

**Moderator**

Good evening ladies and gentlemen. Welcome to the DCB conference call. From DCB we have with us CEO and Managing Director, Mr. Gautam Vir, Chairman Mr. Nasser Munjee, Chief Financial Officer Mr. Adil Kasad, Head of Treasury and Financial Institution Mr. Harihar, and Head of Consumer Banking Mr. Vasudevan. I would now like to hand over the floor to Mr. Gautam Vir. Thank you and over to you sir.

**Gautam Vir**

Good evening everybody and good morning to those of you who have dialed in from the other half or the western part of the world. I am welcoming you on behalf of the management team and our Chairman Mr. Nasser Munjee to the first analyst call after our listing on the 27th of October. We are here to declare the results for the third quarter of the financial year ended 2006-2007.

During this period for the 9 months period ending 2006-2007, we have had a 42% increase in our total income from Rs. 115 crores to Rs. 163 crores and the operating expenses rose 14% from Rs. 121 crores to Rs. 137 crores, this has given us a net operating profit of Rs. 25 crores against an operating loss of Rs. 6 crores for the same period last year.

The turn around of the bank is on track and is moving with a good trajectory and speed at which we are making progress is in our opinion a fairly remarkable and a fairly quick pace. We have managed to reduce our net NPAs to 2.80% from 4.92%. During this period we did have an increase of our low advances compared to the same period last year by 12%, however, when we compare the advances, the retail loans, they grew by 45% though the corporate loans were flat, but on a quarter-to-quarter basis because the real growth of the loan portfolio started only in this particular quarter because we had inadequate capital, the corporate loans on a quarter-to-quarter basis as compared to the second quarter of the financial year 2006-2007 to the financial year 2006-2007 have risen by 21%.

Our deposits have grown by 20%, our CASA has grown by 20.7%, and our fully adjusted book value has improved from December 2005 to December 2006 from 5.99 to 16.79. Our capital adequacy has improved from 9.07 to 13.59 and the net interest margins are up from 1.71% to 2.45%.

Having given you the brief indication of financials, I will just cover up with you a few initiatives which the bank has been able to do. Following through on a hugely successful IPO, which was 36 times over subscribed, we have passed a shareholder's resolution for a potential QIP placement in the near future, this is enabling resolution and you know it is appropriate indications of regulatory approvals we move forward with that.

DCB has T1 rating from CRISIL for its certificate of deposit program, it was for Rs. 700 crores, and this rating has now been enhanced to Rs. 1000 crores. The bank has moved its corporate office recently to a new premises in Prabhadevi, and on the consumer banking side we have launched three new products, privilege banking, corporate pay rolls for large corporates and for small and medium enterprise and trio which is 3 in 1 product offering savings banks \_\_\_\_\_ deposit and act as an insurance. The asset side, we have also launched the construction equipment business and the commercial vehicle financing, and the prime-lending rate of the bank was increased by 75 basis points.

I would now be very happy to open up the floor to any questions which you have and me and my colleagues will try and answer them to the best of our ability and where we require some more time we will get back to you in very short period of time. Thank you for being with us and look forward to further interaction on this conference call.

**Moderator**

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask question, kindly press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press \*1 now. First in line we have Mr. Lokesh from Birla Sun Life Mutual Fund. Over to you sir.

**Lokesh**

Good evening sir, I would like to know what is the status in terms of promoter holding being reduced to 10%, what is the timeframe that you are looking at to reduce promoter holding to 10%.

**Nasser Munjee**

As you know we brought the promoter holding down to about 29% or 30% after the IPO, I am proposing to do a QIP sometime after the financial results are announced.

**Lokesh**

That is after March 31st?

**Nasser Munjee**

Yeah, it will be after, it will be probably in May or after our results are announced, so everybody has full information as to how we have done during the year. That depending on price etc., we will bring the promoters down to around 26% and then we will look at other opportunities, at the moment we have till later in the year to sort of bring the promoter down to further, but that is still something that we will have to look at, but I think by June certainly the promoters will be down to about 26%.

