"DCB Bank Limited Q4 FY 2017 Earnings Conference Call"

April 17, 2017

MANAGEMENT: MR. MURALI M. NATRAJAN - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
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Moderator: Ladies and gentlemen, good day and welcome to DCB Bank Limited Q4 FY 2017 Earnings Conference Call. Joining us on the call today are: Mr. Murali M. Natrajan -- MD and CEO, DCB Bank Limited and Mr. Bharat Sampat – CFO, DCB Bank Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Murali M. Natrajan. Thank you and over to you, sir.

Murali M. Natrajan: Thank you. Good morning to all of you. In the first few minutes let me just make some opening remarks and then, I will open up the call for questions. The call will last for approximately an hour or so. We will see how it goes.

The first point, I want to make is that for seventh or eighth year in a row we are the number one bank to declare our annual results. This position has not been challenged yet in the last few years.

Second point I would like to make is that please go to page number six of the Investor Presentation. I hope all of you received your Investor Presentation and the Press Release. On page six, you will notice March 2014 our loan book is Rs. 8,140 crores. We ended March 2017 at Rs. 15,818 crores which is more or less double in three years and mind you, we did lose at least one quarter I would say because of the demonetization exercise that was going on in the third quarter of the year that just went by, okay.

The second point I want to make is that in 2015 October, we told that we want to do 150 branches in two years. We have completed 102 branches out of that. We are now at 262 branches. In 2014 full year which is there in page number eight of our Investor Presentation, our profit was Rs. 151 crores with no tax because we were still absorbing our accumulated losses and our cost-to-income ratio was 63%. If you adjust tax for that particular year it will roughly come to Rs. 98 crores I mean, if we pretend that there was tax in that particular year, profit would have come to approximately Rs. 98 crores.

2017, after adding 100 more branches, I think in 2014 we were about 154 branches so we have added say another 100 plus branches cost-to-income ratio is 60%; profit is Rs.199.7 crores, which is more or less double and our income also has doubled in this three years' time.

We are on a journey to try and double our loan growth as it existed in October 2015 which was about Rs. 11,000 crores to say Rs. 22,000 crores in three to three and half years. And we are confident so far the way we are proceeding, putting on the distribution improving the productivity, etc., we are confident that we should be on course to reach that destination.

With those words, I would like to open the call for questions. We are happy to take the first question.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We have the first question from the line of Abhishek Shah from Valcour Capital. Please go ahead.

Abhishek Shah: Sir, how conservative is our target of 55% cost-to-income ratio by FY 2019 and loan book of say 20% growth in our loan book for the next three years?

Murali M. Natrajan: It is for the analyst to decide whether the target is conservative, aggressive…

Abhishek Shah: No, how confident are you on achieving that target sir?

Murali M. Natrajan: At the moment it looks fine, okay and when we exit our March 2019 quarter we are working towards having a cost-to-income ratio of 55% or below which is what we published and made it available to all of you in October 2015. At the moment it looks doable, we will see how it goes.

Abhishek Shah: Got it. Sir, so what actually I wanted to ask you was, sir what are possible risks, if we at all go wrong with this…

Murali M. Natrajan: Banking is full of risk you know so many risks are there NPAs could become higher, margins could get squeezed, we may not be as good as we are in managing the productivity, there could be some regulatory changes. So, I am not very sure. At the moment, all the variables that we know seems to indicate that if we continue to plot the way we are doing and improving, we should be able to reach that destination.

Abhishek Shah: Got it. Sir, and what sort of competition, you expect from small finance banks?

Murali M. Natrajan: Competition is very heavy from small finance banks, NBFCs, big banks, new HFC that are emerging, I mean you name it there is competition everywhere. So, our position has always been that if you are having an efficient distribution, if you provide the reasonably good service to customer and as long as the public sector banks which holds a lot of market share are not able to serve all their customer in a systematic manner private banks like us who may be slightly faster have always got a chance.

Abhishek Shah: Got it. Sir, and because of this competition do you expect NIMs to squeeze in the coming future?

Murali M. Natrajan: We have always projected our NIM in the range of 370 basis points to 375 basis points. We always aim to do better than that. When we do our modeling, when we make presentation to our Board, when we try and see what are the stresses, we always look at 370 basis points - 375 basis points. Long-term those kind of NIMs if we are able to sustain, our model should be intact, that is what our belief is.

Moderator: Thank you. We have the next question from the line of Rajatdeep Anand from Canara HSBC Life Insurance. Please go ahead.

Rajatdeep Anand: Obviously, the journey has been great like you pointed over 2014 and 2017. You talked about loan growth and you gave us cost-to-income target. But one, I wanted to understand, how will the momentum in Other Income be because what I see is, it has stagnated off late and it is also lower in terms of if I look at **Du Pont** and ROA kind of an analysis, I do it is lower then you know the top tier private sector bank. So, how will you get that up?

