murali Natrajan:** Thank you so much for your good wishes.
- Darpin Shah:** So that 10% growth in staff cost on a quarter-on-quarter basis is largely because of staff addition or the investments which you are making in the sales force?
- Murali Natrajan:** Yes.
- Darpin Shah:** And you said this will continue for next 6-8 months?
- Murali Natrajan:** Yes.
- Darpin Shah:** Okay. And sir, on the provision front, the provisions which we have made approximately Rs. 9 crores, can you throw some light there, because from Rs. 15 crores it has come down, do you expect it to further go down or it should stabilize out here, how it will stabilize?
- Murali Natrajan:** Our intention is to bring it down every quarter. And indications are that the way we are improving our portfolio and performing on our collations and recovery, assuming that we do not create a bad portfolio in our SME, Micro SME or any such thing, we should expect this to come down further. Having said that I expect us to stabilize at about Rs. 8-odd crores per quarter given that we are also growing our SME, Micro SME type of portfolio.
- Darpin Shah:** Okay, sir. And the other thing will be out of this Rs. 9.4 crores mostly will be towards loan losses only? Nothing towards investments or anything else?
- Murali Natrajan:** Nothing on investment. Bharat, correct me if I am wrong. Nothing at all in investments.
- Bharat Sampat:** Yes, you are right, Murali.
- Darpin Shah:** Okay. Fair enough. Thank you very much sir.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Murali Natrajan for closing comments.
- Murali Natrajan:** Yeah, thank you for your attention. Really appreciate your time. If you have any further questions, you may please contact Meghana or Bharat, we will be extremely happy to revert to you. Thank you very much again.

Moderator:

Thank you very much. On behalf of Development Credit Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.