# "Development Credit Bank Limited Q3 FY10 Earnings Conference Call"

**January 20, 2010**

**MODERATORS:** **MR. MURALI NATRAJAN – MD & CEO, DEVELOPMENT CREDIT BANK LIMITED**

**MR. BHARAT SAMPAT – CFO, DEVELOPMENT CREDIT BANK LIMITED**

**MR. RAJESH VERMA – HEAD, TREASURY & FINANCIAL INSTITUTION, DEVELOPMENT CREDIT BANK LIMITED**

**MR. BARVE – COMPANY SECRETARY, DEVELOPMENT CREDIT BANK LIMITED**

**MS. MEGHANA RAO – HEAD, INVESTOR RELATIONS, DEVELOPMENT CREDIT BANK LIMITED**

**Moderator** Good evening and welcome to the Development Credit Bank Q3 FY10 Earnings Conference Call. As a reminder for the duration of this conference all participant 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. If 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 Natrajan MD and CEO of Development Credit Bank. Thank you and over to you sir.

**Murali Natrajan** Thank you. Good evening to everyone and thanks for logging into this call. I will take approximately 15-20 minutes to give you a quick update and highlights of the performance so far as well as some aspects of quarter three. I am joined here by my colleague Mr. Bharat Sampat who is the CFO of the organization, Mr. Rajesh Verma who is the Treasury and Financial Institutions Head and Mr. Barve who is the Company Secretary. I am also assisted by Meghana who is the Relationship Head for Investors.

So let me get into the highlights. I will cover the progress we have made since April 2009 as well as last quarter. I will give you all enough time to ask questions and wherever possible I will share data which is in the public domain. In the last nine months we have made progress in repairing the Balance Sheet, developing new business lines and strengthening the capital position.

First and foremost incremental NPA slippages have certainly slowed down. Provisions have declined in each quarter and we expect this trend to continue. The bank has continuously reduced its exposure to unsecured personal loans portfolio which was a major cost for the NPAs and provisions. It now stands at Rs.150.9 Cr. but if you rewind back to September 2008 the same portfolio was Rs.519.4 Cr. So systematically we have reduced the unsecured personal loans and consequently the provisions have started declining. For your information the quarter one provision was in total Rs.40 Cr. which has dropped down to Rs.32 Cr. and this quarter we have approximately Rs.25 Cr. and we expect this trend to continue in the next few quarters as well. We have a strong NPA coverage ratio which is at 63% and this is much higher in Unsecured Personal Loans and Corporate Portfolios.

Costs remained well in control. We have done a lot of work to reduce cost in an absolute fashion although cost income ratio looks still high that is more because of the income challenges that we have had. The cost per se has been reduced. Last year's cost was in total about Rs.242 Cr. Now every quarter we are averaging approximately Rs.50 Cr. and this is based on the right sizing of the organization, better performance management, vendor negotiations and several other initiatives that we took to reduce our costs. We expect cost to remain at current level in the coming months we are confident of growing Balance Sheet and income without increase in cost. Income for this quarter is at the same level as the first quarter but lower by Rs.8 Cr. as compared to second quarter. We had a couple of special items in the second quarter for example treasury gains of approximately Rs.4 Cr. and couple of items in the retail business adding to Rs.2 Cr. So I would like to say that despite the fact that we have been exiting Unsecured Personal Loans and certain other Retail Assets we have kind of stabilized our income and moving forward as we grow our Balance Sheet we expect this income to grow.

The loss for the quarter was Rs.18.1 Cr. as compared to Rs.16.9 in a previous quarter, a marginal increase. We believe that our income will start to grow from the current level, from the last quarter. If I look at the net advances, last quarter net advance was Rs.2,963 Cr. and we have gone up to Rs.3,139 Cr. we expect on a full year basis to end up at a higher number than where we started this year. This is based on the growth that we are now achieving in Retail Home Loans, SME, micro-SME, mid-Corporate and priority sector. All of these are secured lending and we have also exited unsecured personal loan which we have to compensate for that exit by growing these Assets. We have had some very good success in CASA. We turned our focus of attention to retail CASA and Retail Term Deposit about eight to nine months ago. CASA this quarter grew by 3% and for the three quarters that is starting April 1 has grown by almost 19%. The CASA ratio stands at 38% and this has helped us to manage our cost of funds quite well. We expect to maintain

CASA ratio at 30% or above in the coming months and that is our chosen strategy.

