



## “YES Bank Q3FY11 Results Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Q3FY11 results conference call of YES Bank hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pathik Gandotra from IDFC Securities, thank you and over to you sir.

**Pathik Gandotra:** Good afternoon everyone and welcome to the YES Bank's Q3 fiscal 11 results call hosted by IDFC Securities. We have with us Mr. Rana Kapoor, Founder MD and CEO of the bank; Mr. Rajat Monga, Group President, Financial Markets and CFO and their teams. So I just request Rana to give a brief about the results before we take questions. Over to you sir.

**Rana Kapoor:** Pathik good afternoon, good afternoon to everyone. Thanks IDFC for hosting this particular investor conference call. I will begin by introducing the team here. Rajat, everybody knows Rajat Monga. We also have Jaideep Iyer, Aparajit Bhandarkar, Vikram Pandya, and Divik Anand who were also part of this call. I just wanted to give a quick summary of the key highlights as relating to the third quarter results for fiscal 2010-11.

As you would have observed that we have had a fairly satisfactory overall quarter in terms of our net profit increase of 51.8% at a level of 191.1 crores compared to 125.9 crores and relative to 176 crores in the previous quarter. So sequentially we are better off by about 8.6% and correspondingly about 51.8%. NII has improved by almost 53%. Non-interest income has improved overall by 26.5% correspondingly and total net income has improved by as much as 43.1%, operating profit by 44%. The non-interest income to total income ratio stands at 33.3% which is the sequential improvement from around sub 30% to 33.3%. Cost-to-income ratio has improved further to 35.8% in this quarter. Advances yields at 10%, cost of funds at 7.1%, NIM has compressed somewhat sequentially by about 20 basis points to 2.8% and we expect this to correct over the next 1 to maximum 2 quarters. ROA is holding up well at 1.5%, now almost 9 quarters in a row and our ROE has improved further to 21.3% and this is the 9<sup>th</sup> quarter in a row where we have been around or in excess of 20% despite an equity raise as recently as January 2010. The basic EPS is at 5.52 and diluted at 5.28 for this quarter. We believe that from a P&L standpoint, this has been a very good quarter despite the back drop of

several event risks, market volatility being overall resilience of our profitability, and I will talk a little bit more about some of the key constituents.

Moving on to some of the balance sheet highlights, our lending book has improved to Rs. 311 billion. So over 31,000 crores representing a year-on-year increase of 66.3%. Deposits have gone up to almost 39,450 crores representing an increase of 79%. CASA has crossed 4000 crores representing an increase of 81% compared to December '09. Balance sheet has crossed 50,000 crores. This is 2 quarters in a row. We have been in excess of 50,000 crores at 52,250 representing a balance sheet growth of 76.6%. NPAs at a gross level at a very healthy 0.23% and net NPAs at 0.06%. In terms of absolute amounts, the gross NPAs are Rs. 728 million. So just around \$15 million and net NPA at a gross level in absolute terms is about 17.4 crores so which is slightly more than \$3.5 million. Overall capital adequacy is fairly strong at 18.2 with core tier I at 10.4%. I am also pleased to share with you that the overall capital funds of the bank have gone up by 82% over the last 12 months and total capital funds stand at 6832 crores representing an increase of 82% compared to December 31<sup>st</sup> 2009 as a combination of both QIP as well as various forms of hybrid capital raising in the course of calendar 2010. In addition to that, loan-loss coverage at a gross level is at 283%. At a specific provisioning level, we are at 76.1% overall. Book value of the share has improved to Rs. 106.5 which is the Rs. 40 increase in the last 12 months from approximately Rs. 66 at the end of December 2009. Our headcount as on December end has increased by 969 people over the last 12 months. It stands at 3785. Basically we are averaging around 85 to 90 people per month in terms of incremental investments in our human resources. I also wanted to mention that overall our branch network has expanded to 185 operating branches spread over 149 cities in the country across 26 states and we are very much on target to get to 250 branches by June 2011 to fulfill all our existing Reserve Bank of India approved licenses. As you know last year in June, we got 91 metro, urban licenses. So we should be about minimum 250 branches by June 2011.

Couple of more important numbers in terms of the business composition on the asset side. Our corporate and institutional business which has stood the test of time over the last 25 quarters, this is the 25<sup>th</sup> quarter in our life cycle. The C&IB business is around 67%, our mid-market commercial banking business is around 23%, and our branch banking asset business is predominantly SME at this stage and little bit of retail assets as well has now crossed the double digit mark stands at about 10.1%. In terms of sensitive factors, I want to be very upfront and comment on two of the sensitive sectors which have been looming large in various markets grapevine and one is the 2G. I wish to put on record in this meeting that we have at YES Bank nil, I repeat zero exposure to the new 2G players as in the controversial 2G licensing which has been much spoken

about over the last few weeks, months. The other number that we want to put on record is our total advances to the microfinance sector including pool buyouts are as of end of December at a level of 292 crores representing 0.94% of our total advances. This is our total microfinance exposure through our loan exposures and as I mentioned on the telecom side, we are at 7.6% of telecom to top category incumbents as the part of our total advances.

In addition to that, I wanted to comment a little bit about the overall headcount I had spoken about, branches we have spoken about, we have had a fair number of recognitions which has come the bank's way as in being ranked thrice in a row by KPMG as the rank 1 medium-sized bank and this year we also won the number one on asset quality as well as from the fastest growth in the medium category of banks. Both at Business Today as well as by Business World. The bank has also received a number of recognitions on HR on operations, quality, innovation, and on corporate social responsibility which had been summarized at some length in the analyst and research note that we have sent out to our valuable stakeholders. We have also seen our overall trend lines and overall I must confess that the composition this quarter of the various non-funded businesses has been fairly well spread of the total non-funded fees of 161 crores that we have earned in this quarter, 161.7, the single digits contributed at 33% has been our financial advisory business at 53.8 crores which is a combination of corporate finance, largely corporate finance activities and supplemented by some investment banking as well. So that is 33% of the total non-funded income. The second big and important and growing category in our case is transactional banking which is predominantly trade finance and cash management that stands at 49.8 crores, so almost 50 crores which is approximately 31%. So this is now our rank 2 contributor. Rank 3 is financial markets at 41 crores comprising of 25.3% of our total non-funded fee income and one improving and important number as we go forward is our branch banking fee revenues at 17.4 crores which is steadily rising in absolute terms and in terms of percentage now stand at 10.8%. This is going to be a focus number. This and transaction banking are going to be huge focus numbers for us going forward. In the context of asset quality, I should have mentioned that our total restructured advances stand at 83.7 crores which is 0.27% of total advances. So basically it is an overall from our asset quality standpoint, the numbers are very much under control. So this quarter which was a testing quarter for the industry as well as for YES bank. I think in totality we have had a very very satisfactory performance on ROA, ROEs, on the overall quality of the balance sheet which is important to sustain given rising NPAs in the industry and by-and-large we don't have any significant concentration in any single industry as such or in any key geography as such. So by-and-large that is what I have to say in terms of our introductory comments. With this, I hand over to Rajat to add to what is being said.

