



Development Credit Bank
Analysts/Investors Conference Call
July 31, 2007

Moderator

Good afternoon ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Development Credit Bank conference call. For the duration of the presentation all participants' lines will be the listen only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Gautam Vir. Thank you and over to you sir.

Gautam Vir

Good afternoon everyone and welcome to this short presentation on the first quarter results for the financial year 2008 for Development Credit Bank. We have had a profit of Rs. 5.74 crores, a 32% growth against the same quarter of the previous year. During this financial year our balance sheet has grown by 35%. Our advances grew by 50% to Rs. 2887 crores and the retail advances now stand at Rs. 1318 crores with a growth of 69% of the same period of the previous year.

Our deposits have grown by 33% and our gross NPA stand reduced from Rs. 314 crores one year ago to Rs. 151 crores. Consequent to this the gross NPA number has declined from 14.51% to less than 5% and our net NPAs stand at 1.6% against 4.1% for the same period last year. The capital adequacy is at 10.5% against 9.4% and our book value of the bank is at Rs.20.59 against Rs.18.86 at the same period last year. The fully adjusted book value is at Rs.17.53 as against Rs.8.62 in the previous year.

The bank during this particular period has built upon its retail asset portfolio; it has also invested in terms of building its distribution for future growth in all aspects of its business for which we expect to see results in the coming quarters. The bank has got its priority sector lending figure up to 41.5% and has focused on various retail products including a soft launch of our online trading portal and we have launched new products for a student account, called Xgen, and a very creative SIP cum recurring deposit mixture for investments for retail customers.

The bank is moving into the micro finance area and the bank is also pleased to announce that Mr. Praveen Kutti has recently joined the bank from Citi Bank to head the consumer banking business of the bank; he has 16 years of experience in that particular field.

In terms on the revenue side of the business, the net interest income is up 40% year-on-year and the non interest income is up 38% year-on-year.

The bank has completed its application to the regulators for the infusion of capital up to Rs. 308 crores at a share price of a Rs. 105 and we are having our AGM on the 9th of August to seek approval from the shareholders and as soon as we have this along with the injection and with



the approval from Reserve Bank of India we will be moving ahead in terms of bringing the capital on board.

The net interest margins of the bank are at 2.39% that is down from 2.69% for the full year for the previous financial year and are at the same level of 2.39% as they were in the previous quarter. The bank's cost of funds which show an increase during the quarter, but are expected to come down as the interest rates seems to have ease, and with the greater proportion of retail assets coming on board we expect the NIMS of the bank to show a further improvement.

With that I would like to close my presentation and would be very happy to take any questions and answers, which you have in regards of our results, which we have announced for the quarter. Thank you.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions kindly press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a 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 Mallya from Birla Sun Life Mutual Fund. Over to you sir.

Lokesh Mallya

Good afternoon sir. Could you throw some more light on the break up of your advances; out of those Rs. 1318 crores in particular how much would be personal loans and other you know retail kinds of loans like auto or mortgage loans, how much would be personal loans over the Rs. 1318 crores? Hello.

Gautam Vir

Well as far as our personal lending portfolio is concerned, it represents about 51% of our total retail-lending portfolio and the balance portfolio is split up between mortgages, home equity, commercial vehicles, and construction equipment.

Lokesh Mallya

Okay sir, thank you sir.

Moderator

Thank you very much sir. Next in line we have Mr. Ganapathy from Deutsche Bank. Over to you sir.

Ganapathy

Sir, I just had a question on margins, basically this quarter there was a huge pressure on margins, going forward do you think it would again go back to 2.7% levels observed in FY07 or do you see it will slightly stabilize at some lower levels, that is one thing on the margins. The



second is on the cost income ratio, now well that has again inched up to 86% as of this quarter, what you were telling initially was that you plan to actually decrease your cost income ratio where on 500 bips every year, where do you see your cost income ratios stabilizing also going forward?