In terms of net interest margin it has improved to 2.61% as compared to 2.5% last quarter. We are replacing a lot of high-interest earning Assets like unsecured personal loans with retail home loans and SME loans, despite that we have been able to kind of make a marginal improvement in our NIM. We would like to maintain the NIM at anywhere between 2.45% to 2.5% by managing CASA, very well managing our retail terms well as well as getting reasonable yields on our Assets. Let me comment on capital. In August 2009 we raised Rs. 65 Cr. of Tier-2 capital. In November 2009 we raised Rs.81 Cr. of Tier-1 capital through QIP. This has helped us to strengthen the Balance Sheet and facilitate growth. Capital adequacy in Basel-I stands at 16.9% with Tier-1 at 13.6% and Tier-2 at 3.3%. I believe that we are in a good position to not only absorb the losses but also be able to grow our Balance Sheet in the coming months.

In conclusion I would like to state that incremental NPAs have slowed down, asset momentum is picking up in the chosen area and we are confidently and cautiously moving forward. We have systematically reduced our exposure to unsecured personal loans. Robust recovery and collections efforts are yielding results and are starting to reduce our NPAs and provision. Our effort to grow CASA is yielding good results. We are beginning to achieve asset growth as per our strategy and we expect to turn the corner in the coming financial year. I am open to questions.

**Moderator** Thank you sir. Ladies and gentlemen we will now begin with a question and answer session. At this time anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking your question. The first question is from the line of Sharad Rathke from SVG Capital, please go ahead.

**Sharad Rathke** I have a very brief question which is relating to Unsecured Personal Loans and what you described was basically a shift from something like Rs.500 Cr. at the end of last year on September 30th to Rs.150 Cr. at the end of December

2009. What I am trying to understand is of the Rs.150 Cr. what are the level of provisions expected on the Rs.150 Cr. and can you explain to us how you have reduced the Rs.519 Cr. to Rs.150 Cr. i.e. how much of that has been provisions, how much of that has been collections and how much of that has been anything else?

**Murali Natrajan** The way we have exited this personal loan is basically we stopped sourcing any Personal Loans somewhere from August of 2008. So the good customers keep paying off their loans. These loans are anywhere at three-year to four-year tenure so we should expect this portfolio to more or less run out by December 2010 or by March 2011, I mean substantially run out by that time. Out of this Rs.150 Cr. I expect about 30-35% of this to end up as provision based on our provision policy but I have not made any projections on what would be the recovery in the subsequent years after we make the provisions but going by the strong work that we are doing in recoveries and collections I do expect some part of it to be recovered over a period of next two to three years. In terms of provisions for this year on Personal Loans we are providing about approximately Rs.4 to Rs.5 Cr. on Personal Loans every month and we expect this number to drop down to half its level from say in about six to seven months time because that is how the portfolio is running out.

**Sharad Rathke** Right. And just following on from that point then are we therefore expecting to see profits post provisioning in the coming 12 months?

**Murali Natrajan** At the beginning of the year the bank had clear challenges in all three lines income, cost and provisions. The income was coming down primarily because we had exited certain business lines like Unsecured Personal Loans, Commercial Vehicle, etc but we were not growing any new Assets, as I explained to you we have started to grow the Assets in the chosen areas like micro-SME, SME, retail loans, mid-corporate and priority sector lending. So to some extent I can say that the fall in Balance Sheet is more or less arrested at this point in time. So I should see income starting to move up in the coming months. Clearly we have got a full control on the cost and we are seeing provisions coming down step-by-step so I do expect us to turn the corner in six to nine months time.

**Sharad Rathke** As of now are we confident to say that we are not checking to go out and raise more capital to strengthen the Balance Sheet i.e. has the capital raised which you mentioned in August and quarter four of last year, is that sufficient to basically you know take us through such that we then start earning enough cash from operations which will you know frankly get returned to share holders through dividends or will get ploughed back into the business for reinvestments?

**Murali Natrajan** There are a lot of questions in your one question so let me try to break it up and answer. We would look to raise capital. We have an approval from the board of directors as well as AGM for rights issue up to Rs.200 Cr.**.** The timing of that issue would depend upon the traction that we have on growing the Assets. If you find strong growth of Assets in about six to nine months time I do expect that we will need capital to continue that momentum in asset growth. So as of now it does seem like we have adequate capital to continue to absorb any losses that come forth as well as grow our Assets as per the chosen areas. With respect to paying dividends etc we do have accumulated losses so that would happen only after we cover the accumulated losses so I am not able to comment on what that timeframe would be at this point in time.