**Rajat Monga:**

I just wanted to add to some numbers that besides have not been mentioned already are annualized return on asset picture for this quarter is at 1.5%. It is slightly influenced by the high base of balance sheet that we were carrying as on September 30<sup>th</sup> because of the sizable IPO related deposits that the bank had at that point in time. So our ROA may be suitably adjusted upwards for the trend performance understanding. Our return on equity for the period on annualized basis would stand at 21.3%. So we are happy to be in excess of 20% or thereabouts for now 9 quarters. Similarly we have been in excess of 1.5% ROAs again for 9 quarters. The CASA picture of the bank has had a small improvement over the September quarter, we are at 10.2% of deposits are in the form of CASA deposits. While the year-on-year growth picture of CASA remains quite strong. We are growing CASA as against the last year's base at the rate of about 80 plus percent which remains quite encouraging. We have seen improvement in yield on advances in the current quarter. Our book has re-priced up on an average from 9.5% in Q2 to about 10% in Q3 while we have had to pay higher on deposits wherein our deposits have also priced higher from 6.7% in Q2 to 7.1% in Q3. So we have seen a 40-50 basis points uptake in both advances and deposits and the spreads have marginally increased over this quarter while NIMs have taken a small drop because we are still undergoing re-pricing on the investment book of the bank and hopefully we should see that come through more and more in the current quarter, the fourth quarter as well as in the first quarter of next fiscal. With the rates being passed on to borrowers, we believe that the spreads in margins are more or less under control and should be beginning to look better year on. I think these are the comments that we wanted to share on the call and we will be happy to take questions.

**Moderator:**

Thank you very much sir. The first question is from Raj Gopal from Centrum. Please go ahead.

**Raj Gopal:**

You had highlighted certain vision with respect to your liability mix in one of the presentations that you had. How about you assess your performance in this context in this current year?

**Rana Kapoor:**

There is always a 'but' to good performance. Now if you look at our overall granularity and the overall stickiness of the deposits and if you see the diversity of the deposits, you know at a 10.2% CASA, branch banking contributing about 13.5% of FDs; corporate banking contributing about 39.3% of FDs; commercial banking business, the market business contributing 8% of FDs; our government relationships contributing 10.1% of FDs. The CDs percentage has come down sharply to a level of only 12.7%. So to that extent, wholesale reliance is only 12.7% and our financial institution deposits are also down to 6.3%. So definitely from the standpoint of granularity and diversity of our

deposit base, I think the bank is doing quite well and treating more and more from branch banking and more and more from relationship-driven businesses which is why if you see the spread is fairly wide and corporate banking which used to be about 75% is now sub 40% and these are also fairly relationship-driven deposits.

**Raj Gopal:** Okay and where do you expect to move with respect to this mix in the next two years or thereabouts?

**Rana Kapoor:** See definitely the next big milestone for us is going to be March 2012. So we do expect that branch banking which is presently around 25% or so should go up to at least 35% in terms of overall deposits contribution and distinctly Version 2, which is 2015, the target remains the minimum 50% to more like 55% of our deposits should come from our various branch banking businesses. So really form part of our core liabilities, CASA/retail deposits from individual customers, small businesses and it will be moving steadily in that direction with accretion of headcount I didn't mention, but we have added 969 people and of course you know rolling out literally two branches a week now to get to 250. So I think we are very much visible to get to our 1,25,000 crores deposit target by 2015 and similarly a one lakh crores advance is booked and a total asset book of 1,50,000 crores which are numbers that we shared with our shareholders as part of Version 2 nine months ago.

**Raj Gopal:** And just one more observation because obviously given the mix that you have in a tighter rate environment, you are a bit susceptible to increase implications on your cost of funds. So you did explain that you would be in a position to pass on part of this increase, but are you also seeing a behavior from the retail customers of essentially foreclosing the deposits and moving it to the higher rate at this point in time?

**Rana Kapoor:** See I am of the view that the retail customer is definitely very skewed and to a very large extent is definitely moving on where they are looking at longevity and like longer deposits, definitely there is some shift away to longer-term deposits because we have also made sure that we are giving more attractive rates in the longer band and not necessarily in the short medium bands. We are aware of that definitely and I quite agree with you on this observation.

**Raj Gopal:** Thank you very much sir.

**Moderator:** Thank you. The next question is from Sachin Kewalramani from Bam Funds. Please go ahead.

**Sachin Kewalramani:** I had a couple of quick questions. The first is Rana you talked about the MFI exposure, I think there has been a fair amount of discussion around the potential losses on these exposures, perhaps you can just help us understand what are the scenarios you guys expect in terms of worst case and expected loss and then second is I just wanted to talk about net interest margins, you talked about the net interest margin decline perhaps it will be helpful to understand what the spreads have done on a quarter-on-quarter basis and what kind of recovery can we expect in over the next couple of quarters and then the last thing is on the airline exposure side, the sector has been under some pressure. Can you just discuss a little bit on what your exposure is there and how you expect to manage through it?

**Rana Kapoor:** Sachin thanks for your three questions. I will answer two and pass on the more difficult one to Rajat which is on the NII, but more specifically on the microfinance, there has been fair amount of discussion in the market place including with the investment communities and I think yesterday was somewhat of a red letter day because the much awaited Malegam Committee has come out with some prescriptions which at some stage with some tweaking will become Reserve Bank of India regulation I hope in the next 2 to 3 weeks and most definitely I will see that happening before budget date. What that basically means is that there is at least clarity with its transparency in the recommendations. I think some of the numbers will probably flip and tweak like the Rs. 25,000 number seems to be low, but I think what this committee report is doing is confirming to the system that this business is not over and out. On the contrary, the message it is sending that this is a systemically important business and the banking system needs to supported all be it with the right regulations, the right controls, the right filters in the system and with improved practices, I am not sure about best practices, but definitely improved practices which will take out some of the dangers of high growth business one saw till about may be 3, 6 months ago. So I think industry wise, this has been a good shock for the industry and I think it will get to differentiate the boys from the men so to say and yes there will be some winners and I think some will definitely get marginalized because if some metamorphosis in the business model that will take place, but overall at least our house view is that this industry is there to stay and grow with somewhat different trajectories.

Specifically YES Bank as you know we have formally disclosed and we have spoken about this to several investors that we have an exposure. We have an overall exposure to 0.94% to this particular industry which works out to slightly under 300 crores spread over 15 borrowers across the country and I am very pleased to share in this meeting that as of this day and not only December 31<sup>st</sup>, we have not a single day overdue with any of the borrowers including the three borrowers who are 50% AP-centric and I do not want

YES Bank  
January 20, 2011

to be borrowers specific here, but we have by-and-large fairly diversified borrowers in this particular sector. We are not concern beyond a point in terms of the downside scenario as far as this industry is concerned. We think the markets will see an upside to this industry. I think the industry is there to stay. RBI is also only yesterday morning announced restructuring of MFI as part of the normal restructuring package and not something extraordinary or specifically to bail out this industry. So it will be a very normal kind of a restructuring as and when one or two or more of these companies seek restructuring from the banking system. You also hear that specifically in Andhra Pradesh, recoveries are up to 20-30% case to case, one or two of the larger companies have told us that they are seeing an improvement. 15 days ago, it was 20%; couple of days ago, it has improved about 28 to 30%. So definitely there is an improvement. Although in AP, the process has become very very onerous in terms of the collection methodology because of this mass collection mela's of sorts which are taking place. It is not easy but it is part of the transition, so no transition as we all know is easy. So we at YES Bank believe that the worst is definitely over and going forward, we will see steady improvements in the outlook of this sector and definitely banking lines as well as support systems will start falling back in place going forward. I hope I have answered your question.

I think the third point on airlines in our case, we only have one single private airline exposure and that is less than \$15 million which is less than Rs. 70 crore. I do not want to mention names because somehow it is not appropriate to do that, but our airline exposure is only Rs. 70 crores only to the old and the new airlines low cost included.