Murali M. Natrajan: Yes, so the couple of new income streams have come in which is as we are doing a much better job in our private sector lending, we are finding some fee income opportunities in the PSLC what is called is Priority Sector Lending Certificate, okay and those incomes are usually skew towards the third quarter and fourth quarter for the year not in the first quarter and second quarter. Because whatever income you get in the first quarter you have to amortize it over the period of full year. So, you get more benefit in the third quarter and fourth quarter, okay. That is a very new area that we added this year which has done quite well for us. When we put a new branches, it is very difficult to immediately start generating fee income because you need customers first. Our approach has been all branches, all products, which means that whatever products are suitable for the catchment area of the branch we will try and sell those products, be it a loan product, gold loan, CASA, mortgages, commercial vehicle, whatever works in that area. Once we start building customer base of about 1,000 plus in any particular branch, we find that the fee income opportunities are better. We see some good traction in our third-party distribution, I think this year we have done far better than last year in terms of third-party product distribution like Mutual Fund, Health Insurance, Bankassurance, etc., and this is because of all the effort that has gone in the last many months in terms of training our front line. As we mature our branches I am confident that 14% to 15% growth in fee income would be possible. You possibly are comparing numbers which also have certain treasury income one-offs in that so therefore the growth may look flat or something. But we look at underlying numbers and we are pretty confident about the 14% - 15% growth.

Rajatdeep Anand: Sir, but on loan growth you are saying that 20% but why only 14 - 15% on other income?

Murali M. Natrajan: Because it takes time for customer base to build up in new branches. If we have 150 branches in 2014 and even that time those branches were not even one year old, it takes time for customer base to build up, frontline to be trained and we also avoid products like ULIP for example. We are very**-** weary of ULIP product. So, the fee income on other products is slightly lower than ULIP products. So, that is the reason it takes time for it to build up. And as our branches mature, we are seeing there is fair amount of transaction, even in our agri inclusive branch, semi-rural areas we have found reasonable amount of fee income relative to its base. And it is work-in-progress. I mean, we admit it is work-in-progress but we have reasonable confidence at the moment.

Rajatdeep Anand: Right. And capital requirements during this financial year?

Murali M. Natrajan: We had always said that we would be looking to raise capital in this financial year somewhere September 2017. We have put a QIP for approval by the shareholders, hopefully that approval should come in one of these days and then we will see how the market is and react to the situation.

Moderator: Thank you. We have the next question from the line of Shubhranshu Mishra from Anand Rathi. Please go ahead.

Shubhranshu Mishra: I just want to understand the roadmap of although you have said this before but just want to understand how you are going to achieve this 20% loan growth? What are the segments which are going to contribute majorly? And which are segments which would grow slower than the other segments?

Murali M. Natrajan: We expect not to grow our corporate book by beyond 20%. This year has been better. But you should compare our corporate book two years before that I think, we were in the similar range some Rs. 2,000 crores or Rs. 2,200 crores something like that, okay. Our main segment is self-employed segment. We recently met one potential investor, I said there are 50 million self-employed entities and he produced some report saying that you are wrong, it is actually 100 million. Now, obviously, it is not easy to say whether it is 50 million or 100 million. All we know is there is enough self-employed individual, some of the pictures we published so the investors like you can see exactly who I am talking about, right. So, that is our segment, that segment have many need, some of them require commercial vehicle, some of them may need tractor, some of them may need loan against properly as business loan, some of them may need home loans, many of them require CASA, gold loan, so it depends on the situation. We will continue to focus on retail, SME, you see the pie chart, we have been very constantly keeping similar distribution on that. Recently, we have added Personal Loans to our product set, we expect Personal Loans in the years to come to be about 5% approximately of our loan book because we find that by not selling Personal Loan to our existing base we tend to lose some loyal customers. So, therefore, we have brought that into our fold. We are confident we will do a good job of that. So, it remains the same retail, SME, and small ticket products secured that basically our lending, we are unlikely to change that.

Shubhranshu Mishra: Right. So, do I conclude that retail, SME, and personal loans, along with LAP would grow somewhere around 25% to 30% or more than 25%?

Murali M. Natrajan: No. So, where we are growing you can see, right? Agri Inclusive Banking, Mortgages and SME, MSME, you can see all the growth numbers it is there in the chart there, okay. So, all this put together, I cannot tell you exactly which will go 25% and which will go 27%. We are looking at growing, if you look at our October 2015 number it was Rs. 11,000 crores. We are targeting some Rs. 22,000 crores by October 2018 or March 2019 somewhere in that six-month period is where we are likely to double the growth if we continue the journey the way we are doing right now. So, for example, we are finding a lot of traction in Commercial

Vehicle. You see, Commercial Vehicle has done very well for us. But it is a small base, right. Whereas, Mortgage has become a pretty decent base and the competition is also tough. So, therefore, growing it beyond 20% - 22% would be pushing the envelope which we do not want to do.

Shubhranshu Mishra: Right. Sure, sir. And now that we understand that you cater to the self-employed segment your cost are also pretty steep at the moment especially in the Mortgages

Murali M. Natrajan: How is it steep?

Shubhranshu Mishra: I mean in the Mortgages and the Corporate.

