

DEVELOPMENT CREDIT BANK

Development Credit Bank Conference Call

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Moderator: Ladies and gentlemen, good evening and welcome to the Q4 FY11 earnings conference call of Development Credit Bank. As a reminder, for the duration of this conference, all participant 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 any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Murali Natrajan MD & CEO of Development Credit Bank. Thank you and over to you Sir.

Murali Natrajan: Good evening everybody and thanks for joining this call. I have here Meghana, who is the Head of Investor Relations, Bharat Sampat our CFO and Rajesh Verma, who is the Head of Treasury and Financial Institutions.

I will take about a few minutes to outline the results for the fourth quarter and the full year for Development Credit Bank. Profit for the full year was Rs. 21.43 Crores versus a loss of last year full year Rs. 78.45 Crores. The fourth quarter profit was Rs.11.35 Crores versus third quarter profit of Rs. 8.16 Crores. So it is continuing to improve. I just want to remind you that the second quarter (September 30, 2010) of this year that is the year that went by is when we returned to profit. So CASA ratio we maintained at 35%, although CASA performance was not that good in the third quarter. We kind of improved our performance in the fourth quarter and that is perhaps the reason why we have been able to also sustain NIM at similar levels. So for the fourth quarter the NIM was 3.15% and for full year it was 3.13%. We were expecting a NIM of about 2.8%, but I guess the reprising effect of the term deposit interest rate increases have not yet fully played out and besides that we also increased the customer interest rates in Home Loans, Retail Mortgages, SME, micro-SME, Corporate, etc. However, I do not think there is much scope for increasing customer lending rates any further because there will be a resistance to that. So we do think that in the next two quarters the NIM can drop to about 2.75% to 2.80%.

The deposit growth was 17%. The deposit growth was a challenge for all Banks and we also had our share of difficulty especially in the last quarter because some crazy rates were being quoted for Term Deposits and we had to be careful in terms of what we pick and kind of grow our deposits very carefully. However CASA growth was at about 17%. Let me remind you that in the last two years we have not added a single new branch so the CASA per branch is continuing to increase. It is about Rs. 23 Crores now and we hope to take it to Rs. 35-38 Crores in about two to three years' time and we are still working on the plan.

Balance Sheet growth has been 20%. We did receive two branch licenses in Gujarat and we hope to install those branches by end of May or beginning of June. However, we did have a few ATMs to our network this year. Retail deposits contribute 81.17% of our total Deposits, so we rely less and less on Bulk Deposits. Gross NPAs reduced from 8.69% as on March 31, 2010 to 5.86% as on March 31, 2011 and net NPAs is below 1% at 0.97% as on March 31, 2011. Last year we ended at 3.11%. We have provided 100% of the gross NPAs for personal loans. So if at all there would be some recoveries coming through I guess in the next year or so it would straight hit the bottom line. The total coverage ratio is at 87.64% versus what is required, which is 70%, so we have a strong coverage ratio.

Our strategy was when we exited personal loans, commercial vehicle, etc. in 2008, we planned in 2009 that we would focus on Retail Mortgages, MSME and SME. Retail Mortgages have almost doubled. MSME and SME have grown by about 60%-70% and MSME and SME contributes now 24% of our book, Mortgages contributes 25% of our book, Corporate in totality the portfolio remains steady in comparison to last year and contributes 26% and the balance is PSL. We met the PSL target this year again. It was difficult because microfinance which used to be helping us to meet the weaker section was not the kind of asset that we wanted to pursue since September last year. So we had to look for alternatives and we did. What we think is that overtime MSME, SME as per our new strategies will contribute almost 40% of our advances while mortgages will contribute about 25%.

Year-on-year cost to income ratio has reduced. We expect the cost to income ratio to remain at the current level or maybe slightly reduced because we are investing a lot in our branches, while we have not got new branch licenses we are increasing the staff strength at branches to grow our Retail Term Deposits and CASA. So when you put on head count it does increase the cost for a while till the balances grow. So our strategy is to actually invest a lot of resources in our existing branches especially the branches which are starting to do really well.

