DCB BANK

General Q & A about DCB Bank - Mr. Murali M. Natrajan, Managing Director & CEO of DCB Bank Limited

The purpose of this general Q & A is to provide information about the performance, business strategy and outlook through answers to some of the frequently asked questions. This is not an offer document. Please refer to the disclaimer page in the Investor Presentation for Q3 FY 2015 which is being released today and is available on DCB Bank website as well. This general Q & A may please be treated as an integral part of the presentation mentioned above.

1. Financial Results (unaudited)

Comparison of Q3 FY 2014-15 vs Q3 FY 2013-14

(a) Profit After Tax (PAT) for the quarter at Rs.42.50 crores was 17% higher than PAT of Rs.36.36 crores in Q3 FY 2013-14.

(b) Total Income grew to Rs.169.89 crores which was 34% increase over Rs.126.81 crores earned in corresponding quarter of previous year.

(c) Over the same period, Net Interest Income grew by 30% to Rs.121.90 crores from Rs.93.97 crores

(d) Non Interest Income for the quarter was Rs.47.99 crores which was 46% higher than Rs.32.84 crores earned in Q3 FY 2013-14. Within this, Commission, Exchange and Brokerage (Core Fee Income) grew by 16% to Rs.30.74 crores as against Rs.26.50 crores earned last year.

(e) Operating Cost for the quarter was Rs.101.52 crores as compared to Rs.80.45 crores in corresponding quarter of previous year, growth of 26% after accommodating branch growth to 145 branches as compared to 115 branches as at Dec 31, 2013.

(f) GNPA ratio has reduced to 1.87% from 2.77% as at end of Q3 FY 2013-14 and over the same period, NNPA Ratio has increased slightly to 1.00% as compared to 0.77%.

(g) Advances have grown by 29% to Rs.9,491 crores as compared to Rs.7,361 crores as at Dec 31, 2013.

(h) Deposits have grown by 24% to reach Rs.11,850 crores from Rs.9,592 crores as at end of Q3 FY 2013-14. Within this, NRI deposits have grown by 45% to reach Rs.1,071 crores from Rs.739 crores as at end Dec, 2013.

(i) NIMs for the current quarter are at 3.70% as compared to 3.55% in corresponding quarter of FY 2013-14

(j) CASA ratio was 23.8% as compared to 24.8% as end Dec, 2013

(k) On an annualized basis, ROA was 1.19% as compared to 1.26% in Q3 FY 2013-14. ROE (annualized) was 11.82% as compared to 13.28% in Q3 FY 2013-14.

Comparison of Q3 FY 2014-15 vs Q2 FY 2014-15

(a) PAT for the quarter was at Rs.42.50 crores as compared to PAT of Rs.41.09 crores earned in immediately preceding quarter.

(b) Total Income at Rs.169.89 crores was higher by 10% as over Rs.154.63 crores earned in previous quarter

(c) Over the same period, Net Interest Income grew to Rs.121.90 crores from Rs.117.67 crores (including interest on income tax refund of Rs.5.46 crores)

(d) Non Interest Income at Rs.47.99 crores was 30% higher than Rs.36.96 crores in Q2 FY 2014-15

(e) Operating Cost for the quarter was Rs.101.52 crores as compared to Rs.94.78 crores in immediately preceding quarter

(f) GNPA ratio has marginally reduced to 1.87% from 1.90% as at end of Q2 FY 2014-15 and over the same period, NNPA Ratio has reduced to 1.00% as compared to 1.07%

(g) Advances have grown by 8% to Rs.9,491 crores as compared to Rs.8,793 crores as at Sep 30, 2014

(h) Over the same period, Deposits have grown by 9% to Rs.11,850 crores as compared to Rs.10,900 crores and NRI deposits have grown by 8% to Rs.1,071 crores from Rs.992 crores.

(i) NIMs have remained steady at 3.70% as compared to 3.72% earned in immediately preceding quarter

(j) CASA ratio was at 23.8% as compared to 25.5% as at Sep 30, 2014.

(k) On an annualized basis, ROA was 1.19% as compared to 1.25% in Q2 FY 2014-15. ROE (annualized) was 11.82% as compared to 13.53% in Q2 FY 2014-15.

2. Loans Quality

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

As on Q3 FY 2015, DCB Advances consists of Retail Mortgages (43%); Gold Loans (1%); Commercial Vehicles (3%); Other Retail (2%); SME / MSME (14%); Agri and Inclusive Banking (AIB) (13%) and Corporate Banking (24%).

As of now, DCB Retail portfolio remains stable and delinquencies / NPAs are as per plan.

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

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

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

NPA (Rs. Crores)	**Q3 FY 2014-15**	**YTD FY 2014-15**
Opening Gross NPA	168.82	138.45
Add: Fresh Slippages	22.26	88.13
Less: Upgrades / Recoveries	11.93	44.60
Less: Write Offs	--	2.83
Closing Gross NPA	179.15	179.15
Slippage Ratio (annualized) (%)	0.95%	1.42%

3. Restructured Loans

DCB is not a member of CDR. The Bank remains selective in terms of restructuring loans. At present the restructured standard portfolio is Rs. 109.87 crores comprising of 8 accounts.