**Sharad Rathke** Okay. Thanks.

**Moderator** Thank you Mr. Rathke. The next question comes from the line of Naveenan Ram from Citigroup, please go ahead.

**Naveenan Ram** I would like to know the breakup of the non-interest income and the breakup of provisions like into loan loss provisions and investment provisions?

**Bharat Sampat** Yeah, now in non-interest income total which is Rs.26 Cr. major component is income from insurance is Rs.2.4 Cr. Income from treasury, SLR trading Rs.4.24 Cr. income from FOREX trading is Rs.2.5 Cr. Rest is regular Banking income. There are no one-offs there. There is no sale of Assets or any such non-recurring item.

**Murali Natrajan** And we mean by regular income like the LC commission, the fees that we charge on certain savings account, cheque bounce charges you know there are many-many heads all adding up to that. If you are looking to understand is there any one-off income Bharat has explained that there is none in this particular context.

**Bharat Sampat** And provisions what you were asking up to Rs.25 Cr., Rs.24.45 Cr. is advances and investments is only Rs.0.44 Cr.

**Naveenan Ram** Okay, so now it totals up to Rs.25 Cr., right.

**Murali Natrajan** Which is what more or less our provision is for the quarter.

**Naveenan Ram** Okay. And sir the yields on advances and the yields on investments in this quarter.

**Bharat Sampat** The yield on advances is 11.25% and investments treasury yield is 5.84%.

**Naveenan Ram** Okay. And finally sir the movement of NPAs in this quarters.

**Murali Natrajan** Approximately the movement is Rs.15 Cr. of this quarter gross. If I give you some broad numbers we ended the last year at about Rs.305 Cr. before that it was Rs.60 Cr. so Rs.60 went to Rs.305, from Rs.305 we are approximately Rs.372 Cr. So that is why I mentioned that the fresh slippages have slowed down especially in the corporate we have had only one or two very small issues you know nothing of any major that we face in the end of last year actually.

**Naveenan Ram** Alright sir. Thank you so much.

**Moderator** Thank you Mr. Ram. The next question comes from the line of Hiten Sampat from Ohm Stock Brokers, please go ahead.

**Hiten Sampat** I just wanted the breakup of your advances in terms of how much is corporate, how much is Agri, SMEs and Retail?

**Murali Natrajan** I am not sure I can share the review because that is not in public domain but I can give you some indicative percentage if that works for you.

**Hiten Sampat** Okay, that should be fine sir.

**Murali Natrajan** See basically we have two sets of Assets if I can mention that. One is I call the declining Assets, the other is the area that we have chosen to grow, so what we have chosen to grow is micro-SME, micro-SME means customers with a turnover of less than Rs.10 Cr. p.a. Then SME means customers with greater than Rs.10 Cr. but less than Rs.100 Cr. of turnover. Mid-corporate means greater than Rs.100 Cr. but less than say approximately Rs.500-600 Cr. of turnover. Then retail home loans and small secured loans like you know all that is done in the branch area which is like it could be a loan against the property that type of all secured loans. Then we have what you call as priority sector lending loans where we have a special team which sends to all priority sector lending. In fact I think we are almost meeting the priority sector already in this quarter. So approximately the total asset is about Rs.3,139 Cr. so the declining Assets like Personal Loan is about Rs.151 Cr. Commercial Vehicle and Construction Equipment is about Rs.350 Cr., this is a declining portfolio. The rest of the items would be SME plus micro-SME is approximately about 18% of the loan. Priority sector which has got various components like lending to microfinance, lending through direct and indirect agriculture for warehouse financing or for crops etc which are all approved by the, I think all that would amount to approximately about 20% and mid-corporate would be about 33% and home loan we just started so that portfolio is a bit small now about 8%. I think that approximately adds up to 100%. If I look forward what you would see is over the month the Personal Loan, Commercial Vehicle, Construction Equipments will keep going down but will be replaced by Retail Home Loans which is secured, micro-SME, SME which is secured, corporate, mid-corporate which we secured so those are the kind of loans that would replace these loans.