On the NII, I will just make a quick comment. I think Rajat will give more specifics on this, but by-and-large as you can see in absolute terms, our NII has shown very good growth in the note that we have shared with most people, you will see the trend lines on the absolute as well as the percentage growth not only correspondingly, but also in terms of sequential growth in NIIs. So overall behavior of NII growth is fairly good. On the temporary NIM compressions to 2.8%, we think it is only because of the lag effect of the interest rate changes we have made on both accounts, PLR as well as base rate changes that we have made more recently. Out of our lending book, 55% is fixed literally with final maturity, most of that maturing by June. So we expect even a fixed book to fully reset by June 2011, so literally 6 months from now. The floating book which is about 45% is getting reset very rapidly and we believe that may be what we have seen in December will correct in terms of getting better in January to March, so 2.8 around 2.8-2.9 may be in the last quarter. So for the year as a whole, we will probably see about 2.9-2.95% NIMs for the year-to-date June 11 performance and then once the book is fully reset in the April to June quarter onwards, we will start seeing

improvement in yields as we move forward. I quite agree with one comment that was made that we will probably see another half percent and may be as much as 1% rates going up over the next 6 to 12 months. I do not see that happening within a quarter, but may be more like 6 to 9 months should that be warranted because the base effect starts coming into play from next month onwards. So you will probably see a sharp reduction in inflation to levels of around 7%. We do expect that by end of Feb if not sooner, we will see inflation coming to may be 7% levels and that will add confidence and monetary actions have actually started beginning to work. So we at YES Bank believe may be 50 basis points is probably the rate action we will see this quarter and after that may be a short medium pause and after that, a fair amount of interest rate stability. We do believe that in our case, we should preserve, we should maintain NIMs of about 3% for fiscal 2011-12 and beyond that, I do not want to hazard any guess, but with gradual improvement in CASA, with gradual improvement in our overall retail deposit base with more branches on a more longer term basis, we do see the 3% improving steadily and I do not want to hazard any numbers, they are already part of our Version 2. Version 2, we expect to get to 4% NIMs by 2015 and we see no reason why we should not be able to achieve that.

**Rajat Monga:**

I think the overall context has been made out by rather in this context, I think well the numbers are giving us the evidence of what is happening on the ground. I think it is imperative that we are able to push the higher cost of deposits to our borrowers that is what is expected out of banks for monetary policy to be effective and which is exactly what we are aspiring and in the process are maintaining margins. I think this quarter has been particularly I would say affected because the repricing is not instantaneous and is continuously coming through. In fact there is also a pent-up lending rate hike which the bank would effect may be as soon as next week when we hear from RBI in terms of their views on interest rates. So according to us the margins are very much under control and more so going into the near future because repricing is going to get more and more real and in fact at least it is our view that in April, you will see cost also come down. So we will see margins beginning to may be over shoot on the higher side as we get into the earlier part of the next fiscal.

**Sachin Kewalramani:**

Got it. Thanks, that is very helpful. Rana and Rajat thanks a lot.

**Moderator:**

Thank you. The next question is from Manish Shukla from Deutsche Bank. Please go ahead.

**Manish Shukla:**

First on your balance sheet growth sequentially, there seems to be a marked deceleration from what we have seen in the recent past. Deposits are down about 1%

and loan growth is about 2.5% quarter-on-quarter. Anything in particular there, was it cost of funds or something else which led to this slow down?

**Rana Kapoor:**

The deposits are down in the September base a bit. We mentioned earlier on the call that, that is the reason our ROAs are looking little lower. It is because the September balance sheet was little bloated because of **ASBA** related deposits. If you recollect, there were 6 IPOs concurrently on, crossing the September 30<sup>th</sup> date. So deposits therefore are back on trend. So you will see that the September number looks like a huge exception. So that is what has kind of corrected. Hopefully, the following outcome from here on should be as per trend growth that banks would observe. Loan growth has been a little bit of, I would say, sensitive to both opportunity as well as value. I think the rate environment was shifting quite quickly in the last 3-4 months while the borrowers' response in that environment was lagging. So I think it is just a natural consequence of the difference in expectations between bankers and borrowers. It has corrected quite substantially. So the outcome expected in the near future is of I would say the trend growth that the bank has been looking forward to.

**Manish Shukla:**

The reason I asked about loans is because sequentially banking system has grown more than YES Bank and that is after a long time.

**Rana Kapoor:**

Yes, I still will call that an exception, it should not be the rule.

**Manish Shukla:**

The next question was on branch additions. To get to 250 branches by June 2011, you need to add about 65 branches that is equivalent of branch additions done over the past 7 quarters. So what gives you comfort - what you need to plan to achieve over the next two quarters is significantly higher than what has been done till date?

**Rana Kapoor:**

See our licenses on branches as you may know came only in June after we had a gap of almost 3 or 4 months. So we are basically now put a fast track process in place involving also regional management and we already have a pipeline of over 30 branches which are in advanced stage of lease closure and secondly the renovation process where we have outsourced partners on a national basis that has been significantly revamped. So one is the lease and two is renovation and we are able to cut down now the renovation time to about 2-2.5 months from the time we actually commenced the deal and the third thing is the headcount. The headcount hiring process is fairly much on target to make sure that these branches become operational within 2.5 to 3 months. So very good pipeline or locations by-and-large pretty much in conformity with our current licenses and 250 seemed like a very doable number. Actually we have licenses up to 255. We are just rounding it off to 250 and within Tier-3 and Tier-6 and I don't want to preempt this.

We have identified another 100 branches beyond June 2011 which are being evaluated, but very much the execution and implementation on the project management which is critical to achieve this over the next 5.5 months is very much in place.

**Manish Shukla:** Thank you.

**Moderator:** Thank you. The next question is from Vivek Verma from Edelweiss. Please go ahead.

**Vivek Verma:** Hi, the growth during the quarter has been much lower than the historical run rate. Are we taking a conscious call on slowing down growth term business given the rising cost of funds?

**Rana Kapoor:** Vivek, basically if you see the first 6 months and then if you see the 6 months-9 months in totality, we have grown 66% on loans and we have grown 79% in deposits in 9 months. Given event risk as you know, we have had a number of event risks in the O&D 2010 quarter and I think some of the event risks are not fully subsided. I think from a risk management standpoint as well as the standpoint of being somewhat more conscious on the repricing side and to make sure that we are not overheating our balance sheet, there is a conscious attempt by the management team to ensure that we do not grow extraordinarily at a time when there is more prudence required in terms of achievement of growth. It is not because of positive growth opportunity, it is because we don't want to overheat our balance sheet and I think 66% of overall growth in 9 months and with the give or take target of 60% for the full year fiscal 2011, I think it is a very good growth rate for a bank of our size and if we can maintain a deposit growth rate of about 70-75% this year, it would be a very befitting ending to fiscal 2011 given the heightened situation over the last 4-5 months and we also want to see certain signals, not only monetary signals, but also fiscal signals emerge, we also want to be a little bit more cautious from the risk standpoint especially in certain segments which we have discussed in the earlier part of this conversation.

**Vivek Verma:** Fine sir, thank you.

**Moderator:** Thank you. The next question is from Neha Agarwal from Goldman Sachs. Please go ahead.

**Tabassum:** Hi, this is Tabassum. Just two questions, just to reconfirm the loan book growth you talked about is 70-75% this year March 2011?