**Lokesh**

Is there any timeframe that has been given by the RBI for reducing the promoter holding?

**Nasser Munjee**

RBI has given us timeframe of 30th September and that is on the basis that we would be able to do our QIP earlier. I was hoping to do the QIP in January itself, that is delayed, I think we have gone back to RBI saying that we may need more time because you know again dilution it is part of our strategic plan, it cannot just be done at the snap of one finger, so I think we will do it and we are doing it, we have demonstrated that the whole thing is working in a gradual and in a very systematic way, so I think we hope that we will have a longer profile to achieve this.

**Lokesh**

Thank you sir.

**Moderator**

Thank you very much sir. Participants who wish to ask question, kindly press \*1 on your telephone keypad. Next in line we have Mr. Deepak from Odyssey Capital. Over to you sir.

**Deepak**

Yeah, sir what was the number of branches you have opened in this quarter?

**Gautam Vir**

DCB has not opened any branches in this financial year. DCB has an application pending with the Reserve Bank of India for opening branches. They had wanted us to complete our initial public offering and complete our listing before making the application which has been made sometime in the previous quarter, and we hope to get a resolution of that in the coming week.

**Deepak**

Right, okay, and in terms of other income have you had any tie ups with say insurance companies or mutual fund distribution and all those kind of things?

**Gautam Vir**

Yes, we do both third party distribution, we have a tie up with Birla Sun Life for the purpose of life insurance and we have a tie up with Reliance General for the purposes of general insurance, and we distribute mutual funds, we have large variety of mutual funds as and when that we deem appropriate.

**Deepak**

Okay, thank you.

**Moderator**

Thank you very much sir. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. Next in line we have Mr. Sachin from Alchemy. Over to you sir.

**Sachin**

Sir, I just wanted to know how many applications, banks license applications have you put on to RBI?

**Gautam Vir**

For this financial year, we are looking for 16 branches.

**Sachin**

Okay.

**Gautam Vir**

And we have a plan to grow the bank by you know about 2009 to somewhere between 110 to 120 branches.

**Sachin**

Okay and sir what would be your budgeted business growth for 2008?

**Gautam Vir**

We are looking to grow our balance sheet in the tune of about 35 to 38% taking the bank balance sheet somewhere in the tune of Rs. 7500 to 8000 crores.

**Sachin**

Okay and one more thing I wanted to know is, how is the cost panning out for our bank sir, cost of deposit?

**Gautam Vir**

At cost of funds have gone up marginally during the last quarter, but not reflective of the complete increase in the press that you have been seeing in the market because we have made some inroads in increasing our CASA deposits, so there has been an increase of cost of funds from 5.23 in December 2005 to 5.56 in December 2006.

**Sachin**

Sir just wanted to know one more thing, what would be proportion of bulk deposit as in high-ticket deposits to overall deposit?

**Gautam Vir**

Approximately 30%.

**Sachin**

And sir, how are you planning to manage your cost basically not you know getting branch licenses as of now and you are near kind of average CASA per branch, so just trying to understand how are you going to pan out or control your cost of deposit which you have been controlling right now?

**Gautam Vir**

Well, you know I think the cost of deposits are linked by the buyers or low cost of what we call CASA and mix in the overall deposit base and the cost of funds in market place. We do believe that the cost of funds will continue to increase. We also have a very aggressive strategy on building our CASA, but I think the key factor is that we have been able to increase our net interest margin from 1.71% to 2.45% and we believe that we will be able to take this up to 3% and that is also going to be possible with the better utilization by reducing our SLR and also by including the retails portfolio in our total loan portfolio. So I mean the cost of funds is not something which I really worry, mainly because at the end of the day what the shareholder is looking for is the net interest margin, and that is definitely on the rise.