4. Net Interest Margins (NIMs)

Steady growth in CASA, achieving Priority Sector Lending (PSL), controlling NPAs, focus on retail deposits and Advances mix has helped in ensuring steady NIMs. In the last few months, the loan interest rates are under pressure due to intense competition. This is likely to increase further in the fourth quarter of FY 2015. While we are achieving overall PSL, we are unable to fulfill the Direct Agri and Weaker Section requirements which results in subscribing to low yielding bonds of RIDF / NABARD. The deposit rates in the market is declining however, the loan interest rates are likely to move down faster. We have longer tenor Retail Term Deposits which will take time to get repriced. So we expect NIM pressure for 6 to 9 months.

5. Non Funded Income (NFI)

The focus is on granular volume driven fee income. We have stepped up our efforts to train the branch frontline staff to cross sell Bancassurance, Mutual Funds, FX and Trade products. Our aim is to grow NFI by 12 to 14% every year. This will help offset part of the cost increases due to branch expansion.

6. Growth Plans

As on Q3FY 2015, we have 145 branches. Our plan is to open 25 to 30 branches every year subject to Cost / Income ratio remaining in control. As per strategy, we plan to install approx. 50% of branches in Tier 2 to Tier 6 locations. As per the current business model, branches are expected to break even in 18 to 22 months depending upon size and location. We have a full range of products. Therefore, we intend to make available in all the branches all products applicable to the catchment area.

The main states for branch expansion are likely to be Andhra Pradesh, Chattisgarh, Delhi, Karnataka, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan and Tamil Nadu. The branch expansion would be in accordance with the Reserve Bank of India (RBI) guidelines.

DCB headcount as at December 31, 2014 stands at 3194. Based on branch expansion plans, the headcount is expected to increase by 300 to 400 every year.

Our aim is to double the balance sheet in 36 to 42 months. Our main target market for both deposits and loans is the self employed segment.

On the loans side, we intend to keep an approximate mix of Retail / Mortgages 40%; MSME / SME 15 to 20%; Agri and Inclusive Banking (AIB) 15 to 20% and Corporate 20 to 25%.

To support loan growth, we are growing overall deposits faster than CASA growth. Therefore, in the coming months, CASA ratio may drop to 20 to 22%. However, as new branches become mature, we expect CASA ratio to be steady at 25%.

7. Challenges

The Bank has made good progress in the last 5 years and aims to double its balance sheet size in 36 to 42 months. DCB has three main challenges.

First challenge is high Cost / Income ratio. Since 2009, the Bank has done well in managing the total costs while almost doubling the balance sheet. The main cause for the high Cost / Income ratio continues to be the small balance sheet size. Therefore, the aim is to steadily achieve business growth through calibrated branch expansion. The intention is to grow Income faster than Costs and reduce Cost / Income ratio steadily by 2 to 3% every year.

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

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

8. Payment Banks, Small Banks and New Banks

Banking industry is likely to change in the coming months. The competition for both deposits and loan may intensify. We are continuing to strengthen our talent management as new players may poach resources from existing banks.

9. AKFED Dilution

After the recent capital raising, AKFED plus affiliates hold 16.41% of Bank's equity. As per the road map submitted to Reserve Bank of India (RBI) earlier, AKFED plus affiliates stake is to be reduced to 10% by March 31, 2014. We have represented to RBI seeking extension of time for dilution of promoter stake.

10. ROE and ROA

The ROA and ROE annualized for Q3 FY 2015 is 1.19% and 11.82% respectively. In case the accumulated losses are absorbed completely in FY 2015, then DCB financials will attract full income tax in FY 2016. Therefore, ROE and ROA for FY 2016 is expected to be lower than FY 2015.

The aim is to build back the ROE and ROA to 1.35% and 14% respectively in 18 months from the end of FY 2016. This is likely to be achieved by consistent profitable growth.

11. Modified Duration

Modified Duration of AFS + HFT books has been as follows:

	Q3 FY 2014-15	Q3 FY 2013-14	Q2 FY 2014-15
AFS	1.54	0.29	1.01
HFT	6.35	0.25	5.73
AFS + HFT	1.59	0.28	1.12

12. Capital Adequacy and Risk Weighted Assets (RWA)

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

	Q3 FY 2014-15	Q3 FY 2013-14	Q2 FY 2014-15
RWA (Rs. Crs.)	9,837	7,873	8,968
Capital Adequacy (%)	14.44%	12.86 %	13.04 %
Tier I Capital (%)	13.58%	11.98 %	12.16 %

13. Capital Raising

We raised Tier I Capital of Rs.250 Cr. through QIP in October, 2014. Our capital position is strong. We may not require fresh Tier I capital infusion for another 24 to 36 months. As and when needed, depending upon market conditions, we may first explore Tier II and AT1 options to increase capital.

14. MD and CEOs Tenure

We started this journey in April, 2009. I am going to complete almost six years with DCB. We have come a long way. We have been able to improve many things in DCB in difficult times. Our Chairman, Board and Promoter (AKFED) have been very supportive. We are now in a new phase. I love banking and financial services. I am passionate about creating value for customers and shareholders. My personal ambition is to build DCB Bank to a meaningful and respectable size in the next 5 to 7 years. We have a strong management team which is aligned to the strategy and long term goals of DCB Bank. I am motivated to come to work every day. As long as the Board is satisfied with my performance I would like to continue with DCB Bank. Of course MD & CEO appointment and renewal is subject to RBI approval.

15. Strategy

The business strategy is outlined in page 33 of the Investor Presentation for Q3 FY 2015 which has been released today and is also available on our website.