Murali M. Natrajan: No, how? Just give me numbers to tell me how it is steep so that I can understand. You will find that our credit costs are approximately 10% of our total income, okay. And it has been more or less constant in the last two - three years. In our credit cost, we have included standard asset provision, we also do every quarter without looking at what the profits are, we do floating provision. I think we must be having floating provision currently about Rs. 40 crores of floating provision we hold which we have not used at all to have any impact on the P&L, we just building our floating provision that is also included. We make provisions more than what may be required in some instances then Reserve Bank of India. We have taken Rs. 33 crores of NPA which there was there dispensation in third quarter but we did not take the dispensation, we put that Rs. 33 crores at NPA and we take provisions on that. So, as far as we are concerned, we are conservative, I do not think there is any issue with our credit cost.

Shubhranshu Mishra: Right, sir. How do we model for FY 2018 in terms of credit cost, sir?

Murali M. Natrajan: You see the path and you decide how you want to model based on the numbers that you are seeing. So, if you are looking for me to tell you exactly what it will be in every product that is not what we publish.

Shubhranshu Mishra: Okay. And just one house keeping question, what are the restructured assets at the end of…

Murali M. Natrajan: Restructured assets, I do not even look at them it is such a small number that we do not even look at. Thanks for reminding me, we in fact made an additional provision on the restructured assets this quarter on a conservative basis. So, I think, it is what, Bharat, how many it is?

Bharat Sampat: Three accounts, net of provision restructured standard book is Rs. 45 crores.

Murali M. Natrajan: Yes. So, we never restructured books. So, therefore, that is not a big issue for us at all.

Moderator: Thank you. We have the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, I would like to understand like we have been guiding for NIM of around 370 basis points okay 375 basis points. But on historical trend we have been doing better than that. Just wanted to understand from here on are there any possible triggers for margin expansion in FY 2018?

Murali M. Natrajan: I do not know the reason why you are asking the question. The modeling that we do in our Bank to make all the presentation and look at, how we look at our total income growth, assets and so on, we keep at 370 basis points - 375 basis points, okay. Of course, the endeavor is always to do better than that. Now, NIM has so many items. It is so difficult for me to say exactly what will happen. For example, if you do pretty good job in managing your NPAs well, your NIM remain more or less intact. For example, our upgrades and recoveries on fourth quarter were pretty strong in fourth quarter, okay. Similarly, we got some opportunities for refinance at a much better rate so that was there and we have to make sure that our product mix intact. If we do a lot of corporate loans obviously it comes at a very low yield. When there was excess liquidity we looked at opportunities for investing in rated PTCs. So, that helped us to improve our yield. So, quite a lot of things go on and that is why I cannot guide on whether it will be expanding or something. As far as I know we would continue to model at about 370 basis points to 375 basis points.

Rohan Mandora: Okay. And sir, like with respect to the cross sell, the third-party distribution income that we generate. If you could give some color on what proportion is coming from metro location and what is coming from the non-metro location for the bank?

Murali M. Natrajan: Even if we have it, we will not be able to share it with you. So, those are numbers that we do not like to share. All I want to tell you is that at every branch whether it be metro, rural or anything like that, appropriate product training is being provided. But when a new branch comes in unless and until we have enough customers it is very difficult to sell these products.

Moderator: Thank you. We have the next question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: So, just wanted to understand the branch footprint. If I look at your presentation a couple of quarters ago it was very concentrated in a few states now it is very dispersed. Now, has something dramatically changed or?

Murali M. Natrajan: No, it is very difficult to put dots exactly where our branches are. This is just a representation. When we are looking at Agri Inclusive Banking, we are still concentrating on the same areas like Odisha (Orissa), Madhya Pradesh, Chhattisgarh, Rajasthan, these are the areas we are concentrating, I do not see that having changed even in this particular quarter. When it comes to retail branches which is largely metro and urban we are again concentrating on areas. Of course, one branch has come in Bihar now and couple of branches have come up in U. P., so the concentration is still same. We are unlikely to go to Far East and Jammu Kashmir that we are very clear at the moment. So, it will be in the same state there is nothing different. And in some quarter some states may have more branches for the simple reason that from execution point of view it may have been far easier to do that state.

Roshan Chutkey: Okay. And in terms of agri branches for AIB how many branches do we have right now?

Murali M. Natrajan: Agri branches will be approximately 112 I think 110 or 112 branches. 22% of our branches are now Rural, you can see that. And that includes the unbanked location that you have to do as part of the regulatory framework.

Roshan Chutkey: Correct. And if you can just share the distribution of advances by branches if you comment briefly at least I mean if you can share?

Murali M. Natrajan: We cannot do that. But all I want to tell you is that some of the people who are still lost in time as far as our Bank is concerned the thing that we have loan and deposit only from Maharashtra, Gujarat. I want to tell you that we have the geographic distribution. It is very encouraging for us to see many of the new states. In fact, either equaling or even doing better than some of the old states. So, from that point of view, we feel very good because many banks have not been able to crack that code in terms of their own home states versus others. We do not have any such thing as home state. We can do business in any state where there is potential, we are confident we can do business.