**Rana Kapoor:** December 2010 over December 2009 is 66.3%.

- Tabassum:** Right, but in terms of what you are looking for going forward in terms of growth?
- Rana Kapoor:** Our target is to achieve around 60% for the year as a whole. March 2011 over March 2010, we should do about 60% on the loan side and anywhere between 72 to 75% on the deposit side.
- Tabassum:** The second question is I just wanted to check is more macro given where we are in terms of interest rate cycle and potentially further increase of interest rate may be 50 to 100 basis points and the market is expecting 100. Have you started seeing potential risk in the system in terms of both growth and NPL or where would you start getting really nervous about growth getting impacted for corporate India and also potential NPLs increasing for the system?
- Rana Kapoor:** I will answer this in the context of YES Bank first. I think at YES Bank, we have tried to be proactive through dynamic let us say a de-risking as well as dynamic provisioning to make sure that we have adequate cushion from a specific provisioning standpoint as well as from an overall general standpoint. I think the second point is that literally all three quarters of this fiscal, we have been made single digit on net NPAs between 0.06 and 0.09 for all of the three quarters gone by fiscal 2010-11. So certainly we realized the times like this when there is growth, one has to be prudent about making sure that there is no compromise on risks. So somewhere for controlling risks, we will sacrifice growth if necessitated and that is being YES Bank's policy during post-crisis definitely in the last 30 months or so since the peak of the crisis. I think your question is a very important question in the overall macro context. There are certain types of risks which has got compounded due to actions what we simply call at YES Bank event risks. I think this event risk which goes round only compound risk further. For instance, we had heard about microfinance risks and I think it is important that the system wait for regulation to fall in place before we start reading the right act as far as this particular industry is concerned. I think this is the manageable exposure for the banking system and I think there will be minimum collateral damage for the banking system and for that matter very minimal in our own case given the very manageable proportions that we have on our balance sheet. I think there is enough exaggeration in the market place on telecom risks. So while we have 0 new 2G risks, I think it is not such a big issue either because a lot of the new 2G players are actually globally very strong companies like Systema, which is Sovereign Russia; Telenor which is Sovereign; sorry I am mentioning names, I should not do that, but a lot of that companies or corporate houses who have deep pockets so I am not seeing systemic risk of telecom getting out of whack and I think once there is some let us say an outcome by the ministry on the CAG report, things on 2G will also pool off. I think the third sensitive industry risk which everybody

talks about and these are considered to be the bad boys for reasons we fail to understand is commercial real estate and I think commercial real estate is causing some concern. And I think it is a very invalid concern because if we actually see the bigger shock that the real estate industry witnessed in at least the last 3 years was definitely 2008-09 spilling over into 2009-10. I am not aware of any bad debts any bank is incurred of any meaningful proportion in commercial real estate. In fact India's bestest housing companies/real estate company has by far has the lowest NPAs and I think it is the question of how well they are structured and how well their cash flows are captured and they are collateralized which really makes the difference as far as exposures to this industry is concerned. So I am saying that these three to be more specific, the three industries that are caused concerns in the last 3-4 months is not a matter of deep concern. I think the issues are more and I think the retail markets have got significantly de-risked and more seasons over the last 1.5-2 years post the global crisis. So we are not seeing any risk bubbles. We are not seeing any knee jerk reactions by the banking system, but what we are seeing is maybe a quarter or two till pricing, repricing and the lead and lag effect of policy rate changes being imbibed may slow down growth for a quarter or two at best March quarter with some recovery possibilities forthcoming in the new fiscal year. So just a change in gears, but not a very dramatic change in the risk profile in the market place.

**Tabassum:**  
really.....

So we can easily pass on another 100 basis points increase to corporate India and not

**Rana Kapoor:**

I personally believe that may be Rajat can comment on this better. I do not see another 100 basis points happening because the governor has quoted very well in a statement last week. He was telling about inflation without seriously compromising on economic recovery. So I think there is definitely an intend to preserve recovery because any significant reaction of 100 basis points can have a very dampening impact on investments as in like new capital formation and I think everybody in this room on this call understands. The problem in India is largely a supply side problem and I think any sharp increase in rates will hamper new production capacities and investment and capital formation multipliers. So I think RBI is going to be very sensible and probably wait for may be another 3-6 months and if they do not see situation improving which I think will improve next month onwards, then we will probably calibrate something more in the April and July quarters, but we are not seeing more than 50 basis points happening in the next 3 months.

**Tabassum:**

Okay thank you.

- Moderator:** Thank you. The next question is from Aditi Thapliyal from Execution Noble. Please go ahead.
- Aditi Thapliyal:** Coming to the question of the liability franchise again and apologies if I sound repetitive. You have now added 35 branches over the last 9 months. At what point do you believe that the new branches and the existing branches will start to make a more meaningful contribution to your still small savings deposit base?
- Rana Kapoor:** It is interesting that you ask that and we do not know what is the sweet spot as far as sharp incrementality in granular deposit growth is concerned. We only have two comparatives. I will tell you very candidly. One of them which is very meaningful and we look at very closely is the Axis Bank. In the case of Axis Bank, a magic number and you can look at 2003 data points in their life cycle and we are pretty much moving into that territory. We are almost very close to that period of Axis Bank's breakout and I believe that the magic number is about 250 branches and then you start getting critical size, critical momentum, brand momentum, people momentum, national momentum, and we see that kind of a breakout happening in our case somewhere between 250 and 300 branches which means in calendar 2011.
- Aditi Thapliyal:** What is the trigger that the bank is waiting for, why not start now?
- Rana Kapoor:** We are waiting for depositors like you. We are rolling out, we are investing in people, and we are investing in the brand. If you see the composition of our liabilities, somewhere we are getting very good traction in all our corporate businesses; SME, mid corporate, large corporate, MNC, government, financial institutions with our Moody's International Rating I have not spoken about that. We got international rating at investment grade. Our correspondent banking lines for foreign funding literally have doubled in the last 3 months. We are doing our maiden syndication in the next 2 to 3 months for instance and which will also help us to lower our cost of funds and that is a very important event over the next 2 to 3 months. So my point is that the retail inflection point, your question is more on that context, I think the sweet spot for YES Bank is between 250 and 300 branches.
- Aditi Thapliyal:** Another add-on question to that I think we have heard from you and the bank several times on the Version 2.0 strategy of the 750 branches, but what I am also...
- Rana Kapoor:** There was also Version 3.0 which you not heard about.
- Aditi Thapliyal:** I think I will wait till 2015. What I am keen to understand is what will be the branch expansion strategy in the coming years not in terms of branches, but in terms of the

focus segments, in terms of the customer segments, in terms of the new geographies that perhaps you will expand into?

**Rana Kapoor:**

We have reported this in the past and I will probably enlarge on this point. We are building our branch network's density in our anti-clockwork manner. It is North-West to South and then round trip it through East. Literally that is our sequential strategy over the next 4 years and 3 months of Version 2.0 to get to 750 branches and give or take 2500 ATMs. Now as you all know and we believe at YES Bank and I do not know how long this will remain a secret, we think the best growth region of the entire country is really the DMIC corridor which is the North-West corridor because banks like us cannot grow like cellular companies company 10 years ago. So we take on one big part of the country and we invest majorly in that part of the country for deep and wide in that part of the country. So for us, parts of the North all of the West are very critical in Version 2.0. Equally important is to hit every metro, every urban emerging city in the South and East also in the course of this version plus our ten regions nationally, 42 clusters nationally, and to build this very similar to the way may be an Airtel builds their GSM strategy for example and we do not want to incorporate bond every nook and corner of the country because I do not think we will get economies of scale or the efficiencies of branch banking. So actually at least at a drawing board level, I will tell you very honestly it seems like a great idea, but we still have to see as you say the proof of the pudding is in eating it and I think we are still some time away from there.