**Hiten Sampat** Okay. And mainly your stress is more on the Corporates and the micro-SMEs or a little bit more on the home loan because you want to replace the big number with home loans and secured loans.

**Murali Natrajan** I expect that the micro-SME and SME will constitute about 33% of our book in 12-24 months outlook and I expect home loans to be approximately about 20%. The rest of it would be from priority sector and mid-corporate.

**Hiten Sampat** So yeah. So I think priority around 20% should remain the same so the remaining

**Murali Natrajan** So move in line with the total growth of the Assets.

**Hiten Sampat** Okay. Thank you sir. That is it.

**Moderator** Thank you Mr. Sampat. The next question is from the line of Sneha Kothari from Subhkam Capital, please go ahead.

**Sneha Kothari** Sir, I just wanted to know that when will be reaching the breakeven sir by considering all the risks and everything?

**Murali Natrajan** As I explained out of the three challenges that we had provision, cost and income I believe that we are in pretty strong control of provisions and costs. Costs have stabilized, we do not expect the cost to increase despite growing the Balance Sheet in the coming months. And provision, as I explained to you has come down quarter-on-quarter. This year provision in total will be much less than the provision last year and following year provisions will be much less than the current year because we are already at a 64% coverage ratio which is a pretty strong coverage ratio. So I expect the provisions to come down quarter-on-quarter and we have demonstrated so in the last three quarters for sure. Our challenge was Balance Sheet was declining because we were exiting the Assets, it took us some time to build on the business lines as per our strategy which we have started to grow so I expect income to start improving from this quarter onwards. So I do expect us to you know turn to month-on-month profit by six to nine months.

**Sneha Kothari** Six to nine months, approximately September 2010?

**Murali Natrajan** Yeah. See, of course we are aspiring to do it earlier but this is what we are, at least we are trying to make sure that the current projection seem to indicate that that is where we will end up at.

**Sneha Kothari** Okay. And how you are planning to grow your non-interest income?

**Murali Natrajan** We have done several things in the non-interest income. We have first of all identified our areas of focus and this income would be Insurance, Bank Assurance and General Insurance. For General Insurance we have tied up with ICICI Lombard, about two months ago. For Life Insurance we had already tied up with Birla Sun Life, in fact we were given the award as one of the fasters growing FI in terms of bank assurance by Birla Sun Life last year. Then we have put areas of focus on Cash Management, on Trade, on FX and also a Treasury. For branches we have rolled out a scorecard, which has a balance between CASA, Deposit, fees, Trade, FX etc and then there are processes and monitoring that has been put in place including reward and incentives to grow these businesses. So, in fact what we have done is we have identified the growth areas for other income, made the scorecard for all the RMs in the branches, in SME, in Micro SME and there is a monitoring process which is going on and that is how we are actually growing our other income.

**Sneha Kothari** How much is the number of employees we are having currently?

**Murali Natarajan** In middle of 2008, we had about 2200 employees or 2300 employees. We are averaging it about 1500 employees. Now, we have reduced our employee strength from 2200 to 1500. I believe that we have done a very strong capacity model, so we may have to increase employees only in the sales area. But as far as the backend concern like operations, collections, credit etc, I believe that we have sufficient capacity to grow the Balance Sheet without having to add any.

**Sneha Kothari** Still further, we cannot expect any of the declines and that would be stable?

**Murali Natarajan** It has been stable for the last few months at 1500 odd.

**Sneha Kothari** Okay. Number of the branches sir?

**Murali Natarajan** We have 80 branches.

**Sneha Kothari** Any expansion plans or have you taken permission from the RBI?

**Murali Natarajan** I think my expectation is RBI will give us permission, once we turn to become profitable. In any case at this point and time we have 80 branches, there are branches which are performing below par, which we are working on or to achieve our next one to two year Balance Sheet growth, I do believe that we have sufficient number of branches. Having said that, as we turn to become profitable, we do expect RBI to consider our request for additional licenses.

**Sneha Kothari** And still we would be having continuous support from our Aga Khan Fund for Economic Development?

**Murali Natarajan** We have always had support for AKFED, Aga Khan Fund for Economic Development. However, as we may have read RBI wants to see the Aga Khan stake to be brought down. Yeah, over the period of next four years that is up to March 2014 is I think what we have addressing. We did a recent QIP. The stake was brought down from 26% to 23%.