Roshan Chutkey: Okay, glad to hear that, sir. And one last question. PL and auto loans are missing in advances mix this quarter.

Murali M. Natrajan: Is it?

Roshan Chutkey: Have they run off, have they become very….

Murali M. Natrajan: No, they must be so tiny that we may not have written it. But like I said, PL, we just started re-started rather and we are hoping that in the years to come we will be at least 5% of the advances in PL.

Moderator: Thank you. We have the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, how large is the microfinance book? And if you also can share the different segments of microfinance on lending, BC or self-approvals?

Murali M. Natrajan: Yes, we are not publishing that but I would like to say that, we have been always very careful about this microfinance segment because we felt that always there is an event risk in these microfinance segment. However, limited opportunities exist in our country to do direct agri / weaker section. So, microfinance helps you to achieve those targets. We do business three ways, I would say primarily one is that we do through BC in a few states. Second, we do through giving term loans to microfinance institutions. And third, we invest in some rated PTCs as well for meeting our agri target, okay. All that put together would be approximately 5% to 5.5% of our total loan book. As of now, we have looked granularly where the problems could be, where the fixed rates are in problem etc. In our book, we do not see too much of worries right now. But if situation gets any worse or somewhere maybe we will also face some challenge. But at the moment we do not see any worries.

Amit Premchandani: Thank you, sir. And sir, in terms of the CV growth that we have seen in this quarter, is it more to do with the pace or this growth of (+100%) is sustainable?

Murali M. Natrajan: No, small base, we have put distribution. The reason why we have entered CV is because we were buying all these portfolios from other NBFCs at a very ridiculous rate for meeting our PSL sales. Now we are self-reliant and we have the commercial vehicle team which is doing pretty good job across many states and small base growth therefore, it looks dramatic.

Amit Premchandani: So, even the current base is relatively small, so we should expect a significantly higher than balance sheet growth in this segment?

Murali M. Natrajan: It runs off also because it is all term loans, right four-year term loan. So, as you build a book a lot of it runs off, right. It is not an OD product. Therefore, at some point in time, it will come to us on steady growth mode unless we put more and more distribution.

Amit Premchandani: And you generally operate in the small fleet operator segment?

Murali M. Natrajan: We do both used and new. I do not have the numbers readily but I think used would be approximately 10% to 15%. New would be 80% - 85% all together. We do SRTO, we do FTB, we do FTU, we do not do strategic, very few strategic big ticket we do in Commercial Vehicle. We try to concentrate on fleet owners who have less than 10 trucks, there also we try to avoid big ticket because neither you get price, nor you get any credit quality on those that is how we are operating.

Amit Premchandani: Right, sir. Finally, sir, six months hence your branch will be double from the October 2015 levels. Are you more likely to take a pause post that or we shall expect accelerated pace of expansion even after that.

Murali M. Natrajan: So, the current thinking is as follows, that once we reach our desired number of branches which is 300 plus branches probably by October, probably by December give or take three months, because it all depends on how well everything comes together in terms of implementing. So far, we have not had any challenge. So, we want to expand after that for about two years just about 10 - 12 branches per year and fix all the metric, get all the productivity and everything in a much better shape than where we are right now and then, decide what would be our next course of action. More likely, the way we are thinking about is that once we reach a particular level whatever new branches we do, we want to put those new branches without damaging the metrics, whether it be cost-to-income ratio or any such thing, so that is the way we are thinking right now. 300 is a pretty good number and there is a lot of work to do on 300 branches.

Moderator: Thank you. We have the next question from the line of Megha Hariramani from Pi Square Management. Please go ahead.

Megha Hariramani: My question is on the NPA. Do we see the NPAs slipping further going forward or will it stabilize at some point? And is it more from the Mortgages that is coming in?

Murali M. Natrajan: Mortgages recovery and upgrade has done pretty decently this quarter and our NPA slippage this quarter has been one large corporate account, I think it is about Rs. 20 crores or Rs. 21 crores which was showing signs of weakness for few months and then it slipped into NPA. So, I would say that none of the retail loans or SME or anything worries me that much at all. In the current atmosphere that we are operating if gross NPA is below 2% and net NPA is below 1%. I am quite happy with that situation because we feel that our model is intact with that kind of NPA situation. And we concrete on small ticket, we do not want to do big ticket, very few big tickets we do in our bank and I think, I have said this in my calls before. We also have taken Rs. 33 crores of NPA in third quarter although there was a dispensation, we never took that dispensation so that is also in that gross NPA number and may be some of it has got recovered but I am saying on the gross NPA number we did have that in third quarter.

Megha Hariramani: Okay. And we see mortgages at 40% - 45% of the total loan book even going forward or the other segments will pick-up?

Murali M. Natrajan: That is the intention, yes. That is the intention unless things change otherwise that is intention. And constantly, we have been in that 40% - 45% range.

Moderator: Thank you. We have the next question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: Just two quick questions from me. Looking at your credit quality experience, it has been fairly well-behaved all through. Would you characterize that demonetization did not affect credit quality at all that is the first question? And second, when you look at your journey for the next two years or three years from a profitability stand point apart from cost-to-income what are the other levers that you have?