**Aditi Thapliyal:**

In some of the new geographies or in some of the new branches that are now coming up with more branch banking focus, how has the traction been vis-à-vis your brand name recognition amongst the retail customers or....

**Rana Kapoor:**

Somewhere, - we are number 4 private sector bank in terms of size. That is the good news and we have not publicized that in our reports to you and the media earlier this afternoon after 6.5 years, we are very pleased to report to you & our very valuable stakeholders that we have emerged on a standalone basis bank to bank as the fourth largest private sector bank. Obviously the gap between 3 and 4 is very wide and there are number of others who are at 5 and 6 and 7 were not too far away, but we believe that YES Bank has fairly well placed now around number 4 and purely has an organic play. So my point is that, that is the very important development. There has been improvement in our domestic ratings. Moreover we are the fourth private sector bank, despite our much younger life, and the other three are longer vintage private sector banks who have international rating, which helps us to get lower cost funding access which is also very important and I think the advertisements we are doing, the quality of the leadership we are invested in, with strong execution skills with the strong YES

community pulled, we have to create a lot of pulling forces and not just through advertising and marketing, but through relationship tactics in our clusters, in our branches, in the 5-mile jurisdiction of our brand serving areas. These are today the most important priorities at YES Bank to really get every branch to become a profit center and a standalone mini bank. It is easy for me to say I will confess, but it takes much longer to get it done, but we think we are getting into that inflection point and it will start happening.

**Aditi Thapliyal:**

What kind of breakeven targets are being given to the new branches, I am sure it is dependent on dependent on penetration, and your brand recognition but on an average, what is the turnaround time at some of these new branches that are coming up?

**Rana Kapoor:**

We are not putting a gun to anybody's head on this particular issue because if you see first of all you have to see the sigma of the branches which is the total balance sheet and the total performance of the bank. So as a bank in totality, we are a very profitable bank maintaining ROEs pre-crisis, during crisis, post-crisis, and post capital raising of over 20%. We are running ROAs of over 1.5%. So my answer to you is that somewhere the branches directly and indirectly are contributing, whether they are contributing through cash management, whether they are contributing through trade referrals, whether they are contributing through SME origination today, whether they are contributing through family networks, somewhere they are making us difference in our evolution and they are also contributing somewhere in the cost-to-income because despite investment in branches and people, we have invested 1000 people in the last 12 months which for us is a lot 969 December to December. So my point to you is that somewhere the branches are making money. Now I cannot say 12 months, 15 months, 18 months because if a cluster is making money, it is a very good sign. If a region definitely, all regions are making money. All ten regions are making money. We have 42 clusters. Most of them are making money. So the issue is the hub-and-spoke consolidated regional bank, the sub-regional bank at a cluster level whether it is making money that is happening and then gradually models will, no bank in the country I tell you because of your rural and semi urban, PSL and all no branch ever is a profit center, but on a cluster basis, regional basis, I think we are doing rather well which is why we are also pacing our investments, accelerating our investments in branches because of the earnings had grew coming from branch banking businesses, now obviously our corporate business is also getting a fill-up because the more branches we have, the more cash management mandates we will get. So it is all kind of inter-related and interdependent.

- Aditi Thapliyal:** Just one last question. Somewhere in an earlier question you hinted that the interest rate environment might be the source of perhaps growth slowdown in the coming months especially if the bank chooses to perhaps take a relook at some of the existing or new exposures?
- Rana Kapoor:** We have seen 2008-09, we have seen 2009-10 and yes there are certain growth related sensitivities usually linked to interest rate movements. Yes, directions change, but we are not saying that growth is going to come to a standstill. We are reporting to you that for the year as a whole, we have high confidence in the management team that for the year as a whole fiscal 2011, we will grow as lending as in advances by 60%, we already a 66% for the first 9 months. Usually as we all know, there is more priority sector lending in the last quarter for compliance and for seasonal requirements. So it is a need base requirement. So we do expect that there will be growth and 60% for a bank like ours with a \$12 billion, 52000 crore balance sheet, 60% is a very good growth rate. In fact people get worried if you grow at 75-80%. We think 60 in our case is very good on the advances side and 70, 72, 75% is very good on the deposit side for us.
- Aditi Thapliyal:** And for the rest of FY12, perhaps once the interest rate environment stabilizes, the bank is likely we do have a relook on the growth outlook?
- Rana Kapoor:** We have given a growth outlook and we stand committed to that. Short as saying there is a Lakshman Rekha around this. We have committed to the market place that we will have a CAGR of minimum 35% for our Version 2 of which 9 months is over and first 9 months that is 66% on lending, 79% on deposits and on balance sheet, it is 76% on total assets. So we are significantly outperforming Version 2 for the first 9 months and we stand committed to our 35% CAGR for Version 2.
- Aditi Thapliyal:** Thanks Mr. Kapoor. That answers most of my questions. I will take the others offline.
- Moderator:** Thank you. The next question is from Hiren Dasani from Goldman Sachs, please go ahead.
- Hiren Dasani:** Just on the loan growth side, when you say 60% year-on-year from march that means almost 13-14 for third quarter and quarter in the March quarter, what is the pressing need of growing 13%, 14% in Q4 in such a tight liquidity environment, why not temporarily scale it down to more like what you did in December quarter.
- Rajat Monga:** You see it is a good deduction that you made very quickly we have certain priority sector requirements balance to fulfill in this quarter and we are happy that those PSL loans will come at slightly higher rates with higher PLR and higher base rates, so we

have to meet our compliance requirements which is the foremost need. Two, clearly we have a decent pipeline and to meet our pipeline obligations we certainly believe that another 12%, 13% over the current base appears feasible. Some of this growth may actually come in our corporate investment book and not necessarily entirely in the loan book. We are also looking as a hold to maturity corporate investment book so basically debenture NCDs but I think there is a good market to pick up some medium long term highly rated A, AA, AA+, AAA well more like AA rated assets in the bond markets warehouse them and at the right time also look at sell down strategies.

**Hiren Dasani:**

That will also expose you to MTMs right because you cannot put in HTM?

**Rana Kapoor:**

Yes, well you cannot put that in HTM but at the same time they are priced well in advance of market rate expectations and we have obviously at the right market pricing which mitigates MTM concerns on that portfolio. And we have not set this but our current corporate investment book is very, very rich in fact I do not want to put a number to it but we have significant gains sitting on our corporate AFS book at present which is around 2,000 crores.

**Hiren Dasani:**

Okay and the usual expectation is that April onwards, liquidity will kind of ease off that was also the expectation at the beginning of the January or end of December that from January there will be a considerable amount of ease in liquidity, we had for the first few days but then we are again back to close to 1,00,000 crore deficit in the system, so any sense on why we have so quickly moved back with those kind of deficits?

**Rajat Monga:**

No, I think the deficit is being overstated because of technical reason which is what we call over coverage.

**Hiren Dasani:**

Yes, but that is also not more than 5,000 to 6,000 crores, right?

**Rajat Monga:**

So, that can be 20,000 crores, in my estimate liquidity deficit is still between 80,000 and 85,000 crores.

**Hiren Dasani:**

So, you have gone back from 40-50 to 80-85 in span of like.....

