



## "YES BANK Conference Call"

January 24, 2012



**MODERATOR: Ms. CHINMAYA GARG (IDFC SECURITIES)**

**YES BANK  
PARTICIPANTS: Mr. RANA KAPOOR (FOUNDER/ MD & CEO)**

**MR. RAJAT MONGA (GROUP PRESIDENT  
FINANCIAL MANAGEMENT & CFO)**

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**YES BANK**  
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**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY'12 earnings conference call of the 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. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Ms. Chinmaya Garg. Thank you and over to you madam.

**Chinmaya Garg:** Thank you and good afternoon everyone. Welcome to Yes Bank Q3 FY'1 earnings conference call hosted by IDFC Securities. We have with us Mr. Rana Kapoor, Founder, MD and CEO, Mr. Rajat Monga, President Financial market and CFO, Mr. Jagadish Iyer, Senior President Financial Management, and Mr. Aparajit Bhandarkar, Executive VP and Head Financial and I Strategy. I would just request Mr. Kapoor to run over the key aspects of the result and then open the floor for Q&A. Over to you Sir.

**Rana Kapoor:** Chinmaya, thank you very much for hosting this investor interaction. We also have some of our senior other colleagues, Vivek Bhansal, Divik Anand, and few others as part of this meeting. I am very pleased to report to you that against the backdrop of a very heightened macroeconomic and sociopolitical risk, Yes Bank has delivered a very satisfactory quarter with a profit after tax of Rs.254 Crores, representing an increase of 33% over the corresponding period. Equally important is that in this quarter, as in the previous few quarters, we have been able to demonstrate a fair amount of resilience in our overall credit quality as reflected in fairly nominal net NPAs at only four basis points, gross NPAs at just about 20 basis points and then overall specific provisioning cover of 80% and overall cover of almost 375%. One significant development in this quarter, which at least we have reason to believe is going to be particularly vital for our liability objectives, is the deregulation of savings rate both on the resident and nonresident front which subsequently happened towards the end of this quarter.

Certainly, our numbers and the growth in the quarter gone by reflect very significant attrition in our savings balances. I will speak a bit about this. Just moving on, we have this quarter crossed a head count of 5000 people, which has been a very significant milestone. You will recall, when we launched version 2, we were at 3033 people as on March 31, 2010 and seven quarters later we added 5013 people with 326 operating branches, which is an addition of about 21 branches this quarter from 305 at the end of the previous quarter.

This quarter has also been very meaningful in terms of our relentless focus on building our retail liability franchise as well as rolling out new retail asset products and we will speak briefly about that as well. But just coming back to some of the headline numbers, as I mentioned, PAT has increased by 33% to Rs.254 Crores. Overall there has been an improvement in net interest income of 32.3%, non-interest income has improved by 30.8%, operating profit by over 28%, net interest margins while down 10 basis points on a sequential basis are fairly stable if you look at the last four to five quarters at 2.8%. ROA is very steady, 13 quarters in a row, around 1.5% or

better. ROE improved further to 23%, which has seen a low of only 19.6 and that too way back in the financial year 2009–2010 June quarter. So, we have seen consistent performance of ROEs better than 20% throughout this last three-and-a-half period.

Our loan advances actually increased only 15.3%, and if we were to add credit substitutes this quarter saw an overall increase of 28.1%. Deposits improved by 19% and the single biggest improvement was in our quarter-on-quarter CASA from a level of 11% at the end of September 2011 to 12.6% at the end of December and if you compare it to the corresponding period, overall CASA grew by 46.5% and just SA alone between December and September 2011 increased by almost 40% from a level of Rs.725 Crores to slightly more than Rs.1200 Crores.

Capital adequacy remains fairly comfortable at a level of 16.1% with tier 1 at 9.2% and if we were to add profits for the third quarter it would be somewhat better at about 9.7% as in tier 1. You would have observed that despite sequential growth in loan, assets and credit substitutes, tier 1 has improved from December over September as a consequence of several of our clients getting ratings, updated on new ratings, so which is helping the bank to release capital on some of these well-rated credits. I am not actually dwelling on the nine-month results because I hope most of you have received our notes, if not we will make sure it gets to you, but just coming back to some of the other key numbers, if you see overall, asset quality I spoke about is being preserved in terms of its overall composition of loan assets, we are at a level of now 63.4% of corporate institutional loans. Mid market commercial banking loans are around 21.5% and we have been able to show quarter-on-quarter growth in our retail and SME which is holding up very well and quality as well and that number has improved to just above 15% to 15.1% with seven quarters to go was below 5% and as you know we have forecasted for retail and SME to grow to 30% of our total portfolio by the end of version 2 in March 2015.

We are also seeing a lot more granularity in our non-interest income. If you see, non-interest income, the main source has been transaction banking, for our total non-interest income of Rs.211 Crores, which grew by 30.8% correspondingly. Our single biggest contributor has been financial advisory, at a level of Rs.80.6 Crores, representing overall contribution of 38%, second biggest transaction banking which used to be in single digit till about two years ago, is now about Rs.63.9 Crores, representing overall 30.2%. The third big item is treasury at Rs.48.3 Crores comprising 22.8% and retail which has tremendous scope to grow is just around Rs.18.7 Crores while is growing in absolute terms, percentage wise is just about 8.8% of total non-interest income.