Net interest income grew by 34%, fee income grew by about 4%, and provision as compared to last year was down by 48%. Last year provision was Rs. 127 Crores this year we ended at about Rs. 65 Crores, so we are down by about 48%. So basically we have been able to return profits because of the change in portfolio composition that we have been able to achieve through secured lending in Retail Mortgages, SME and micro-SME, while keeping the Corporate portfolio steady. We managed our cost of funds by keeping CASA above 30%, which was our stated approach. We managed to reduce the NPAs consequently, the provisions. In fact Retail portfolio is getting into good shape month-on-month and we ensured cost remain in control. The capital adequacy was at 13.25% in Basel II and tier I was 11.10%, so we have a strong capital position.

So that is what I wanted to share with you regarding the results of the full year and fourth quarter. I am happy to take questions.

Moderator: Thank you very much Sir. The first question is from the line of Abhishek Kothari from Way2Wealth Securities. Please go ahead.

Abhishek Kothari: Sir just a general question on microfinance. Now if the cap at 12% comes in would you be interested in it again in the coming years or you would exit the portfolio?

Murali Natrajan: What is the cap of 12%?

Abhishek Kothari: The cap of 12% lending rate to microfinance?

Murali Natrajan: 12% lending rate should be okay, but that is not the reason why we will be in microfinance or not in microfinance. Now that you ask the question on microfinance let me take a few minutes to answer this question in detail. Somewhere in 2009 as a team we decided that Andhra Pradesh is too heavier concentration for the industry and our Bank. So we started reducing our exposure in Andhra Pradesh. So I would say when the crisis happened somewhere in September or October our exposure to Andhra Pradesh was in the range of about 10%. So we did not have a challenge in terms of whatever happened in Andhra Pradesh. I think the issue is that in microfinance what most Banks are worrying about is that will there be a situation where one or more states start kind of having regulations that start impacting this segment and that is the reason why we decided that we will limit our exposure to microfinance, perhaps most Banks would have done the same. We did not do any new lending for almost three to four months in microfinance then once we got comfort with about four or five good institutions and we found that other Banks also are starting to lend is when we kind of started our lending again in a very limited manner. Our exposure to microfinance is I think about 3% of our total advances portfolio with very, very limited exposure to Andhra Pradesh.

Abhishek Kothari: So, on the fee-income what would be your target for this year FY12?

Murali Natrajan: What happened in fee-income in the last couple of years is first of all last year the IRDA regulations had a very sudden impact on our Bank assurance fee that took about three to four months to kind of readjust to the new rules and situations and commission structure and so on. Because sales force were used to higher commission structure and they had to be reoriented to new products and so on, so I do hope that that will start. In fact last couple of months started yielding much better results than what happened in September and October so I do hope that that would be good story for us in this coming year. Trade, we started decentralizing our trade operations to several branches and started trading a lot of our front-line staff on trade. Again we found that this is starting

to give us some encouraging results. So all in all we will target for about 10%-12% increase in our fee-income in the coming year.

- Abhishek Kothari:** That's it from my side. Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Mani Arora from ICICI Securities. Please go ahead.
- Mani Arora:** First of all Sir, I wanted to know the movement of NPAs, if you could give me a YOY comparison?
- Murali Natrajan:** I am going to ignore the decimals, last year we ended at about Rs. 319 Crores of NPAs, as compared to 2009-10 fresh slippages for this year was approximately Rs. 50 Crores (In 2009-10 the fresh slippages was about Rs. 192 Crores). So there has been a significant drop in the fresh slippages. Recoveries and upgrades in 2009-10 were around Rs. 105 Crores and for current year it is about Rs. 64 Crores. Write off sacrificed last year was about Rs. 58 Crores, this year it is about Rs. 42 Crores. So we came down from Rs. 319 Crores to Rs. 263 Crores, if you do the math.
- Mani Arora:** Yes, this seems to be good. Another question is related to this, how about the provisions, which has been made so far, as in I know, the provision coverage ratio has been scaled up?
- Murali Natrajan:** How much provisions means?
- Mani Arora:** As in the provision breakup for NPA you have made something for the restructured or standard. What kind of breakup we have?
- Murali Natrajan:** We have a very, very limited number of accounts in restructure. Probably I can count in fingertips, may be three or four accounts. So we were not too big on restructured accounts at all ever. So whatever restructuring we did either they became NPA and we took recoveries or they became regular. So we do not have too many restructured accounts I would say, my CFO is telling it is about four accounts; three are standard out of that. So three is standard and one is NPA, right. In terms of provision this year the provision was approximately Rs. 65 Crores, last year it was about Rs. 127-odd Crores. So hopefully next year it would be around Rs. 40-odd Crores. That is how we think it would be.
- Mani Arora:** What about the deferred tax accumulated loss, which you are carrying in your books? When can we see you taking benefit of that?