Murali M. Natrajan: Let me answer your second question, we have every quarter top team meeting, top team means the top 100 odd people of our bank we have meeting. And of course, I am not going to allow you to call them, but if you have to pretend that you call any one of them and ask them what are the two top priorities of them they would say one is productivity of staff because if you are hiring 800 - 900 - 1,000 people in a year then productivity becomes most important thing which is a very big lever, if a person is not productive then cost-to-income ratio is automatically impacted. So, we look at people productivity at a very granular level so that is our first lever. If I look at some of the good banks that I have admire example would be let us say City Union Bank. I think they are at about business per employee of Rs. 8 crores or Rs. 10 crores whereas we are at about Rs. 6 crores or Rs. 7 crores. So, there is obviously there is the opportunity for us to improve that and that would be one of the reasons why as we move towards that goal our cost-to-income ratio is likely to come down, okay that is one. Secondly, of course, we have to ensure that our NPAs remain in control. Barring any unforeseen situation, NPA should remain in control. Third, of course, is that like I mentioned earlier in the call that as we build our customer base, the opportunity is to do third-party products or other products becomes an important income source for us. So, these are the three areas that we are working on. Keep NPAs in check, make sure the employee productivity is high and constantly work on improving your fee income. If we do these three well, sounds simple, but if we do these three well I am quite confident that our profitability should improve. And as far as demonetization is concerned definitely demonetization in November, it was not a problem. December was a big problem because, November a lot of people paid their old currencies to square off their dues but in December not much cash was there. After January end we saw that the number of collection receipts that we were issuing in the market was constantly going up. So, it seems that as the cash flows increase in the market the delinquencies also started to dip. But having said that, I will not say that it has not had any impact at all definitely some impact has been there. And I mentioned no, Swanand, that Rs. 33 crores we took as the NPA in third quarter.

Swanand Kelkar: Okay. So, just one more follow-up. So, since you have branch lay out program in front of you will reach 300 let us say by December and much more measured after that. Fair to assume that you have a good handle on costs for the next two years or three years and the productivity will come more from generating more business from the same costs?

Murali M. Natrajan: Yes. It is very easy to get rid of any fixed cost over a period of time. We are not happy with the premise and it is not producing, we can give a three months' notice and we can reduce that cost. But people once I hire a person at Rs. 4 lakhs or something, that the number of months they spend in the bank without producing during that gestation time we want to reduce as much as possible and not lose out people who are doing well, these are the two areas that the HR team and the Business team is constantly working on. So, once we get that which we have been so far successful we should be able to reduce our cost-to-income ratio.

Moderator: Thank you. We have the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Just I want to expand the discussion on the fee line a little bit. So, if one assumes that by the end of this year you will complete broadly the branch expansion program and thereafter it will stabilize. So, I mean, assuming that there was not too much operating expense due to more branch capacity addition, what would be the best growth run rate in the fee line? And similar question on the OPEX line, if things remained broadly stable and how much can the existing capacity come down in terms of cost-to-income ratio if we assume that there is no fresh capacity addition. So, what is the peak cost-to-income ratio and the peak fee line growth that one can see if we assume status quo in new addition? Thanks.

Murali M. Natrajan: So, I never said there is going to be status quo.

Dhaval Gada: I am sorry, if one just assume, just trying to understand what is the best that we can get out of the existing network in may be next two years - three years from now, yes?

Murali M. Natrajan: Yes. I feel that it is a slightly complicated question for me to answer. But let me see what I can answer which hopefully you will find some clues. First of all, the exit quarter of March 2019 we are looking at 55% or below on cost-to-income ratio, okay. That assumes that we have put all the branches that we said we will put in which would be if you are at 262 branches we will be approx. 310 branches or may be give out to 5 - 10 branches, 310 odd branches is what we are looking at, right. The second thing we are going to do is the next fiscal year which is 2018 - 2019 and 2019 - 2020, we believe as a management team that we should not add more than 10 - 12 branches in those two years, okay. It is very difficult to see so far ahead but further than that we can go back to 25 - 30 branches type of growth without damaging the metrics, okay, which means that the number of good branches that we will have would be enough to absorb the shock of any new branch cost that might come in, right. Of course, there may be some advantage in terms of the branches that complete three - four years, some part of depreciation also kind of drops off. So, we are looking at the moment how to read that committed 55% cost-to-income ratio in the exit quarter of 2019, okay. Now, regarding your fee, we are targeting internally 14% to 16% granular fee income growth every year, okay. That has got element of processing fees, it has third-party income, it has trade fee, it has FX, it also has ATM fees. Let me tell you what happened on ATM. ATMs in October we were clocking approximately 18 million transactions, it dropped down to something 10 million transactions because of the logistics of cash that is still kind of not fully resolved. So, I expect that there will be some bounce back in the next few months in terms of the ATM fees coming back because much of our transaction ATM is all third-party offers transaction, right. So, there is a lot of work going on that. So, 14% to 16% is what I would assume as a fee growth on a year-on-year basis and target 55% cost-to-income ratio on the exit quarter. Beyond that hopefully we will keep reducing our cost-to-income ratio.