**Sneha Kothari** Okay and still any QIP or further capital raising plan for the coming quarters?

**Murali Natarajan** We have approval from the board for and AGM for right issue up to Rs.200 Cr. Based on the traction, we achieve in our business, we will choose the timing in the coming months.

**Sneha Kothari** Okay thank you sir.

**Moderator** Thank you Ms Kothari. The next question is from the line of Sunil Kumar from Birla Sun Life Insurance, please go ahead.

**Sunil Kumar** Sir I just wanted to check couple of things you mentioned the trading gains were Rs.42 million, so let us say for the current quarter out of the total non-interest income of Rs.257 million, Rs.42 million in trading in and the rest is a normal fee income?

**Bharat Sampat** Then I also mentioned Forex Rs.25 million, balance I had mentioned, another key component I mentioned was insurance commission Rs.24 million balance is all different components of fee income one of items there.

**Sunil Kumar** Okay sure. And can you give this breakup for the previous quarter as well, September '09?

**Bharat Sampat** September '09 quarter our trading gain was Rs.83 million, having said that it had one-off component of Rs.4 Cr. there as mentioned earlier by my MD. Insurance commission was Rs.59 million and FOREX was Rs.17 million.

**Murali Natarajan** Now about Rs.2 Cr. was not one off but extraordinary performance in the last quarter, so approximately you can say about Rs.6 Cr. last quarter was, but this trading gains of last quarter I do expect that to happen every year in some quarter for sure, so that is the way I think it works.

**Sunil Kumar** Right and just on the yield on advances I think you mentioned 11.4% during the quarter, is it?

**Bharat Sampat** 11.25% I mentioned.

**Sunil Kumar** Okay. And on the margins, I think this quarter you have done 2.6%.

**Murali Natarajan** 2.61% yes.

**Sunil Kumar** Yes and which is sequentially up by around 10 basis points?

**Murali Natarajan** Yes.

**Sunil Kumar** Okay, so probably if we are able to maintain this kind of margins, so we will see NII growth going forward because I think this quarter was the first quarter when we saw net interest income growth after some four-five quarters, sequentially, yeah after four quarters of decline?

**Murali Natarajan** Yes, let me explain the moving parts and so that I will give you some idea about what is happening on NII. There are Assets which we are declining like I have mentioned which is Unsecured Personal Loan, Commercial Vehicle, Construction Equipment. So, we have a volume as well as rate variance because these Assets are at a high interest rate I would say for example, Unsecured Personal Loan is at 18%, Commercial Vehicle Loan could be at about 13.5%-14% that is one-two moving parts there. Then what happened in September 2010, when there was a liquidity challenge in the market, like any other bank we also raised deposit at high interest rates of 11.5%, 12%, 10.5%. All those if you see our published one-year term deposit rates from somewhere like 11.5% in September 2008, we are down to 7% as of January 1, 2010. So, which means systematically we have reduced the cost of funds by replacing some of those with lower term deposits. Third thing is our focus on CASA middle of 2008, we would have been about 27% or 28% of CASA, now we are at 38% of CASA, not only this is because of denominator effect, even in absolute terms we have grown CASA by about 19% since the start of the year. So, one point is the drop in Assets but replacement of these Assets with the lower yielding but good quality secured Assets. Second, improvement in CASA, third is improvement in cost of funds, all this is playing out to bring out the NIM to about 2.5, 2.6 which we think we can maintain.

**Sunil Kumar** Okay. And so what is the cost of funds during the quarter?

**Bharat Sampat** Cost of fund is 6.35%.

**Sunil Kumar** What was it during the last quarter September '09 sequential.

**Murali Natarajan** September '09 was 6.66%.

**Sunil Kumar** And how much re-pricing we are expecting, let us say next two quarters?

**Murali Natarajan** Hard to say but I can tell you that I think up to March or April of 2009, our interest rate were at about 8.5% or so, last year I mean the year that has gone by. So, I expect all those to be raised, I mean replaced at least at a 50 to 75 basis points lower, you know. If I wants to maintain the current interest rate on term deposits.

**Sunil Kumar** Right, okay thank you so much and all the best.

**Moderator** Thank you Mr. Kumar. The next question is from the line of Sudhakar Prabhu from Span Capital, please go ahead.