Murali Natrajan: We will start actually even this year we have taken some benefit of this, obviously. Deferred tax effects on a conservative basis we have just recognized those and we discussed with the auditor and we just have recognized those deferred tax assets. Going forward if we plan our taxes well, including minimum alternate tax we should be very tax effective is what I think, because we have approximately Rs. 350-odd Crores of accumulated losses. So for at least three or four years we should be able to plan it out well.

Mani Arora: Sir, last question regarding the growth strategy of the bank, you have strategic areas jotted out for you. At what kind of a business growth and what kind of targets have you set for yourselves for the coming two years?

Murali Natrajan: In the areas that we are growing, which are Retail Mortgages, SME and micro-SME, as I mentioned earlier in the call that we had a very high growth. We did have areas where we were exiting. So our net-net effect is that we grew by about 23%-24%. The current trends indicate to me that in the coming year also we will be able to grow our Balance Sheet by 23%-25% with advanced growth in the same range. When we complete 2011-12 and as we exit 2011-12 we will be actually make a strategy for a much higher growth depending upon how we would have performed in the current year.

Mani Arora: 2011-12 we can probably say that the business growth will also be moving in tandem with the Balance Sheet growth literally?

Murali Natrajan: More than 20%-23% is what I expect. Of course the increase in income especially the net interest income will depend upon how the whole interest rate situation pans out. I can tell you that the market does not seem like very encouraging at the moment in terms of the interest rate situation.

Mani Arora: Do you see it cooling happening probably after H1- FY 2011-12?

Murali Natrajan: The CD rate seems to have definitely cooled off, but Retail Term Deposit rates does not seem to have come off that much, not more than 30-40-basis points. As we go forward, we cannot keep on increasing the interest rate on our lending products. There is a limit otherwise we will probably suffer because of that or our customers will exit. So I do expect NIMs to squeeze. Of course I have been saying that there is going to be a NIMs squeeze for our Bank for the last two quarters, but some hard work has helped us to be at the same level, but it cannot go on forever. I think our NIMs will drop to some two points or 2.75%-2.80% in the next two quarters.

Mani Arora: That's it from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Jignesh P Shia from HSBC. Please go ahead.

Jignesh P Shia: Actually just wanted to understand your branches have not increased last year and you have already got two licenses. So if you actually want to maintain 34% CASA of the Total Deposits. What is the strategy?

Murali Natrajan: Strategy is the same. Strategy that I have done in the last two years to grow the CASA from wherever it was, if you see our CASA in the last two years ago would have been about Rs. 1400 Crores or something. They have grown by Rs. 500 Crores approximately in two years. So the strategy is simple, you have existing branches, we have put a scorecard in place, we add more people to the existing branches, we give them new products, we give them segmentation, we give them areas to go and work on, we monitor their performance. We give very good service and keep working on process improvements to make sure that we do not lose good customers and it helps to grow our CASA. I worked in Standard Chartered Bank. There are branches which have CASA of upwards Rs.300-400 Crores. So I do not limit myself to thinking that I have only 80 branches, therefore, I cannot grow my CASA. If we have thought like that we would not have been able to grow our CASA.

Jignesh P Shia: True, I agree. I appreciate that Sir. Now last year there was plan for QIP issue, which I think has not materialized at all. So any kind of dilution that you guys are planning for this year?

Murali Natrajan: The first six months of the year, the way management team and the Board thought was let the Bank return to profits and we will go to the market to look for capital, and with that as our approach for the first six months once we returned to profit in the second quarter we started talking to investors. However, as you know, the market has been quite challenging, it has been volatile. There has been no stability at all, whenever you think of it, some bad news comes out, sometimes its Tsunami or government is dealing with some challenges or some other bad news comes out on inflations and so on making the investors pretty jittery at several times. Our capital position is strong. We are at 11.1%. I do think we will have to raise capital in three to six months time. So we will choose the opportunity to do so. We still have the approvals in place.