**Rajat Monga:**

No, 40 to 45 also was the under coverage it was never 40-45, so you should read that since 4<sup>th</sup> January because government spend across the month end, SBS flows came into the system, government give salaries and few things are bunched up. Consequent to that expenditure by the government the liquidity deficit had come down from 1.4, 1.5 trillion to about 0.8 to 0.85 trillion and we estimated the liquidity,

deficit is still about there. On what you are seeing is numbers going down and up are very technical in the sense, what is happening on that day, so lot of spending happened at the quarter end banks could not do much with it they just kept that money with RBI, that resulted in their CRR positions getting over covered, so they compensated because you can compensate within a reporting fortnight. Now, what is happening in this reporting fortnight which began the gone Saturday, if that is the second half of this fortnight might have higher rates, because RBI might raise rates. So, any bank what they will do is upfront their requirement, so they are borrowing more to put excess CRR and second again they will compensate in the second half of this fortnight when rates as expected are raised by RBI. So, this is just again one more technical factor, so the liquidity deficit is still around according to me 85,000 crores that is about 0.85 trillion. There will be more spending by the government; there are two bonds which are maturing so they have to repay those bonds to the markets that will lead to money moving from RBI account of the government back to banks. In March they are going to be normally this, the government spending in March is the highest of any months in the year and that order is about a factor of two. So, government spends twice in March than it normally spends in any other month, but it funds almost negligibly other than advance taxes which also are the lowest share of the four advance taxes. The government spends lot more than they normally do, so we will actually see liquidity only ease progressively, so at least in my mind I am quite clear on that and you will see more liquidities easing factors come may which is when the seasonal cash liquidity begins to unwind or what I mean to say is that the hard currency which goes out into the system during the busy season, festival season, agri season begins to come back into the banking system. So, there will be progressively and I would say continuous liquidity easing that I would say would take place till about June and July.

**Hiren Dasani:** Yes, but I mean before that you also have this issue about huge amount of CDs coming up for re-price.

**Rajat Monga:** That does not change liquidity, that only it moves money from one bank to the other, mutual fund to the other...

**Hiren Dasani:** Sir, I agree but it increases the desperation for a bank to replenish the same at a higher rate.

**Rajat Monga:** Yes, I do not want to say but that is a given. So, the CDs will come down, there is no compulsion to raise money out of CD, CDs banks raise only because sometimes deposits are more expensive at times.

- Hiren Dasani:** Yes, but considering that the public sector bank system works on the yearly growth targets and the March targets are quite sacrosanct, so what is it that prevents let us say the CDs rates to go up to 10-10.5?
- Rajat Monga:** See, what will happen is most of the government spending goes straight into PSU banks because they are the imminent beneficiaries, what happens typically in a budget there are lots of government schemes that do not get funding during the year, but if the funding is not given to those schemes, the budgetary allocation lapses and by March the next year's budget is already approved, so there is fair amount of visibility by March the government has only its revenues. So, the money is spent quite confidently in March. The allocation of those monies to those schemes happens in a PSU bank. So, PSU banks will get lot of money in March. So, their reason to rollover the CDs will be to some extent mitigated, private banks do not get that benefit that easily, the private banks are not the one who are throwing money at CDs anyway, it is mostly PSU banks which you will see hitting the headlines. So, CDs are being likely to run off, so there is, say liquidity is not it is panic, it is not liquidity issue, liquidity is there, there is call money rates are at 6.5 and have been at 6.5 on a bad day 7 in all these last 6-9 months that does not indicate any liquidity tightness, it only indicates that liquidity is little polarized
- Hiren Dasani:** And if I compute in a quarterly average basis, the investment yield seem to have gone up quite a bit in this quarter, is that the right conclusion to make or?
- Rajat Monga:** No, how do you say that investment?
- Hiren Dasani:** Yield on investment, interest on investment divide by the average investment books?
- Rajat Monga:** I do not have that statistic but my sense would be that there should not be any dramatic increase, there should be nominal increase.
- Hiren Dasani:** Yes, I also recall that in the opening remarks probably you mentioned that there is a fair bit of investment book re-pricing which is happening.
- Rajat Monga:** Which is pending. Yes, because investment books will not re-price, they are not floating they are rarely floating, so they will re-price upon maturity, so TBs will have to mature, CDs then CBs will have to mature and re-pricing will set him.
- Hiren Dasani:** So, as per the banks internal calculations what would be the yield on investment let us say for September and December quarter?

- Rajat Monga:** Well, I do not have the numbers, but I can give you a sense that there would have been 20 to 30 basis points improvement in yields.
- Hiren Dasani:** Not more than that?
- Rajat Monga:** Not more than that, not to my sense, well I can do my math on once I get back and then report back to you on that subject, but it is definitely lagging the advances re-pricing, so advances have re-priced by about 50 basis points for example, on an average. Investment should have re-priced by the same in the same order, they will need time because there is their maturity re-pricing dependencies.
- Hiren Dasani:** And what would be our commercial real estate exposure as a percentage of loan book?
- Rajat Monga:** Loans to loans, give or take 3%, loans to loans.
- Hiren Dasani:** Okay you mean funded?
- Rajat Monga:** Yes, I mean there is in real estate there is not much non-funded – commercial real estate.
- Hiren Dasani:** Okay and last a broader question probably Mr. Kapoor can answer it. You see I mean till about two quarters back we had a great comfortable liquidity situation and then it was very tempting to grow at a very fast rate and we did that but again I am going back to the same question which I asked earlier that why not use those opportunities to improve the liability profile rather than kind of getting stuck at a 10% CASA ratio for almost like one and a half years now?
- Rajat Monga:** I am sorry Hiren; I will have to take the question I think Rana has stepped down to take a call.
- Hiren Dasani:** Sure.
- Rajat Monga:** Well I see growth is not a compulsion, I mean I am just may be rephrasing what Rana has said other than for reasons which are regulatory or compliance related. The opportunities that we see today are that there is more and more acceptance of higher pricing with the borrowers, which makes growth viable. If the growth is not coming with value we do not seek that growth, we are seeking growth which comes with value and we want to grow CASA while we are growing our balance sheet that is our objective, we do not want to stop growth and wait for CASA to grow, CASA will

happen, CASA will grow, it is growing at 80% and that growth is not going to run off so easily.

**Hiren Dasani:** Sure, I am saying if the balance sheet is growing at 40-45 instead of 60-65-70 then that 80% CASA growth improves in a much better...?

**Rajat Monga:** Absolutely, we are not-

**Hiren Dasani:** And 40-45 is also very healthy growth to have.

**Rajat Monga:** So, in fact we are saying is that our medium term growth outlook is more like 35% which is for the balance sheet as a whole, definitely CASA will improve them in these proportions. We do not aspire for a level, I mean we are just aspiring for more value opportunities what we anticipate is that despite this aspiration we will be able to put together a growth rate of about between close to 35% over the next 3 years or so, CAGR.

**Hiren Dasani:** Great thank you.

**Moderator:** Thank you. The next question is from the Venkatesh S from ICICI Prudential, please go ahead.

**Venkatesh S:** I have a question in a deposits, I think you just mentioned that deposits de-grew on a quarter-on-quarter basis because your IPO float in Q2, is that right?

**Rajat Monga:** Yes that is right.

**Venkatesh S:** IPO float gets classified right in CASA and ASBA?

**Rajat Monga:** No this was ASBA, ASBA could be any deposit, it is usually a deposit and it is a deposit under lien.

**Venkatesh S:** Okay what would be the amount of float was there in Q2 approximately?

**Rajat Monga:** About couple of thousand crores.

**Venkatesh S:** Okay, so what would that be even if you remove a couple of thousand crores, I mean with 14 new branches this quarter and may be about 30 branches on last two three quarters, CASA per branch is actually declined?