Gautam Vir

First, as far as the cost income ratio is concerned, you know we have a plan to get our cost income ratios this year into the 70s, and we are quite confident that we will be able to get it there and bring it into the low 70s by the fourth quarter of this financial year. So, the net interest margins of the bank are inching up, we had 2.79% for the full year last year. We did have a increase in the cost of funds and we did have fixed rate personal loan which we are not able to re-price in that kind of context, so the increase margins which we are seeing right now the increased component of retails loans in our overall lending books will help us get ourselves to 3% by the financial year ended 2009.

Ganapathy

How much has your cost of funds increased on an year-on-year basis?

Gautam Vir

On a year-on-year basis our cost of money has gone up from 5.8% to 7.17%.

Ganapathy

Yeah, okay and just one question on the non interest income side, which particular component you are saying good growth say the commission exchange brokerage or say you are finding recoveries increasing out, what exactly has been the split up of non interest income?

Gautam Vir

Well our non-interest income has been a combination of various factors. One is that we have had some traction on the trade finance side, we had a significant increase of income on the foreign exchange side, we had some increase of income on the money market side, and I think one of the most prominent components has been our retail life insurance sales which we do. So, in reality I think we are seeing traction on all sides of the balance sheet, on all sides of the other income line, which includes on the retail side, the life insurance side, the foreign exchange, money market, and the trade finance.

Ganapathy

Okay thanks Gautam.

Moderator

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



Himanshu

Hello sir, I just wanted to ask you last time I met you, you told me that you will be looking at more of a geographical expansion as far as branches are concerned, so what kind of branches are you looking at especially increasing your space in probably widening your reach as far as India presence is concerned?

Gautam Vir

We are in the process of increasing our branches of new licenses and we are also in the process of relocating three of our not so profitable branches in Bombay to three other metropolitan cities, so we will be opening one more branch in Delhi, one more branch in Chennai, and one more branch in Kolkata in this quarter, and we are also be opening the 8 branches which we have some of them in the rural areas and the two major cities where we are opening a branch are Jodhpur and Nasik during the course of this quarter.

Himanshu

Sir one more this related question, what is the proportion of your CASA deposits right now?

Gautam Vir

The portion of our CASA deposits is 27.4%.

Himanshu

Has it come down from last year?

Gautam Vir

It has marginally down from about 29.8%.

Himanshu

Okay can you also give me the breakup of your cost of funds, I mean what is your deposit mix like and what are other points of borrowings do you have?

Gautam Vir

Basically, our retail deposits, which represent both our time deposits and our CASA, represents about 60% of our total liability structure, and we do have you know corporate and wholesale deposit which is about a Rs. 1000 crores, and we have certificates of deposits of approximately Rs. 900 crores.



Himanshu

Last question, after this capital raising of approximate Rs. 308 crores, what would be the share holding of the Agha Khan Fund in your Bank?

Gautam Vir

The share holding of the Agha Khan Fund for Economic Development will be somewhere in the range of 24% to 25%.

Himanshu

Okay sir, thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Elizabeth from Key Node Capital. Over to you mam.

Elizabeth

Hello.

Gautam Vir

Yes.

Elizabeth

Good evening sir.

Gautam Vir

Good evening.

Elizabeth

I just wanted to ask regarding the NPAs, the percentage of net NPAs has gone down, it is 1.6% presently, so what strategies has been used to reduce this NPA and further what strategies will be used by the bank?

Gautam Vir

Well, I think the strategies, which the bank is going to use, are the same as we have used in the past. We must understand that as we grow the balance sheet of the bank the denominator keeps increasing so we get a value effect of that by which the NPA grow, that is one element. The second part of it is that we have been continuously making steps to recover these and they have been done by both taking legal action and by settlements with customers, you must



understand in the last 1 to 1-1/2 years there has been a significant increase in the value of property in all over the country, that has had a significant role in our ability to be able to achieve this. And thirdly, you know there have been some improvements in the net NPAs as a result of additional provision you have to take in accordance with the formulas laid down by the Reserve Bank of India which require incremental provisions based on the factor of time, so I think that is basically a combination of the three factors which have played a role in the reduction of our net NPAs. We continue to vigorously go after our borrowers and I think that will play a significant role in our ability to improve the quality of our portfolio.