Dhaval Gada: Right. Sir, just a little of follow-up here. Do you think the existing network has a potential to reach 50% cost-to-income ratio may be in five years to six years I mean, do you think that is possible in our business model?

Murali M. Natrajan: Yes, yes. Why not possible? I will give you an example, since you asked the question, if you go to our Four Pillars of Digital Addenda which is Page #46, please go to Page #46. You see Instant Aadhar based Iris e-KYC, you can see that?

Dhaval Gada: Yes.

Murali M. Natrajan: Okay. This is a Samsung device that we have deployed 150 of them. If I meet a customer, ask that customer to give his or her 12 digit Aadhar number, it takes about 5 seconds to input that 12 digit Aadhar number, then we will just point this device in the eyes of that customer in less than 3 to 5 seconds the Aadhar details will be pulled out, customer will be shown is his address and everything is correct? The customer says, yes. We just accept KYC and it is done. So, imagine the time saved for the frontline and the customer experience on that. 150 of these devices are already out there mostly in rural and semi urban branches. So, many of these interventions little-by-little we are doing. We are introducing a software whereby the time taken to do a gold loan can be cut down to less than maybe 40-minutes or so. So all these interventions increase the existing capacity and reduce the cost. This is just one of the strategies that we are adopting. So to say that our existing branches do not have the ability to reduce their cost-income ratio would be absolutely incorrect. We will definitely be working on that and we are working on it already.

Dhaval Gada: A couple of data-keeping questions; one, what is the employee count now as of March '17?

Murali M. Natrajan: 4,979.

Dhaval Gada: What is the provision breakup for the full year and for the quarter if possible?

Bharat Sampat: Looking into 'Investor Presentation,' tax-breakup is already there, right.

Murali M. Natrajan: There is a huge difference in tax rate as you can see in fourth quarter and last year versus this year, right.

Bharat Sampat: Floating and standard asset provision is approximately Rs.9 crores, rest is credit losses and also like Murali explained, even against standard assets where we feel that the asset is we do provide ahead of curve. That is the big picture.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just wanted a few clarifications from the presentation. So coming to Slide #11 where we talk about NIM, yields and cost of funds, are these numbers cumulative for the year?

Murali M. Natrajan: Yes, total for the year.

Rahul Ranade: Say for December '16 presentation, it would be for the nine months then, because you do not write anything over there. So it is kind of confusing whether it is…?

Bharat Sampat: We will take that as a suggestion.

Murali M. Natrajan: Yes, we will write it. These numbers are annual numbers.

Rahul Ranade: Coming to Slide #7 where we have a breakup of the other income. So is it fair to assume that the residual part of the other income is kind of recoveries from written-off accounts…?

Bharat Sampat: It is a mix of recoveries and other …

Murali M. Natrajan: The recovery has been similar as last year only, nothing very.

Bharat Sampat: It would have recoveries, must be having the PSL also on this.

Rahul Ranade: Because that number actually has gone up in the last two quarters. So last quarter it was Rs.9 crores and it is now Rs.13.5 crores.

Murali M. Natrajan: (PSL) Priority Sector Lending Certificate is always back-ended. Even if we sell it in the first quarter or second quarter most of the income comes only in the third and fourth quarter because of the amortization effect. So you will see that number will be lower in the first quarter of the year because we will not be able to take all the income in the first quarter.

Bharat Sampat: More or less that transaction happen in last week of June.

Murali M. Natrajan: So you cannot possible take the income in the first quarter. To put it like this; as long as we are able to achieve higher than the regulatory requirement of PSL, depending upon the market conditions, there is opportunity for us to be able to make a sale of those certificates and earn some income depending upon market conditions because it is a screen-based thing that you do, right. I would not even know which bank has bought that certificate, etc.,

Rahul Ranade: Then what was the recovery number for the quarter if you can give that?

Murali M. Natrajan: Recovery number we do not have here.

Rahul Ranade: Just one last question on the Construction Finance. So what would the nature of that lending be the kind of borrower or the ticket size?

Murali M. Natrajan: Ticket size would be anywhere between Rs.5 crores to Rs.7 crores and it will be builders who do construction for small flat, we do not do luxury flats and all these things. So Construction Finance, when the RERA gets done by all the states and all, we are looking at that opportunity as well because Construction Finance invariably gives you a little bit of help in current account as well because the money of the ultimate buyer of the flat also flows into the current account.

Rahul Ranade: Since you are the first bank to report, what kind of stickiness are you seeing in the deposit inflow that came post-demonetization?

Murali M. Natrajan: Steadily as RBI increase the limit of ATM and withdrawal, we found a lot of outflows from all ticket sizes, even from small ticket size we found outflows; however, our branch banking team were given some analytical data points and information so that they can engage with the customers and retain customers who increase their deposits balance during the demonetization. I do not know what the experience of other banks, but a lot has flown out of the accounts.