- Rajat Monga:** I would strongly urge you to not look at CASA per branch which includes very new branches because that is not going to add any, CASA will not come overnight with new branches, it will come-
- Venkatesh S:** See, even if you see, I mean maybe arriving per branch but a good trajectory seems to far lower than, it is being in the past?
- Rajat Monga:** I am sorry.
- Venkatesh S:** In terms of the last quarter, Q2 or Q3-
- Rajat Monga:** Yes, the absolute growth in CASA has been quite nominal I agree.
- Venkatesh S:** So, could you just address what is happening?
- Rajat Monga:** For current account balances have been lower internally between CA and SA we have lost some current account deposits and like you said there would have been IPO related influence even in CASA to some extent, though not dominantly, it will be a minority influence but there would have been some influence in the September quarter, we have not tried or have been able to isolate that influence.
- Venkatesh S:** Okay, one other question, in Q3 over Q2 I think there has been a 50 bps increase in your yield and advances some 9.5 to 10 and 30-40 bps increase in cost of funds, 0.7 to 7.1 and the investment book has also increased, I am just trying to understand how the NIM has compressed 20 bps and I am not able to-
- Rajat Monga:** Because of the portions which is that the deposit book is more than the loan book, deposit book also funds the investment book, so if deposit book has re-priced by 40 basis points and let us say investment book has re-priced by only 20 basis points and in our case investment books share has increased in Q3 over Q2, you will see that at an aggregate 100% level the margins have to that extent taken the impact, what I am saying is that let us say if I have a funding of 100, loan book of 70 and investment book of 30. I am just simplifying it, if investment book does not re-price zero, the loan book re-prices by 50 basis points and the deposit books re-prices by 50 basis points.
- Venkatesh S:** Yes, well I am just saying in this case if loan book is re-priced faster and the investment book is also re-priced faster, generally we would expect the margins will maintain but I guess-

- Rajat Monga:** Investment book is still lagging, so the re-pricing investment book has been less than re-pricing and deposits.
- Venkatesh S:** Alright thanks perfect, thanks.
- Moderator:** Thank you. The next question is from Amit Ganatra from Religare AMC, please go ahead.
- Amit Ganatra:** Yes, two questions, one is what would be the total amount of risk weighted assets as of end of this quarter?
- Rajat Monga:** Okay I will have to derive that because capital adequacy is 18.2% and our capital about 6,800 crores so very quickly it should be about 45,000 crores.
- Amit Ganatra:** 6,800 divide by 18.2?
- Rajat Monga:** 18.2, yes.
- Amit Ganatra:** But previous quarter's number that I have as of last quarter is around 35,000 so it is 37,000 crores, okay so 2000 crores increase. But your advances have only grown by 700 odd crores, so why is that?
- Rajat Monga:** See, there are risk varied exposures have obviously other variables, one of the variables is investments, so if your investments go up, the risk weighted assets go up, it could be off balance sheets, like LCs guarantees, if you do more LCs more guarantees, your risk weighted assets go up. It could also be a function of ratings, let us say nothing changes but my ratings get downgraded then also my risk weighted assets will increase. NPAs also result in; I do not think that has happened in our case, so in our case it will be more on account of LCs, guarantees and investments.
- Amit Ganatra:** Okay and second is that what would be the total amount of outstanding borrowings, including tier 2?
- Rajat Monga:** It should be about 5,500 to 6,000.
- Amit Ganatra:** Okay, yeah I am done.
- Moderator:** Thank you. The next question is from Praful Kumar from Principal Mutual Fund, please go ahead.

**Praful Kumar:** As we are talking about heavy branch addition in next two quarters, can you tell me what impact it can have on a cost income, as obviously next quarter will not grow at the same pace that we have grown in three quarters?

**Rajat Monga:** Well, cost income consequences will be felt over a period so let us say we set up a branch in this quarter; let us say we set up 25 branches this quarter. Now, the rate of initial cost that is required is the outlay for setting up the furniture, the support systems that is all capitalized and depreciated and that is depreciated over the life of the lease of the branch, so that is not going to hit imminently. What is going to hit imminently is the running cost which predominantly entails people, people also will grow with branches, if we will not start with 20 people on day one, because there are people, yes we will obviously have to put the sales people in place fast enough, but we have to grow the service side of the branch as we get more customers. So, there will be cost which will be spread over a period and there will be a continuous need to invest more in that business which is also happening for existing branches.

**Praful Kumar:** So, over a medium term what number should we look at in terms of cost?

**Rajat Monga:** If you look at over a medium term the growth in branches, number of branches expected to be about 40% CAGR, let me also add another variable the newer branches are going to be smaller, cheaper because most of our hub branches are already in play, so the cost will not grow at 40%, cost let us say keeping inflation aside, will grow at let us say 30%. We also simultaneously are planning to grow the bank itself at 35%, so as long as the growth of the bank is being carried out with maintaining profitability it means that the cost income will stay intact. But however there are issues, I am over simplifying the situation. Revenues are volatile, they are seasonal and cyclical, while costs are not, costs cannot be altered once you incur the cost they will pick it up for a long period. You can change the trajectory but you can't dramatically alter it. So, there would be some ups and downs therefore in cost income and we are actually quite, I mean our current numbers can afford some slippage in the cost income because 36% is quite a, I would say a confident position to be in from cost standpoint. So, we will not worry about putting more expenditure on the table as and when it become necessary, so exploration of branch spend, though that does not always serve the purpose, the branch count will possibly come into being but we also need to make sure that the branches are turning productive and quickly, see management bandwidth has to be allocated accordingly. I think we are happy to grow per plan and not try to unnecessarily accelerate or decelerate for cost reasons.

- Praful Kumar:** Sure and second question on margins. What is your outlook for this year, we know that by June 2011 your fixed book will run off, so after that what exit margins we are looking at by FY12 even today?
- Rajat Monga:** We should restore to our normal pace that we were, we were doing about 3% odd percent margins before we ran into rough weather on rates, so once we stabilize at higher rates, our sense is we will revert to our trend.
- Praful Kumar:** Thanks and all the best.
- Moderator:** Thank you. The next question is from Kshitiz Prasad from ASK Investments, please go ahead.
- Kshitiz Prasad:** Okay, just one question out of the incremental five crores of NPA which have sequentially increased how much do you accrue to the MFI sector or have there been other sectors as well?
- Rajat Monga:** It is actually only 1 NPA and that is in our SME segment, difficult to generalize because it is only a single NPA and that also is very well collateralized, we have property in south extension in Delhi, which is more than the value of the loan, which is mortgaged to us. Unfortunately, if we have to proceed under the sarfaesi guidelines, we have to make the loan in NPA, when we want recovery. So, this money also will hopefully come back sooner than later.
- Kshitiz Prasad:** And MFI you have not seen any stress at all?
- Rajat Monga:** Not at all, in fact in MFIs there is not even an overdue situation with any of the borrowers, NPAs will happen when there are 90 days over-dues, there is a situation there is not even a one day overdue.
- Kshitiz Prasad:** Great thanks, all the very best.
- Moderator:** Thank you. The next question is from Abhishek Agarwal from Motilal Oswal, please go ahead.
- Abhishek Agarwal:** I just wanted to understand like your exposure to the TMT segment gone down in this quarter, so presumably there may be some run down in this segment, would there any run down in Q4 as well?
- Rajat Monga:** Possible.