Jignesh P Shia: On the cost to income side, what is your feel? How is FY 2012-13 probably?

Murali Natrajan: In 2009-2010 the cost to income ratio was around 80%. We had a very little room to invest behind growth because we also had to deal with the challenge of high provisions coming through and hitting our P&L. I see now the provisions subsiding and giving us room in the overall P&L to start making investments. As a management team we

decided that we want to go after putting more resources in the branches for growing Retail Term Deposits and CASA, which we want to make it as our #1 priority so what happens is that if you hire sales force they take about three to six months to become productive even if they have been working in another bank or so, so I expect that our cost to income ratio would continue to be in this range for at least six or nine months, before it starts to come off, primarily because we are putting a lot of employees addition into branches for deposits, not for assets, for assets I think we are quite okay. We have enough people. I do not think I need to add any more people in assets.

Jignesh P Shia: So it will be around about 70%, right?

Murali Natrajan: About 70% is what I think, but the good news is that, let me put it this way, there is no regret on this strategy as far as I can see because the worst that can happen is that if a sales manager is hired instead of delivering six or eight accounts per month, he does three, then it is the productivity challenge more than non performing assets type of challenge which generally happens if you pursue loans like credit card or personal loans.

Jignesh P Shia: This is a sense I am getting from your side. We had an idea that you guys have a real estate schemes in Delhi and NCR region and all, which has got successful quite enough. So how much is your total exposure to real estate at this point of time?

Murali Natrajan: We do not fund real estate. We have extremely selected exposure to developers. That is not our strategy at all. That just happens to be if you do get come across one or two good proposals we do that. That is what we are pursuing; it is very well within the Board limits set. What we pursue is Retail Mortgages, which is Home Loans and Loan against Property.

Jignesh P Shia: That is what I was referring to?

Murali Natrajan: That is now 24%-25% of our portfolio and we expect that to remain at the same level. As informed earlier, along with the whole portfolio growth this also would be in the range of 24%-25%.

Jignesh P Shia: Okay, that will be remaining for the next year as well?

Murali Natrajan: That is what we expect.

Jignesh P Shia: That's it from my side. Thanks.

Moderator: Thank you. Our next question comes from the line of Amit Ganatra from Religare AMC. Please go ahead.

- Amit Ganatra:** Did you mention that SME and MSME can basically contribute to 40% of the overall portfolio from 24% currently over a period of time?
- Murali Natrajan:** Yes, because what we are doing is we are holding the Corporate book steady at the current levels, and in terms of contribution - Mortgages will continue to be at about 24% to 25%, so the area of growth will be coming from MSME and SME.
- Amit Ganatra:** But does that mean that your yield on advances can go up because the high yielding segments contribution coming down will ensure that yield on advances still do not go. What I am trying to understand is that MSME and SME have to grow substantially then if everything else remains constant, NIM should not be under pressure?
- Murali Natrajan:** NIM can be under pressure because of cost of funds.
- Amit Ganatra:** But cost of funds anyway for your Bank has been going up in the last one quarter. It might have not gone up so much, but anyway you have a very healthy mix overall in terms of Retail Term as well as CASA, plus incrementally if the growth is happening in a high-yielding segment, then actually margins, it might not grow. What I am trying to understand is that definitely it can go down, but it might go down so much as you are expecting?
- Murali Natrajan:** We will be the happiest if margins do not go down. It makes our job a little bit easier, I guess. You know the SME and MSME segment is also very price sensitive and when you are looking for a good quality portfolio there, like MSME, I do not think we can command an interest rate of beyond 13% and SME like 11.5% to 12%. I am being cautious about guidance to investors on my NIMs especially we have to see the next two quarters to see how exactly the market will pan out on interest rate before we can say that. However, if you do get 40% MSME and SME contribution in two to three years time, you may be right, may be the interest rates or margins may still be good.
- Amit Ganatra:** Second question, in the fourth quarter you have exited within ROA of 0.63%-odd, now what do you think may be the outlook for next year, will it go up, and will it go down? I mean, where should one expect in terms of your return on assets to be and if at all if it is to improve, which are the areas from where it can improve?
- Murali Natrajan:** The area of improvement would be in terms of provisions and income, because expenses we are investing, so in totality the expense will go up in this year. We had targeted ourselves saying that when we made a three or four-year plan sometime ago, we had targeted that we would exit 2011-12 by about 70-75 basis points of ROA. So I would say at the moment we probably are on track to do that.