Moderator: Thank you. The next question is from the line of Jahnvi Goradia from Motilal Oswal Asset Management. Please go ahead.

Jahnvi Goradia: Two questions sir; one is on profit on exchange transaction. We usually had a run rate to Rs.3-4 crores and this quarter is a little less than a crore. So just wanted some color on that? Secondly if you could also give some color on the Corporate loan growth where is it coming from?

Murali M. Natrajan: On corporate loan growth, only the good quality customers we are targeting about, this year I think we added about 25 or 27 customers. Again there is a lot of competition in terms of rate and all and also there is too much of competition in terms of some financiers we found very aggressive on credit as well. So we have done pick and choose of customers, mostly good rated corporates only we have done in this category, some may also be in term loans, so that is how we have done that. It is a very small team that we have; about 12 or 14 people who operate in our corporate. If you see over the years this book has not grown much I think; two years ago probably this book was Rs.2,200 crores or something like that, I am not even sure. So this is not a focus area for us, this is only an area where we concentrate just to take care of our any short-term liquidity or if there is an opportunity that seems like a long-term opportunity that kind of stuff. Regarding your foreign exchange, Bharat, do you have any comment on that?

Bharat Sampat: What I want to say is we run a conservative treasury, where we do see opportunities. it is not something which we aggressively pursue on that line. So treasury would have taken conservative stance and not gone ahead with too much of trading there.

Jahnvi Goradia: So the major part of FOREX income in general for us, would it be …

Murali M. Natrajan: That is customer income.

Jahnvi Goradia: So that would be more than 50%?

Murali M. Natrajan: Should be more than 50% according to me.

Moderator: Thank you. The next question is from the line of Aalok Shah from Centrum Broking. Please go ahead.

Aalok Shah: On the deposit front that we are talking about, we did say some kind of withdrawals going through and schemes put in place. Now, where I am coming from is when I look at the CASA number as in end March '17, that has hold on well even on QoQ basis. One reading, yes, it could be more because of it is an year-end phenomenon. But have you mapped anything on maybe an average CASA benefits or my question to you would be, what is it that we are looking on the CASA front incrementally?

Murali M. Natrajan: So before this demonetization exercise if you look at our SA growth, we were in the range of 18-20% every year. CA growth has always been a function of how the economy and everything else is where we probably have had about 11-12% growth. So we believe that SA growth with all the infrastructure that we have put in branches, front line and all, 18-20% growth year-on-year is possible. We got some benefit obviously of the demonetization exercise. How long those balances will remain is a question mark for us also because we do not have any experience on this. We hope to retain the customers. But having said that our new acquisition engine, the score cards that are dictated to the front line for acquiring CA or SA customers, all that is going on with full intensity, there is no change in those. So we hope to grow our SA at least by 18-20% every year. CA growth? I am not able to give you any guidance. If we go by historic numbers, 11-12% should be possible.

Aalok Shah: Because this time around CA also grew by something like 31%?

Murali M. Natrajan: I know. "Demonetization" Zindabad! I can tell you that it is not easy, you cannot imagine the amount of hours, the branches put into serve the customers for all those 50-days, I remember many branches were signing off at about 2 o'clock or 3 o'clock in the morning and all because so many transactions they had to deal with those and come back next morning at 9 o'clock to deal with the fresh set of queues.

Aalok Shah: The second question was more on the data point. Bharat sir talked about provisioning some Rs.9 crores floating. I think that was for Q4'17 or?

Bharat Sampat: Yes, that was for Q4'17, that was floating plus standard assets.

Aalok Shah: Can I have that for FY'17 totally?

Bharat Sampat: FY'17 roughly Rs.25 crores, floating plus provision on standard assets, that is the regulatory provision on standard assets, that includes specific provision on standard assets which we do ahead of asset becoming NPA.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: One legend person of banking sector told recently that "It is the best time of banking sector." How do you feel?

Murali M. Natrajan: I do not know how to comment on it. When I joined banking 30-years ago I was told by my uncle that I have done the best thing possible in life, you can go to the office by 9.30 and leave everyday by 5:00. Till date I have seen 9 o'clock for sure but I have never seen 5 o'clock in the evening yet. So I do not know what this person means by best time in banking. I think it is a tough time in banking if you ask me.

Ravi Naredi: What is the trend of rate of interest on deposit and interest on advances going on at present?

Murali M. Natrajan: Interest on deposits are more or less stabilizing I would say, of course, if you go for some short-term deposits, they are probably cheaper. My own belief is that there may be not too much of reduction possible in deposits from here on. Interest rates on loan continues to be very-very competitive and whether small customer, big customer, it does not really matter, everyone is getting some really good interest rate. So, it is a constant struggle for us.

Ravi Naredi: Sir, due to good monsoon last year, agri products, rabi crop is extraordinary this year throughout the country. So how do you plan to take deposits from farmers and increase rural business this quarter because this is the right time?