Elizabeth

So, the NPAs are arising because of the retailer advances as well as the priority sector lending is it right?

Gautam Vir

No, the net NPAs, you know if you go back the history of the bank, it has been driven by the fact that we have a lot of NPAs arising from the legacy portfolio decline on which we are making recoveries. There is a minor increase in net NPAs which is arising primarily from the personal loan portfolio, but you know performance of our personal loan portfolio in terms of delinquency and in terms of additional provisioning is superior to that of what information is available about other banks in our peer group and the competition.

Elizabeth

Okay out of this other income how much would be the percentage of fee income and how much is your focus on the fee income of the bank?

Gautam Vir

It is about 25%.

Elizabeth

25% of the other income, right?

Gautam Vir

Yeah.

Elizabeth

Okay and is the bank focussing on increasing income from the fee-based activities?

Gautam Vir

Yeah, I think there are two areas where the bank is focusing significantly to increase its income is in the area of life insurance sales and the other is in the area of trade finance, these are the



two focus areas for the bank for this year and we are generating a lot of our investments and lot of our efforts in all forms of our distribution network which include the branches, to increase our fee income from these two sources of products, which we think have a huge opportunity in the Indian market.

Elizabeth

Right so for this fee based income are there any tie ups that you will be looking ahead?

Gautam Vir

What exactly do you mean by tie-ups, we sell insurance on behalf of Birla Sun Life is that?

Elizabeth

Okay.

Gautam Vir

So that means anything to you?

Elizabeth

Okay, yeah that will be a tie up, and one more thing I wanted to ask that could you just give me geographic composition of the branches?

Gautam Vir

We have 33 of our branches in Maharashtra, and we have our 13 branches in Gujarat, we have 4 of our branches in the national capital region, 4 of them in Goa, and 9 of them in Andhra Pradesh, and the balance in the other large metros.

Elizabeth

So the total number of branches as of today would be around?

Gautam Vir

They are 67 with 5 extension counters; we are opening 8 more branches, which I have excluded from the numbers, which I have given you.

Elizabeth

Eight more branches, so they will be functional by the next...

Gautam Vir

End of this quarter.



Elizabeth

End of this quarter okay and could you also give me the break up as to how much is it in urban areas and in rural area?

Gautam Vir

No, I do not have the figure with me right now, but if you can give me your telephone number I will have somebody just send you an e-mail in half an hour.

Elizabeth

Sure.

Gautam Vir

What is your number I mean could you just give us your e-mail.

Elizabeth

Yeah I will give you my number, telephone number.

Gautam Vir

Yeah.

Elizabeth

98205-45896.

Gautam Vir

Your full name, mam?

Elizabeth

Elizabeth John.

Gautam Vir

Okay Elizabeth.

Elizabeth

Yeah.

Gautam Vir



Thank you.

Elizabeth

Thank you.

Moderator

Thank you very much mam. Next in line we have Mr. Aman Khan from Proxy Capital. Over to you sir.

Aman Khan

Hello.

Moderator

Mr. Khan. You can go ahead sir.

Aman Khan

Your first quarter numbers in terms of net profit, 57 million, looks a little bit light in the context of the full year guidance that you have been giving for around 400 to 450 million, are these first quarter numbers in line with your expectations, do you expect a significant pickup in profitability over the next 3 quarters highly due to improvement in margins and the 3 billion in new capital that you are taking in?