- Amit Ganatra:** But this improvement can come basically in spite of all, because NII average assets can go down, right as you are indicating?
- Murali Natrajan:** But provision by average by assets should also come down I think.
- Amit Ganatra:** So that basically gives you a big buffer?
- Murali Natrajan:** Because I am building more and more on secured assets than the legacy portfolio like Personal Loan which has been provided 100% so there cannot be any more provisions expected on Personal Loans.
- Amit Ganatra:** But Opex to average assets you are saying that might remain where it is, what you are investing?
- Murali Natrajan:** I am investing on deposits strategy only. I am not investing on advances. I want to grow the deposits faster, because I do not think I want to be at 17% we probably want to be at 23% to 24% and we did not have the room to do that last year because we still had to deal with provisions.
- Amit Ganatra:** But here only question is that by the time suppose you end up improving your CASA and improving the Deposit strategy what if RBI deregulates savings bank rates?
- Murali Natrajan:** For the last 25 years I have been in the Banking industry. Something or other regulations always keeps happening and never, as we know, any regulation impacting the Bank over time in terms of any issue, all the Banks will tend to adjust to something. A small Bank like me if there is deregulation may be I can be aggressive in my pricing and get a bit more, so we will cross the bridge when we come to it.
- Amit Ganatra:** Another question is looking at your Balance Sheet numbers, your Deposits obviously quarter-on-quarter also as you mentioned that it was really challenging and it was may be difficult to improve the Deposits, but your Borrowings have kept on growing and if I see, it has increased from Rs. 504 Crores to Rs.860 Crores year-on-year basis?
- Murali Natrajan:** I have Interbank Deposits as well. So the good news for us was that as we started improving our Bank's performance many Banks came forward to support us on liquidity, which was great news for us. We made choices in the fourth quarter. There were Deposits available at very high rates and Interbank Deposits at more acceptable rates, so we chose one over the other, but having said that you will find a normalization happening in the next three to four months.
- Amit Ganatra:** So Deposits will grow more as you mentioned. This year Deposits you did focus?

- Murali Natrajan:** Fourth quarter, I mean, especially in the last couple of weeks of March it was a very crazy situation where every Bank quoting some really crazy rates.
- Amit Ganatra:** Sir, one last observation was that on the income from investments, basically or probably you are the one of the only Banks whose year-on-year income from investment has gone up, if you compare it to last year?
- Rajesh Verma:** Hi, Rajesh here. In last two years, what we did is that we had made some portfolio shift, wherein we have moved our investment in T-bills to a longer dated security within the acceptable parameters of the modified division, so when this shift had happened that has increased my interest income on investments.
- Amit Ganatra:** But is this sustainable, this kind of performance even in this year?
- Rajesh Verma:** Yes. This is because you see the G-SEC rate at the moment, and given the inflation rate we do not see major fall interest rate coming up, we see that this ten-year G-SEC rate will be hovering around 8% to 8.25% during this year.
- Amit Ganatra:** Also overall the composition of basically HFT has gone up significantly if you compare year-on-year, so that basically now a strategy that the focus on treasury will be higher as compared to what previously the focus was?
- Rajesh Verma:** Actually in HFT what we look at there was some investment in CDs what we have made and those CDs are already been redeemed here, so HFT has come down to a negligible level of Rs. 5-6 Crores.
- Amit Ganatra:** So overall what is the duration of your ASFs and HFT book?
- Rajesh Verma:** Overall duration is 3.78 of my portfolio.
- Amit Ganatra:** That is only for the ASFs and HFT, right?
- Rajesh Verma:** No. It is including everything and modified duration of HTM portfolio is 4.75 and modified duration of ASF category is 0.43 and HFT is 0.52.
- Amit Ganatra:** Thanks. I am done.
- Moderator:** Thank you. Our next question is from the line of Elizabeth John from CRISIL Equities. Please go ahead.
- Elizabeth John:** Good evening and congrats for a good set of numbers. You mentioned that for the priority sector lending we have been able to achieve that target. Just wanted to understand is that we have some portion of the assigned gold loans, because now that