**Sachin**

Okay sir, right, thank you.

**Moderator**

Thank you very much sir. Next in line we have Mr. Deepak from Odyssey Capital.

**Deepak**

Yes sir, just wanted to know the breakup of your portfolio in terms of loans?

**Gautam Vir**

We have about 34% of our portfolio right now on the retail side, and we believe that over the next 15 months, the proportion will move closer to 50% of our total portfolio.

**Deepak**

So can you give me the breakup within the retail in terms of personal loans, housing loans, and all separately?

**Gautam Vir**

Okay, it is about, you know, on our total base of 900 it is about Rs. 540 crores, so that is approximately slightly short of 60% in personal loans.

**Gautam Vir**

For more detailed information, the CFO will give you, you know some examiner numbers, but just to give you a breakup about 59% of it is unsecured and 41% of it is secured, it includes home loans and various other products.

**Deepak**

Okay, thanks.

**Moderator**

Thank you very much sir. Next in line we have Mr. Lalit from Techno Shares.

**Lalit**

Yes sir, congratulations on good set of numbers, hello.

**Gautam Vir**

Yeah.

**Lalit**

Yeah, sir can you just give me sense as to how you are seeing the business in the coming quarters in the coming year in terms of growing your advances and what proportion of advances would you be looking at in going forward as well as in present?

**Gautam Vir**

We will be looking at a balance sheet size in the financial year ended 2007-2008 between Rs. 7500 and 8000 crores balance sheet footing and we believe that about 50% of our loan book will be coming from the retail side, currently, it is about 35%.

**Lalit**

Okay, sir just a few data points that I wanted to have, the cost of funds for this quarter would be what sir, and what would be the corresponding previous quarter cost of funds?

**Gautam Vir**

The cost of funds for this quarter is 5.73, for the previous quarter it was 5.71, and for the same period last year it was 5.46.

**Lalit**

5.46 for Q3 FY.

**Gautam Vir**

FY 2005-2006.

**Lalit**

Okay, fine sir, and sir if you can elaborate a bit on the NIM expansion that you are seeing. I understand that you would be concentrating more on the retail growth apart from that any other initiatives that are on cards?

**Gautam Vir**

There are couple of things which are happening; one is that is you know obviously we are going to manage our balance sheet in a more aggressive manner, we will be able to increase our retail portfolio, and we are going to focus very heavily on CASA, and that is how we are going to achieve an increase in the NIM. We believe that we should be able to get to 3% and we are currently at 2.45% against 1.71% one year ago.

**Lalit**

Okay, and the new branches that you are planning to open sir, can you give some idea as to which areas or which geographies you are targeting?

**Gautam Vir**

Well, basically the bank is concentrated on what we call the western corridor states of Andhra Pradesh, Goa, Maharashtra,

Gujarat, Rajasthan, and the national capital region and going into Haryana and Punjab. We have planned to have our branch network in that particular area, there will be a few sporadic branches outside, but that may be just because it happened to be SME clusters and we are an SME bank and we would like to be in those spread.

**Lalit**

Okay.

**Gautam Vir**

Thank you.

**Moderator**

Thank you very much sir. Participants who wish to ask question, kindly press \*1 on your telephone keypad. Next in line we have Mr. Lokesh from Birla Mutual Fund.

**Lokesh**

Sir, could you tell us as to what is the amount and percentage of gross NPAs that you have currently and what has been the scene in terms of recoveries of those NPAs?

**Gautam Vir**

Just to give you an idea our gross NPAs as of the previous 30th September was Rs. 313 crores coming down to Rs. 304 crores as of September, and percentage is down from 14.8 to 12.6%, so that is an indication. You know it is very hard to compare our gross NPA numbers with that of the competition because you know we have a stay order on writing off of our NPAs, so you know it is not an apple to apple comparison when you compare with any other financial institution. I think the only number you can compare ourselves with the rest is the net NPAs which have come down from 4.9% to 2.78% between December 2005-2006 quarter and December 2006-2007 quarter, and I think it is a significant progress and this has been driven primarily by improvement in our recoveries partly by increase in provisions and thirdly by an increase in the overall balance sheet.