Gautam Vir

Yeah, I think the capital injection is going to have an impact in terms of our numbers in this kind of context. Secondly, we have invested in getting people on board, which are going to get some traction as we move along. The net interest margins of the bank which we have had in this quarter are obviously been driven by higher cost of funds at the beginning of the quarter and towards the end of the last quarter, and they will be under a little bit of pressure during the close of the year but we are very confident that we have to pick up on the margins as we build the volumes of the bank. Now I am not too sure if you are talking about 400 million right?

Aman Khan

Yeah the 400 to 450, so just sort of rough guidance you had.

Gautam Vir

But at this point in time our performance of the bank is well in line with our budgets, which we have set out. We have performed better than them and with the increased capital with the heavy focus on the non funded fee income both on the life insurance and the trade finance side, as things stand right now we do not see a major problem in terms of the bank being able to you



know have a return between 6% to 7% on its enhanced equity base or share capital which I think is approximately what we are talking about.

Aman Khan

Sorry, could you say that last part again 6% to 7%.

Gautam Vir

Yeah, on the enhanced capital.

Aman Khan

When you say return, you mean return on....

Gautam Vir

On networth, yeah.

Aman Khan

Return on equity of 6%.

Gautam Vir

6% to 7%.

Aman Khan

On the 3 billion.

Gautam Vir

No we are going to have an enhanced capital injection of another 303 million.

Aman Khan

Yeah.

Gautam Vir

Okay, so we have 3 billion approximately of our network, and we are going to have an injection of another 3 billion, so that will make our total network of approximately 6 billion, and we are looking at a return between 6% to 7% of all the 6 billion. Does that answer your question?

Aman Khan

Yes. Thank you.



Moderator

Thank you very much sir. Next is a follow up question from Mr. Lokesh Mallya from Birla Sun Life Mutual Funds. Over to you sir.

Lokesh Mallya

Yeah, sir I just had a question on again on your shareholding and on the deposits, you said that after the placement Agha Khan Federation would have around 24 to 25% share holding, is there any timeframe that the RBI has given for the promoter shareholding to be brought down below the 10%, that is #1. And secondly, I just missed the part on your wholesale deposits, I think you mentioned that out of your total deposits you had wholesales deposits worth Rs. 1000 crore plus certificates of deposits worth Rs. 900 crores, is that right?

Gautam Vir

That is approximately is the number.

Lokesh Mallya

So out of the total deposits are around Rs. 4700 crores you have got Rs. 1900 crores in bulk deposits, would that be right? Hello.

Gautam Vir

To put things in perspective, our deposit base you know when I say certificate of deposits there are also some inter bank deposits, right, so at the end of the day the retail deposits including time deposits and CASA is approximately Rs. 2500 crores.

Lokesh Mallya

Yes sir.

Gautam Vir

Yeah and

Lokesh Mallya

Yeah, hello, I am sorry sir, but your voice is breaking.

Gautam Vir

Yeah your CDs are about Rs. 900 crores.



Lokesh Mallya

Yes sir.

Gautam Vir

Yeah the inter bank placement and deposits from bank is about Rs. 300 crores, and the balance represents wholesale deposits.

Lokesh Mallya

Okay sir.

Gautam Vir

Okay.

Lokesh Mallya

Okay, sir on the shareholding thing?

Gautam Vir

Yeah, it is 24 to 25% right.

Lokesh Mallya

Is there any timeframe for bringing it down to 10%, promoter shareholding?

Gautam Vir

The thing is that this is an industry issue, and you know there is a requirement, which says that it has got to be brought down to 10%. We have had a dialogue with the regulators and they have indicated that it has to be brought down to 10% within the course of the financial year and we have told them that we will be doing it in terms of our needs for capital requirements. The share prices of bank has gone up subsequently, you know we are planning to do a QIP earlier in the year when the price was about Rs. 60 or Rs. 70 and we are expecting that the infusion of capital would result in a larger dilution; however, the increase in the share price the dilution has come down substantially at this particular point in time, so once we complete the injection of capital into the bank we will have a dialogue with the Reserve Bank and set a fresh milestones in terms of our journey towards further dilution of the promoter.