- the regulation has come wherein the secularized portfolio is not allowed to be classified under PSL?
- Murali Natrajan:** If I understand the regulation correctly it cannot be classified as agri, but for the micro lending it can be classified as PSL.
- Elizabeth John:** But then in that the cost of funds would be higher, right?
- Murali Natrajan:** When you say cost of funds would be higher means what?
- Elizabeth John:** I mean, typically if you do under agri then the cost of fund that you get on that would be lower, right?
- Murali Natrajan:** No, the yield in gold loan used to be very pathetic. Those guys used to, I mean there is only some handful of companies and they used to make sure that the Banks give them the best rate like 7.5% to 8% etc., but after the regulation the rate actually improved in this particular segment, because less banks were considering this as their option for meeting priority sector lending, because if agri is not there then, so agri target we met through other means, so some amount of micro-lending target we met through gold loans and the yield I think was better than the last year if I am not mistaken.
- Elizabeth John:** Another question is, have we acquired any portfolio during this quarter?
- Murali Natrajan:** This quarter - No.
- Elizabeth John:** One last bookkeeping question would be what is the total risk weighted assets in FY 2011?
- Murali Natrajan:** Risk weighted assets in FY 2011, just give us one minute, our CFO would be ready with the answer.
- Bharat Sampat:** Risk weighted assets under Basal-II is Rs. 5022 Crores.
- Elizabeth John:** Okay. Thanks.
- Moderator:** Thank you. Our next question is from the line of Megha Gupta from Birla Sun Life Insurance. Please go ahead.
- Megha Gupta:** I wanted to check regarding the ALM. What would be up to one year consolidated ALM position?
- Murali Natrajan:** One year consolidated, sorry?

Megha Gupta: What would be the cumulative gap and the mismatch level up to one-year segment and the ALM, reported ALM?

Murali Natrajan: Reported ALM, we are looking for it, flat. We will just calculate it, if there any other question that you have, I will come back to you in a minute.

Megha Gupta: The other was an SME and MSME portfolio as reiterated. It is like around 40% is what you are targeting, more of a medium term target, what I was wondering was that are we looking at increases in delinquency levels because of this change in mix and because of the higher risk in the segment, mainly it is coming from the Personal Loans etc., of the past, but that is different, that is the Retail segment, but again MSME etc., gives that perception. So I just wanted to get your views on it in terms of how would you balance that along with monitoring assets quality on that front?

Murali Natrajan: Just bear with me for slightly long answer. MSME and SME are like a large ocean. There are various qualities of assets and customers available out there. So it is up to our sales targeting, underwriting and monitoring process that can ensure good quality portfolio. So you will find SMEs who have very weak Balance Sheet, you can also find SMEs with strong Balance Sheet, strong collateral. I mean you can find various SMEs out there in almost all types of industries. What we have done in the last two years is we have kind of hired good quality RMs and wherever we found RMs to be not adequate we have given them training to spot kind of good SME and micro-SME. We already had decent set of underwriters so we kind of added to that pool of underwriters. We created an internal risk rating system to understand the difference between various types of SMEs and MSMEs. So that also helps us in determining how much collateral we need and how much pricing we need to charge over and above that we have done about half way there, but we have created something called early warning systems process whereby we continuously look at these SMEs and micro-SMEs on several parameters, like for example, how much cash is getting captured in our account, because we are sole Bankers for these customers. So how much cash is coming in, what kind of over limit requests are coming in, what are the stock treatment, is there any stickiness on that, visits to the large SMEs and so on. We of course do secured lending in the sense I take either a house or commercial property and in some cases even land buildings, whatever, as collateral sometimes collateral is 60% and sometimes collateral is 100% depending upon the rating of the SME, so based on all these at least in the last one and a half years since we kind of worked on this, we have not seen any delinquency. We do not expect to lose more than about 80-100-basis points on this particular business on a steady state basis.

Next answer on that also is I have been global head of SME banking in Standard Chartered. I grew the Standard Chartered SME banking in India, across the group in

Standard Chartered we did not see SME getting badly hit except perhaps some segments in Hong Kong and Korea, even during the 2008 crisis, because many of these SMEs are very resilient to business cycles. Of course we will keep refining the model as we go along, but we are confident that we can create good quality portfolio in this segment.