**Lokesh**

Sir, approximately what amount of recoveries would you have made in the 9 months of this particular year?

**Gautam Vir**

We will just pull off the data and give it to you in a minute.

**Lokesh**

Okay, also sir secondly in terms of what is the tier one capital currently, and is there any plans to raise tier two capital or you are going to this particular capital adequacy is going to suffice till the end of the year?

**Gautam Vir**

The bank has got two things, the capital adequacy of the bank is over 13% and the tier one capital adequacy is at 10.34%. The bank as we had earlier mentioned has very little room to raise tier two capital, it is not that it is substantial, so we don't have a further injection of tier one capital it makes no sense for us to raise tier two capital. The bank has certain plans of raising further tier one capital in first quarter of next year through a Qualified Institution Placement and the amount would be in the range of approximately Rs. 200 crores.

**Lokesh**

Okay.

**Moderator**

Thank you very much sir. Next in line we have Mr. Nayyar from Edelweiss Securities. Over to you sir.

**Nayyar**

Good evening sir. Sir you mentioned excess SLR, could you please quantify how much excess SLR do we have?

**Gautam Vir**

Yeah, it is approximately Rs. 100 crores.

**Nayyar**

Rs. 100 crores, sir our total SLR book would be how much?

**Gautam Vir**

1100.

**Nayyar**

Okay, sir and could you please throw some light on how our yields have moved over the past 9 months on advances and on investments?

**Gautam Vir**

Well, I can tell you for the last 12 months.

**Nayyar**

Okay sir.

**Gautam Vir**

The total yield on our retail advances has moved up from 11.95% to 12.54% and on corporate advances from 6.93% to 8.12%.

**Nayyar**

Okay sir.

**Gautam Vir**

That answers your question sir.

**Nayyar**

Yes sir. Thank you.

**Moderator**

Thank you very much sir.

**Gautam Vir**

Could I speak to Mr. Lokesh? He had asked the question which I want to answer him.

**Moderator**

Sir, you can just go ahead with the answer.

**Gautam Vir**

He asked for the recoveries in 9 months; in the written off accounts it is Rs. 5 crores and on the other NPA it is Rs. 25 crores, a reduction in gross NPAs. Thank you. Can you ask for the next question please?

**Moderator**

Sir, there is one question lined up, Mr. Rajesh from Moon Capital. Over to you sir.

**Rajesh**

Yeah, hi.

**Gautam Vir**

Hi Rajesh.

**Rajesh**

Yeah, hi, Gautam, could you explain a bit about the nature of the unsecured personal loans business, what are the customer segment that you are targeting and what is the kind of yields you are getting on the business?

**Gautam Vir**

Yeah, the net yield on this particular business is, I will just give you the figure I am just pulling it out, the new booking during the month of December was at 18.09, the yield of the portfolio is 17.4, we focus a significant part of our portfolio is on self

employed and businessmen, and that part of the portfolio gives us a better yield and is performing at a much better level than the salaried portfolio.

**Rajesh**

Okay.

**Gautam Vir**

If you want a little bit more of a granularity, Adil will be very happy to provide you the information, he can send it to you by e-mail or whatever, is that okay?

**Rajesh**

Okay, that would be great.

**Gautam Vir**

Yeah, No problem at all.

**Moderator**

Thank you very much sir. Next is Mr. Sudhakar from Span Capital. Over to you sir.

**Sudhakar**

Yeah, hi, I believe you have raised your PLR by 75 bips; is this across the board or it is only on particular category, retail, which you have raised?