- Abhishek Agarwal:** Would it be possible to have the quantum like what sort of percentage there could be?
- Rajat Monga:** I mean I would be guessing, if I am giving that number, but the reason I am saying is that it is possible because there are maturities with some of the telecom companies in the March quarter, it would get rolled over as well, so there is no certainty one way or the other but there are events which are going to transpire for sure that I am aware of.
- Abhishek Agarwal:** Okay and in terms of infra and logistics sector, was there a conscious slowdown or there was a lack of demand studied in the segment?
- Rajat Monga:** Well, I think we are also evaluating internally from the risk standpoint, the sectors that we believe will have policy benefits over the next few years, sectors that we believe are fundamentally more stable and therefore we are prioritizing those sectors and the sectors which you believe are not looking that exciting from both opportunity and risk standpoint we are de-prioritizing them and we do that all the time, so there was a time when there was tremendous demand from commercial real estate segment, it does not mean that we will end up fulfilling their demand, so that balance is between opportunity and risk which is very core to banking role that we play, so if it is up for evaluation all the time.
- Abhishek Agarwal:** Okay that is it from my side thanks.
- Moderator:** Thank you. The next question is from MB Mahesh from Kotak Securities, please go ahead.
- MB Mahesh:** Yes, just a couple of questions, it was asked earlier if you just could give a clarification again, see if your cost of funds have actually increased by around 40 basis points and that is about close to about, let us assume that it is what Rs.100 and your CD ratio is about 80 and the yield on the credit book has actually gone up by 50 basis points, effectively one knocks off the other...
- Rajat Monga:** No, not in a size because loan book is only 80.
- MB Mahesh:** Yes, so 80 into 5 will give you that 40 basis points, so your deposits are also grown up by about the same 40 basis points and you said that the investment yields have actually increased so just trying to understand where does the margin compression actually come from?
- Rajat Monga:** See, what happens is firstly cost of funds also includes borrowings, so you should not restrict it to deposit, you should restrict it to funding, non-equity so that ratio will not

be 80 that will be more like 70, so loan to deposit ratio is 80 but loan to funding ratio will be 70, one is that. The other is that if let us say, just for ease of mathematic, let me say that the cost of funding has gone up by 50 basis points and yield on loans has gone up by 50 basis points, they match off, but yields on investments have gone up by 20 basis points. That is where you see margins will trade. And in our case what has happened is the investment mix has also increased so the ratio of loan to funding had actually reduced further in this particular quarter.

**MB Mahesh:** Sorry, I did not get the last one.

**Rajat Monga:** Look, what has happened is that we were discussing loan to funding ratio was 70% that loan to funding ratio has worsened unfavorably for margins, so it has become 65. So, what has happened is that the investments have increased and are still lagging in re-pricing.

**MB Mahesh:** But there was an increase in the investment yields, right during the quarter?

**Rajat Monga:** Yes, I mean 20 basis points was the increase, but the funding, investments are also funded by the same funding and that funding went up by 30 basis points, then we have leveraged, right I mean share of equity has also come down, if you look at NIMS.

**MB Mahesh:** Yes, that is fine. Just a couple of more questions, one is the overall contribution of fee income over a period of time is actually gradually declining because of focus is more on the balance sheet growth side, so we just wanted to know whether is it okay to look at the contribution of fee income coming down to close to about 1.5% from probably at around 2% level as you go forward? Second question related to the fee income is, is there any chunky items in the transaction banking fee income which gets reported or is it fairly granular in nature, where it could be more than 5 odd crores?

**Rajat Monga:** Cannot rule it out but it will be an exception.

**MB Mahesh:** Okay any exceptions in the current quarter?

**Rajat Monga:** Not that I recollect but there could be.

**MB Mahesh:** And their contributions of fee income to overall assets how do you see that moving?

**Rajat Monga:** Well if you ask me the near term trend should be of improvement, I do not think that I can suggest that there is a level that it should stabilize because there is always a lead lag relationship between growth and fees. Lot of our fees is now becoming a lag

product because if you look at all the fee elements, the transaction banking, which is LC guarantees, Escrows if you look at financial markets which is FX, derivatives, remittances. If you look at advisory which could be loans syndications which could be structured finance. Lot of these are lag businesses, so you break into a customer relationship by start with a loan that is where you see balance in growth, but it does not parallelly translate into fee growth, translate into fee growth with a lag. So, our fee will still benefit from the lag effect of the growth we have seen in the last 18 months, so there is more cross sell to be done with the same customer, consortium entries have to be caused where we have to take a rightful share of some of the consortium businesses like LCs. So, there will be more of the lag cross-sell opportunity that we will convert, so therefore there could be an upward bias on what we will be doing on fee provided we do not have any great growth on the loan book, but if you have a great growth on loan book you will see the lag continuing. So, it is a little bit of consequence of which is growing at what point in time. The other phenomenon which also happens in fees it is cyclical. We have to remember that the non-interest income is quite exposed to the economic activity, if there is slowdown in economic activity there will be lesser imports, therefore lower requirement for LCs. There will be lesser remittances for both exports-imports therefore lesser requirement for customers to translate foreign currencies, so therefore less money for us.

**MB Mahesh:**

But I think that will also get reflected in the balance sheet side also, right?

**Rajat Monga:**

It should, I mean normally when you see a slowdown you will also see slowdown firstly demand for loans as well and therefore and you will also be risk management mode more seriously, more I would say focused on managing your exposures consequent to a cyclical slowdown. So, there could be those consequences in non-interest income. But I would still say at a trend kind of sense that we are below the trend at this point in time, I do not know how that will pan out exactly, but from a trend standpoint we are behind our opportunity.

**MB Mahesh:**

Okay and were there any treasury gains in the current quarter?

**Rajat Monga:**

Nothing of note.

**MB Mahesh:**

It was zero, right and any provision that was made for the investment book?

**Rajat Monga:**

Yes about 5 to 6 crores.

**MB Mahesh:**

5 to 6 crores, it was largely on the debt side of the book?

- Rajat Monga:** All put together I would say sops, not sops sorry this will be debt side of the book predominantly yes.
- MB Mahesh:** Okay and but the rest 19 crores would be for the loan lost side and standard asset provisioning?
- Rajat Monga:** No, you can say loan loss provisioning including standard asset provisioning is about 13-14 crores, there is about 5-6 crores of investment provisioning and 5 to 6 crores of other provisioning which is not related to loans or investments.
- MB Mahesh:** Anything material in the nature of provisions in the 5-6 crores?
- Rajat Monga:** Material in the sense?
- MB Mahesh:** Any specific reason why that 5-6 crores of provisions was made?
- Rajat Monga:** Just because we believe that some receivables is not recoverable for example.
- MB Mahesh:** Okay and just one last question. You had roughly about 25% growth in your total number of employees from a YTD basis, staff expenses has more or less been a little bit below trend, is it because the kind of employees who are now joining are more on the branches side because of which probably it is will it be inexpensive or is there some shift or is there any other reason for it?
- Rajat Monga:** No, I have not analyze that number like you have but, I will agree to your point that incremental in hiring is dominantly from the branch side, I mean if you hire 900 people, 600 will from the branch side.
- MB Mahesh:** Okay thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Pathik Gandotra for closing comments.
- Chinmaya:** Hi this is Chinmaya. Rajat thanks a lot for taking all the questions. I would like to thank the participants also for participating in the call, thank you everyone.
- Rajat Monga:** Well thanks Chinmaya and thanks IDFC and thank you all for patiently listening in and we hope we were able to satisfactorily respond to your questions. Thank you.
- Moderator:** Thank you very much. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.