- Megha Gupta:** On our current SME and MSME portfolio what would be the average collateral levels?
- Murali Natrajan:** It could be about 60%-65%. I do not have that number but from a feel I am telling you that it will be about 60%-65%.
- Megha Gupta:** Sir within our Retail Mortgage you mentioned that both individual Home Loans, I mean, regular Home Loans as well as lateral Loans against property? What would be the split between the two?
- Murali Natrajan:** 30%-40% would be in loan against property and typically there the loan to value ratio would range from 60%-70%. Now of course RBI has put a rule on home loans at 80% so that is going to be followed. I think they may have the answer ready.
- Rajesh Verma:** Hi, Rajesh here. In ALM in first four buckets, which are the regulatory buckets, as against RBI permitted limits of -5%, -10%, -15%, and -20%, we have maintained positive, and up to one year we are having a negative of Rs. 1518 Crores and which is within the limits approved by our internal controllers.
- Megha Gupta:** Within your Board limits?
- Rajesh Verma:** Yes.
- Megha Gupta:** Rs. 1518 Crores. Last question is on the Retail Deposits; you mentioned consistently higher number of proportion of Retail Deposits as a percentage of Term. I would just want to confirm what would be the classification threshold that you look at? Do you look at Rs. 15 lakhs per retail or what exactly?
- Murali Natrajan:** Below Rs. 1 Crores I think would be Retail Term Deposit. Rs. 1 Crores and above we classify as bulk and CASA plus the Retail Term Deposits is about 81%.
- Megha Gupta:** CASA plus Retail Term. Thanks so much.
- Moderator:** Thank you. Our next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

- Anand Laddha:** Hello Sir. Most of my questions are answered. I had just one question; you mentioned that this year you have been able to complete your priority sector lending target, just want to know is there any RIDF bonds in investment books that we are still holding?
- Murali Natrajan:** Yes, we are holding plenty of bonds and all that will fall off in the next three or four years. We have I think approximately Rs. 390 Crores of NABARD RIDF bonds and some of the penalties or some of the issues that happened let us say about three or four years ago.
- Anand Laddha:** So is three to four years bonds are typically with five-year maturity bonds?
- Murali Natrajan:** Five to seven years maturity bond and sometimes they repay earlier also.
- Anand Laddha:** In terms of maturity can we expect something in next two years?
- Murali Natrajan:** This year I do not think there is too much of maturity. Next year there is some and every year after that there is some happening. I would not go on to worry about that too much for the simple reason that while we meet the P&L target there is always like 1-2% gap in some targets of weaker section or agri etc., or the inspector may come and disqualify some Rs. 5-10 Crores here and there, so and so, so I just think that we are hoping to make sure that the penalties if at all that comes is lower than the kind of repayments that keep coming over the next three four years.
- Anand Laddha:** That is all from my side. Thank you.
- Moderator:** Thank you. The last question is from the line of Darpin Shah from Almondz Global. Please go ahead.
- Darpin Shah:** Sir, you mentioned the number of slippages during the full year was Rs. 50-odd Crores, right?
- Murali Natrajan:** Yes.
- Darpin Shah:** If I just look at the previous three quarters it was Rs.35 crores, so this quarter we have significant slippage, am I correct?
- Murali Natrajan:** Last quarter we had about Rs. 11 Crores, there was one large commodity funding that we did, some few months ago which went into NPA. I am told that in the first two weeks of April itself we have been able to sell the commodity and hopefully we will realize the entire money in the first quarter itself.

Darpin Shah: Second thing is if you see our net NPAs have come down to Rs. 40-odd Crores levels, do you see this as a bottom, because most of our provisions have been done and everything has been done?

Murali Natrajan: Personal loan is 100% provided, some let's say in case they are still left in commercial vehicle construction equipment, if there are some new slippages in 2011-12 obviously we have to make provisions for that. So we are actually aiming to keep this below 1% and we are working hard to make sure that it is below 1%.

Darpin Shah: All the best and thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the conference back to the management for closing comments.

Murali Natrajan: Thank you very much for attending the call. Sorry the call cannot be extended beyond this point; however, if you have any questions that we have left unanswered or somebody who has not been able to ask their questions please write to Meghana or you may set up a time to come and meet with us, Bharat Sampat and Mr. Rajesh Verma. We are extremely happy to meet with you and once again thanks for your support. That is all I have to share with you today.

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