Murali M. Natrajan: Our agri branches are doing very well, but please do not forget that these are all very small locations. If you look at an unbanked location, there are only 2,000 families. How much deposit can you get from 2,000 families kind of this thing? I would say that our rural and semi urban areas our deposits would be quite low as compared to the loan book that we do. Of course, we try to concentrate on some of the local entities or panchayats and all those small ticket deposits that we can get. But as far as the scorecard is concerned, they all have their scorecard in terms of what deposits to get, we will see whatever the opportunity comes we will take that.

Moderator: Thank you. The next question is from the line of Ritika Garg from Equirus Investments. Please go ahead.

Ritika Garg: I would like to know what is the percentage of lending that is happening online?

Murali M. Natrajan: Very miniscule.

Ritika Garg: Is that expected to grow, right?

Murali M. Natrajan: It is expected to grow and we are doing a lot of work with some three-four financial technology companies but I cannot tell you that the numbers are any big at the moment, there is a lot of leads you get and some of them get converted as well, but right now I would say that it is still evolving.

Ritika Garg: As on September 30, 2016, Real Estate sector loan constitutes around 16%, that is Rs.2096 crores of our loan book. Is it expected to be 16% by FY'18, FY'19?

Murali M. Natrajan: To the best of my knowledge, I have not seen this 16% that we have reported, I will take a look at it and call you back, but let me put it this way; 43% of our book is in mortgages, 70-75% of that would be business loans, loan against property, that type of loans, balance 25% will be in home loans. I want to tell you when it comes to self-employed people, they are not like salaried people, they have very little distinction between home loan, loan against property, business loan and all. For them it is a loan for a purpose. In our system if he takes the loan for buying a house, obviously it will get classified as home loan. But some of those loans in two years or so, do get morphed into a business loan as he uses that opportunity to expand his business. So home loan is an area of concentration for us. About 20-25% of our mortgages business would be in housing loans.

Ritika Garg: How do you see GST impacting us?

Murali M. Natrajan: We have spoken to quite a lot of SME and MSME. Many of them are confident about this GST although there will be some painpoints in terms of adjusting to the new tax framework and procedures, etc., But we feel many of these guys who have decent business model may actually come on to be winners in this entire GST.

Ritika Garg: But there will be some pain in FY'18 also because of GST?

Murali M. Natrajan: Possible, we just see how it all comes out. Yes, it is definitely one of the things that we need to be very aware of.

Ritika Garg: DCB has around 80% as leased property. So the government also plans to tax leased properties under GST. That will also impact us?

Murali M. Natrajan: But right now we are already paying Service Tax.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: My first question relates to your ROA. Now given the branches you might be ramping up by December 2017 and kind of loan book growth that we are seeing, so when we are at a steady state even the cost-income ratio at 55% by FY'19 what sort of steady state ROA is our business can basically witness?

Murali M. Natrajan: The first point that we are looking at is fourth quarter of 2019 try and reach 55% cost-income ratio of the exit quarter, try to achieve more than 100 basis points of ROA and related to that would be whatever that ROE comes out, right, which is what we have published. Now, steady state, what we think we should be targeting is at least 1.3% of ROA. That is where we are looking to go to. Now, this is a very transition period right now because there is a lot of investments going on, there are moving parts in that, so for me to tell you exactly what will happen by 2022 or something is very difficult right now, but internally we are targeting higher ROA than that.

Deepak Poddar: On a steady state, maybe 1.3% is what you mentioned?

Murali M. Natrajan: It is what we are targeting. Let us see how that pans out once we complete all this exercise and get more data points.

Deepak Poddar: Is there any kind of impact on this UP farm loan waiver for us?

Murali M. Natrajan: We have not seen any impact. Usually the impact is for banks that are supported by government… and of course we also see some impact here and there on private sector but generally we see that private sector loans are repaid by this thing. As far as farm loan waiver means, the banks will be paid by the government. That is all. So therefore, I am not seeing any impact at the moment.

Deepak Poddar: In the sense because it is allowed only for less than Rs.1 lakh. So maybe higher than Rs.1 lakh might start acting opposite to that?

Murali M. Natrajan: In our country, something or other keeps on happening that is a nature of the business I guess.

Deepak Poddar: On the QIP front, so what sort of funds you might be willing to raise or looking to kind of?

Murali M. Natrajan: No, up to Rs.400 crores is what we have sought approval from the shareholders. We will see how the market response is, what happens in the next few weeks, months and then we will decide. So at the moment, we are concentrating on getting the procedure completed.

Moderator: Thank you. The last question is from the line of Bhaskar Chaudhary from Entrust. Please go ahead.

Bhaskar Chaudhary: So I had the question on ROE which you kind of answered in the previous question. Up to Rs.400 crores raise, would that be enough to take you to your FY'19 kind of targets?

Murali M. Natrajan: If we are growing at about 20-22% and we will have internal accruals also. So our projection leads to believe that that should be enough plus we will keep topping up the Tier-2 or any other opportunity that may be there in AT-1, etc., So we are okay I think.

Great. Thanks a lot for attending this call. Really appreciate your time. If there is any follow up question, please feel free to write to me, Bharat, Gaurav and then we will be happy to interact with you. Thanks very much.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of DCB Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.