Lokesh Mallya

So it might be possible that it might not be reduced below 10% by March 2008?



Gautam Vir

Well I do not want to comment anything, basically my dialogue with the regulator is that let's finish this injection of capital, let's dilute one step further, and then we have a discussion as to what it is. We have told them that you know it is very hard for us to inject so much capital in the bank and you know hope people to give us money that takes our capital adequacy ratio to 29% or 30%, it makes very little sense to do that. So with this injection of capital we will be having a capital adequacy ratio somewhere between 17% to 18%, and that would be adequate to meet our requirements for some period of time, and once we have the injection of capital we will have a dialogue with the regulators and you know once we have a final discussion in this matter we will sort of probably let you know the status of this in the next conference call or whatever.

Lokesh Mallya

Yes sir, thank you sir.

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. Hiren from Goldman Sachs. Over to you sir.

Hiren

Hi Gautam, how are you?

Gautam Vir

Very well.

Hiren

I missed out of the factual questions, is there any realignment in terms of or rather regrouping in terms of numbers what we have presented in the fourth quarter and what you are showing today, because as far as the March 2007 numbers are concerned they look little different from what they were presented in the March quarter?

Gautam Vir

There is a realignment in FBT; FBT has been shown separately.

Hiren

No I was talking more in terms of the balance sheet figures like advances, investments etc.,

Gautam Vir

No realignment. I mean we are not aware of any, if you want can we have an off line discussion with our CFO.



Hiren

Sure we can do that.

Gautam Vir

So can you give us your number so he can call you back after the meeting, so you can actually compare each individual items?

Hiren

Yeah I mean I was just comparing the March analyst update and the analyst update which has been given now, so I mean may be we can take it off line.

Gautam Vir

Yeah sure.

Hiren

I will call up Adil. I have his number.

Gautam Vir

Okay, great, do that yes.

Hiren

No that is fine, that is good to know, other thing on the growth side, where do you see the loan growth for this year?

Gautam Vir

We do not see any problem in our terms of growing our book somewhere between 40% to 50% this year.

Hiren

Okay and when you said 17% to 18% capital adequacy, is that all tier I, do you have any tier II as of now?

Gautam Vir

We have a very small component, very small component of tier II at this particular point in time, 2.5% as of now.



Hiren

Okay so essentially it is all.

Gautam Vir

Primarily tier I.

Hiren

15% of tier I only, okay, and in terms of your provisions, can you give me some sense about is there all NPA provisions this quarter or anything related to the standard asset business?

Gautam Vir

Well there is a standard asset provisioning for every increase in your asset portfolio you have to take standard asset provisioning as per the RBI formula, so it is a function of the increase in your asset book, the amount.

Adil Kasad

Standard asset provisioning is Rs. 2 crores.

Hiren

Okay, so out of Rs. 4.3 crores of provisions about Rs. 2 crore is standard asset and Rs. 2 crore will be specific loan loss provision is that correct?

Gautam Vir

Yeah, net of recovery.

Hiren

Okay, and could you give me the sense of the similar breakup of last year same quarter?

Adil Kasad

Standards assets provisioning same quarter last year was Rs. 86 lakhs.

Hiren

Okay, and I presume there will not be any investment depreciation or something right?

Adil Kasad

Zero.



Hiren

Okay any trading income among the other income line, profit and sale of investments I mean?

Gautam Vir

Yes, it is 4 and 4.5 crores, Rs. 4 crores is FX, and 4.5 crores is money market.

Hiren

In this Rs. 4 crores is FX and Rs. 4.5 crores is the money market. Hello.

Gautam Vir

Yeah.

Hiren

Yeah, okay, just on the operating expenses side, is there any extra ordinary or one off kind of an item in this quarter?

Gautam Vir

There is about a Rs. 2 crore extraordinary expense.

Hiren

Related to if you can....

Gautam Vir

It is depreciation of some assets.