**Gautam Vir**

No, we have raised the PLR of the bank on various loans which are linked to the PLR, we have now corporate working capital loans which are linked to the PLR and all those loans, there are some loans which are fixed rate in nature, they have not been raised, but for those product the increase in the interest rate for new products has been from the range of 50 to 75 basis points.

**Sudhakar**

The existing loan will not be repriced right?

**Gautam Vir**

It depends on the nature of the contract, if they are housing loans they get repriced, if they are personal loans they don't get repriced, so that is the way the market is, and there are some loans which are repriceable and they get repriced. In addition to the PLR we have also raised the housing loan rate by 50 basis points, you know that is a variable rate loan, so all fixed rate loans cannot be repriced but the new loans booked under that category have been, but most loans which are not repriceable have a very short tenure.

**Sudhakar**

Can we have a breakup of the loan which would be repriced, I mean if you can provide us a figure?

**Gautam Vir**

Well, can we just provide you the information you know it is going to take us a little bit of time I do not have it off hand.

**Sudhakar**

No problem, no problem, I will take it later, thanks.

**Gautam Vir**

So, you can speak to Adil Kasad, the CFO he will be very happy to give you the information.

**Sudhakar**

Sure, thanks a lot.

**Moderator**

Thank you very much sir. Next is Mr. Deepak from Odyssey Capital. Over to you sir.

**Deepak**

Yeah, just wanted to know the breakup of your investment portfolio between trading and HTM?

**Gautam Vir**

Just one second.

**Deepak**

Sure.

**Gautam Vir**

Okay Rs. 663 crores is HTM and AFS and ATM is 600, so about 50-50, just to get the figures straight.

**Deepak**

Right.

**Gautam Vir**

You want any more information on that?

**Deepak**

No, thanks.

**Moderator**

Thank you very much sir. Next in line we have Mr. Lalit from Techno Shares.

**Lalit**

Hello sir.

**Gautam Vir**

Hello, how are you?

**Lalit**

Yes sir, fine sir. Sir, just one question. Sir what would be the duration of the portfolio for the investment book.

**Gautam Vir**

For the duration of the AFS and AHD portfolio December 2006 is 0.75, and in March 2006 it was 1.07, December for the HTM AFS category it was 1.87 and it was 2.41 for the same period in the previous year.

**Lalit**

Okay and sir what would be the fresh slippage of NPA in this quarter sir.

**Gautam Vir**

We have a slippage amount of about Rs. 5.6 crores, which is basically in our retail coming out of the retail portfolio.

**Lalit**

Okay.

**Gautam Vir**

And a very insignificant portion of that is coming from the corporate portfolio is approximately Rs. 0.4 crores.

**Lalit**

Okay, thanks a lot sir.

**Moderator**

Thank you very much sir. At this moment there are no further questions from participants, I would like to hand over the floor back to Mr. Gautam Vir for the final remarks. Over to you sir.

**Gautam Vir**

Good evening everyone and thank you for your time and attention and the incisive questions you had about DCB. We are



always available to answer any further questions which you have and if any of you have any desire to meet any of our people with some notice we can arrange for meetings with our key people. Before I hand over this floor, Mr. Nasser Munjee, our Chairman would just like to add a few words and a few comments about what is happening in the bank.

**Nasser Munjee**

Thank you very much for your interest in DCB. I think we are very pleased with the progress the DCB is making over this last three quarters. I think we will finish the year satisfactorily and I think we have cleaned up the balance sheet, we have taken knocks on several occasions, but I think we have a balance sheet now that we can take forward for the next year which will be the robust and will allow us to demonstrate sort of turn around that we have in the bank, at least the signals of that turn around are already available in increase in the numbers and I think much will depend on our CASA growth as we go forward. Don't forget that DCB has done all of this without extra branches. We are using our existing cost structures, our existing branch structures to drive the growth that we have so far derived, and hopefully next year with the branch expansion we will be able to maintain that growth into the future. Thank you very much.