**Sudhakar Prabhu** What kind of recovery do you expect, cash recoveries do you expect in coming quarters?

**Murali Natarajan** There are two portfolios on which we are doing recoveries, one is the retail portfolio and other is the corporate book. In corporate book, couple of accounts are in TDR, so as the process finishes we do hope to have some recoveries. So, at this point and time it is hard for me to say, our efforts are on. We have approximately 200 people, our own staff dedicated to doing collections in retail portfolio. So, for example if our recoveries in the provider's pool were say x in April, it has already jumped to 2x by December. We hope to maintain that type of momentum, but honestly speaking it would not be easy for me to predict as to what type of recoveries will come. All I can say is that the recoveries and the collection efforts are month on month headed in the absolutely right direction, I am seeing improvement in the, in almost every bucket of collections month on month.

**Sudhakar Prabhu** If you could give the numbers for the last quarter please?

**Murali Natarajan** I am not so sure I can give you that number because that is not something that we are able to disclose.

**Sudhakar Prabhu** Okay no problem. And my second question is with the existing kind of capital, what kind of growth can we expect in coming quarters?

**Murali Natarajan** My expectation is that from the current level of advances, we should be able to grow by about 20% to 25% from the current level of capital. Of course, we are working on various ideas to improve the capital efficiency in terms of utilization of limit etc. But I mean without looking at that we expect that we can grow our Assets by at least 25%. What is happening on the Balance Sheet is that when personal loans are repaid, they release capital at about 125% weightage, whereas the new Assets that we are booking are at 100 or below depending upon their risk weightage.

**Sudhakar Prabhu** And can we see one more round of tier II capital raising this year?

**Murali Natarajan** Like I mentioned we will observe how we are performing on our asset growth and how we are reducing our provisions in the coming quarters and we will take a call on the timing of the right issue, which has been approved already by the AGM and the board.

**Sudhakar Prabhu** Okay and my last question is what would be your total accumulated losses in the book?

**Murali Natarajan** As of December it is Rs.370 Cr.

**Sudhakar Prabhu** Yes thank you sir.

**Moderator** Thank you. The next question is from the line of Pankaj Talwar from OHM Investments, please go ahead.

**Pankaj Talwar** I have two questions, one focuses on the immediate shorter term and one is on the longer term. Shorter term there is a big challenge right now for liquidity, low credit growth and you are in a niche smaller bank segment with, you know so second question is linked to the first one. What is the future growth strategy, were does the future growth come from looking at that comparative landscape which is changing so radically with other private sector banks easily able to raise capital and growing branches and reach and everything. So, where do you position yourself with 80 branches in longer term and I am talking about after you turnaround and all. And presently, immediate next two-three quarters with present credit situation?

**Murali Natarajan** The team's immediate priority use to return to month on month profit as quickly as possible so that, it stops the capital getting eroded any further. And our target or expectation is that we do that within the six to nine months time. We believe that we have got a good handle on our provisions and cost and we are systematically working on improving our income. In the near term the challenge has been like every other banks spaces, the challenge have been there has been a lot of liquidity and the pricing has had its challenges in terms of lending because there is a lot of competition there, but yet I would say that we have been able to grow our Assets from the previous quarter to this quarter. So, I do not expect the same kind of situation to continue for beyond 6 or 12 months but having said that we are dealing with these situations. What we see I do not think our branch network would remain at 80, once we become a profitable bank I do expect us to get some branches, few in the beginning and later as we continue to improve performance few more from RBI, I do not think we have had any issues with RBI other than our financial performance. Our vision is to be the most innovative and responsive community bank and I mean by community is all self-employed segment that is near the branch cashment area. And we believe that SME, micro SME, mid-corporate segment, we are in a better position to serve because we are modern bank, we have very good technology. We are very high quality people in our credit, operations, and sales, treasury side and we are able to attract customers from not only public sector bank but also from some of the private sector banks and that is how we manage to grow in the last few months for sure. So, I see ourselves to be a material bank in the coming years, having said that yes, in the first one to two years we would have to overcome the challenges that we are facing at the moment.

**Pankaj Talwar** Thank you very much.

**Moderator** Thank you Mr. Talwar. The last question is from the line of Tejpal Jain from Suashish Diamond, please go ahead.

**Tejpal Jain** First I would like to know some couple of data points, one is that what is our cost to income ratio as of this December quarter?

**Murali Natarajan** Our cost income ratio is 87%.

**Tejpal Jain** And what about the previous quarter?

**Murali Natarajan** Previous quarter must have been slightly lower primarily on account of the income is about 76%.

**Murali Natarajan** But if you see the cost, the cost have been in control, it is the income which had declined and as we start to grow our Balance Sheet an income, I expect this cost income ratio to continue to come down.