Hiren

Okay but no major like bonus payouts or any advertising expense, advertising campaign expense which may not be recurring in the nature?

Gautam Vir

I mean we have had some advertising, it is not relevant, and the bonus payout was fully accrued with the previous years' profit, so it came out of the last year's profit.

Hiren

Okay, so in effect what I am trying to understand is whatever increases has been shown in terms of employee and other operating expenses, is it a bit more in the nature of normal course of business rather than....



Gautam Vir

For Rs. 2 crores, you can adjust Rs. 2 crores from that.

Hiren

Okay, yeah and have you made public who are the shareholders subscribing the preferential allotment?

Gautam Vir

It is there on the website, I mean I can give you the names, there TATA Capital and TATA Investment Corporation, etc..

Hiren

Okay, yeah, I mean it is the same, yeah I mean these are the same shareholders few days back there was.....

Gautam Vir

Yeah, I mean in the sense we have gone for RBI approval, we are going to go through our shareholders meeting on the 9th of August and that is where it is.

Hiren

Lehman Brothers and all.

Gautam Vir

Yeah, they are all there.

Hiren

Same set of people.

Gautam Vir

Yeah, yeah the same set.

Hiren

Okay that is helpful and lastly, Gautam, now with the CRR hike today do you expect that I mean what do you get a sense out of deposit rates and lending rates going forward?



Gautam Vir

Well, you know today we had what you call a hike in the reserve requirements with CRR. We have reduced our interest rates for deposits from tomorrow, so I guess that answers your question in some form, I do not believe that there has been a lot of excess liquidity in the market it is going to get mopped up, and the limit on the reverse REPO being increased is going to help the bank, because I think the inter bank call money market rate will reflect the real cost of money rather than some artificial cost of money which is there, and liquidity will continue to give there, I think may be pressure on the rupee getting stronger, and you know I do not see any real big change in interest rates or on loans, so I do not think so there is going to be anything but this interest rate environment which is prevailing today is going to carry on prevailing for sometime to come, so that is going to change.

Hiren

How much you are reducing your deposit rate?

Gautam Vir

Depending on the tenure it is approximately about 0.5%.

Hiren

Okay, so earlier if you were offering 10% now you will offer about 9.5%.

Gautam Vir

To somewhere about.

Hiren

Okay but you are not planning to change any lending rates anytime soon?

Gautam Vir

We do not have any plans right now. We will see how the market goes; we are a small player in the market.

Hiren

Sure, sure.

Gautam Vir

Sometimes we have to react to you know the big fish, but we definitely have no plans right now.



Hiren

Okay, that is helpful. Thanks Gautam.

Moderator

Thank you very much sir. Next is a follow up question from Mr. Aman from Proxy Capital. Over to you sir.

Aman

Hello.

Moderator

Hello sir.

Aman

Yes.

Moderator

Mr. Aman.

Aman

Hello, I think you are referring to me, you have my name wrong, I am actually from OakTree Capital.

Could I ask you to talk about your return on asset targets again, you have talked about this in the past and you have indicated a 1.2%, is that something you still feel comfortable or you on target to achieve that and when you gave that number is that based on return on average assets or is it year end assets?

Gautam Vir

It is on average assets.

Aman

And this is by March 2009 I presume.

Gautam Vir

That is right, so we are looking at a amount of 0.6% to 0.7% this year going up to around 1% in the year following.



Aman

Okay, thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions kindly press *1 on your telephone keypad. I repeat, participants who wish to ask question kindly press *1 on your telephone keypad. 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

I would like to take this opportunity to thank you for your participation in this conference call and your interest in DCB. We look forward to having a dialogue with you subsequently at the end of the next quarter results and Adil Kasad, our CFO, will be very happy to answer any question which you have, if you want to direct with them by e-mail or speak to him on the phone at any point in time. Thank you ladies and gentlemen for being with us and we look forward to seeing you one quarter from today.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