**Tejpal Jain** Okay, one more data point is like can you provide me some detail about the production G-sec yield and the level at which to be at comfort level for the investment portfolio?

**Rajesh Verma** See at the moment our g-sec yield is around 7% and you know there was g-sec yields going up for last two quarters and we are seeing some increase in the yield from 30 to 50 basis point. In line of that we have recently reshuffled our portfolio and lot of T-Bills has been replaced with the high yield G-sec. So, my portfolio has improved over the last quarter.

**Tejpal Jain** So, as of December quarter, but the production yield I mean, if I will require to report any MTM kind of-?

**Rajesh Verma** At the moment see my portfolio is around, most of my portfolio is in HTM category so there we do not have any MTM and 80% of my portfolio is in HTM, 19% portfolio in AFS and HFT only 0.34%. In AFS we have got T-Bills only which are valued at cost of carry so there is no MTM here. Only in case of HFT we will have some kind of MTM and in last quarter we had some Rs.25 to 30 lakhs MTM negative.

**Tejpal Jain** Can you draw some highlight about the deposit actually, this deposit growth rate will fall from the previous quarter to current quarter basically?

**Rajesh Verma** The deposit is on account of mix change, so what we are doing is, we are relying more and more on retail branch related deposits and CASA and retiring some of the more bulk deposits in the treasury area. For example, we would have grown our retail deposit by about 23%, dropped our treasury deposit by almost 60%-70%. So, there is a mix change that is happening and if I will compare it let us say December 2008 to December 2009, so that is a kind of mix change we are doing in our deposits.

**Tejpal Jain** And what is our view for the forthcoming quarter in deposits rate as well as for the advance growth for the coming quarter?

**Rajesh Verma** We ended the last year advances at Rs.3,274 Cr. Right now we are at about Rs.3,139 Cr., I expect to end the year at Rs.3,274 Cr. or slightly above that. So, which means that despite the fact that we have exited many of the asset categories, we would be able to maintain our Balance Sheet or may be slightly grow the Balance Sheet.

**Tejpal Jain** And what about the deposits?

**Rajesh Verma** Yeah deposit also would be a similar story. I think our deposit was Rs.4,646 Cr. when we ended last year and we are at about Rs.4,482 Cr. at the moment. So, I do expect us to end at about the same level by end of this year.

**Tejpal Jain** I would like to know basically, despite all the banks that they are like reporting even in the previous quarter, you told might be you will deliver some kind of the better earnings compare to the September quarter, then to we saw some slight pressure in all net profit and the bottom line, I mean so can you draw some highlight for one of the basic reason?

**Rajesh Verma** No, I have always maintained that we are in the process of repairing the Balance Sheet, we are doing a mix change on deposit as well as a mix change in Assets. If you will notice the provisions are on a decline, our costs are in control. We have started to grow the Balance Sheet. The environment has not been very supportive because the liquidity has been high and interest rates for customers have been in bit of a competition there has been some challenge.

**Tejpal Jain** But other private players they are reporting positive numbers even they are deleting something-?

**Rajesh Verma** That is true and our Balance Sheet has had structural challenges for at least last 12 months or so. As we correct the structural challenges which we are proceeding quite well, we do expect to turn the corner in six to nine months.

**Tejpal Jain** Okay sir thank you very much.

**Moderator** Thank you Mr. Jain. That was the last question. I would now like to hand the floor back to Mr. Natarajan for closing comments, please go ahead sir.

**Murali Natarajan** I sincerely appreciate all of you taking the time to log into our call. And what we will try to do is, we will try to improve the process, we will try to send you much advanced notice for our calls in the future and also put some kind of a presentation on the website so that you can have easier access to information. In fact you will notice that in the last two quarters, we have been one of the banks to declare our results pretty early and we want to continue to maintain that type of momentum. Like I mentioned, many of the items that we set out to achieve as of April last year are headed in the right direction and we would make step by step progress and we do expect this to continue. And we do expect our earnings to improve cost to be in control and provisions to be declining, eventually leading to us making profits month on month and then from then on strongly grow the bank over the coming months and years. Thank you and please drop in a line if you need any further clarification or information we will be more than happy to assist you on that.

**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.