Apart from that, this quarter we saw a small capital raise, we raised lower tier 2 capital of Rs.243 Crores and we have been consistently introducing new retail product offerings. This quarter was quite special because we announced auto launch for the first time. We have been able to book about Rs.7–Rs.8 Crores. Still a very small number, but we have made a humble beginning on auto loans on commercial vehicle financing; we have also entered into a home loan distribution partnership with Diwan Housing to learn this business before we start manufacturing on our own at some point in the future. We have launched inventory funding for dealers, which are small

business loans, loans against property and loans against shares. So, almost six new retail asset products offerings in this particular quarter.

One other very major highlight for our branches has been the mandate (ph) which has been awarded by the Indian Army to the bank, under a new program conceived the bank called YES - VIJAY wherein they brought impanel by the Indian Army across the country and we will be working steadily to install branches and our ATMs and our kiosk in as many as almost 48 cantonment areas around the country to offer an overall banking service proposition to the Indian Army employees. YES BANK has also taken a very, let us say, pioneering position on the recent deregulation of savings rate, both on the resident and NRE front and having started with the 2% jump in October itself, from the day of the policy. Towards the end of the quarter we have improved this offering further to a level of 7% for deposits above 1 lakh and maintained 6% rate for deposits, balances below 6%.

We believe that this is a significantly incremental proposition for the bank given our low base of savings accounts in the past and this should be very instrumental in our ability to grow savings accounts which were just about 20% of our overall CASA and as I mentioned, this particular number has grown by over 40% in the two months of the quarter from a level of Rs. 725 Crores to slightly more than Rs. 1200 Crores at the end of the quarter December 31, 2011.

The other thing I wanted to mention is that there have been a few recognitions for the bank. We were, as you know, earlier recognized by financial expert in Earnst & Young as the Best New Private Sector Bank ahead of some of our more illustrious, top three leaders and of course that was followed by a recognition by KPMG and Business Today in the large bank category as the fastest growing and from a credit standpoint the strongest bank in the large category which was also recent recognition.

There is one other recognition for which my colleagues deserve special accolades. In a short span of time, YES BANK has been able to receive from the Institute of Chartered Accountants of India, ICAI, the Silver Shield, the second best award for financial reporting and transparency which means a lot to us given the fact that our disclosures have been very consistent, transparent and not just in our annual reports but almost as much in our quarterly updates, despite disclosures, regular press announcements and constant communication with our stake holders.

The bank has also got recognized as a power brand at a significant event in London recently and I am very happy to report to you that consistent with our responsible banking, corporate social responsibility strategy has been ranked as the greenest financial sector company India by government disclosures leadership index, which is world's number one index on green companies and this is also very meaningful as we endeavor to build YES BANK into a public trust institution.

Beyond that, it has been a very exciting quarter despite its challenges. We also hosted, what I believe is also very entrepreneurial initiative despite very negative backdrop. YES BANK'S International banking summit in partnership with Financial Times which had over 500 delegates

from overseas and some top notch delegates from India, a 2-day conference, which was very, very well received which was hosted at the Taj and we want to make this into an annual event.

As I move on and before I hand it over to Rajat and Jaideep I did want to mention that we will, by the way number of branches are 331. So, there is an overall increase of 26 branches. I was looking at slightly different number. So, I just wanted to correct that. We will be doing an update on our version 2.0 on April 26 it is a Thursday, similar to the event, the Annual Investor Day event that we have been hosting at the Trident the last two years and this year we plan to do this on Thursday April 26. My request to all of you, if you could or your team members or your colleagues could attend that, where we will give you a comprehensive update after our audited results on the overall report card of the bank end of two years of our five-year vision and strategy now called version 2.0. With this, Rajat, on to you.

**Rajat Monga:**

I would just add some more statistics to the numbers that we have already announced. On costs we have seen a cost income ratio develop to a number of 37.6% in this quarter. This is a small up pick from the previous quarter, predominantly driven by a slightly higher head count and increased floor plate that the bank is now holding. Our yield on advances have moved up slightly to 12.4% matched by a small increase in cost of funds as well which now stands at 8.9%. The loan spread has been flat in this quarter. Though we have seen a slight drop in NIMs on account of the leverage effect, the share of equity is marginally lower than in the previous quarters. Otherwise, the loan spreads have been quite flat over the last three months.

We have also seen uptake in our branch deposits along with the uptake in savings account numbers as well as balances. We are now holding about 31% of deposits in the form of either CASA or branch banking term deposits. Little less than third of our deposits now come from transactional or branch sources, which can be in some sense equated to retail, generally speaking. Recognition has come to us as Rana was mentioning from institutional standpoint we have also been the beneficiaries of receiving recognition for Rana as well in the form of the Business Standard Banker of the year. We have got the CEO of The Year Award from Global Award for Excellence. Couple of more recognitions as well, so I think the bank is quite satisfied with the overall developments that took place in this quarter with the Watershed development of savings account deregulation, opening up a lot greater opportunity in the short medium term as well. So with that we will be open for questions. Request the moderator to organize the Q&A please.

**Moderator:**

Thank you very much. Our first question is from the line of Suresh Ganpati for Macquarie. Please go ahead.

**Suresh Ganpati:**

Just had a question on your increased yield on advances by 20 basis points on a quarter-on-quarter basis. How it has happened when you have said that you have moved more towards higher rated corporates and therefore you have got a capital release. So it seems a bit counter intuitive that you have had a 20 basis point increase in yield on advances?

- Rajat Monga:** Well, we raised our base rate in the last week of October, 25 basis points consequent to the last hike that RBI announced, policy hike which happened in the October policy in the predominant nudge up on pricing.
- Suresh Ganpati:** The other thing is on capital; I think it is 9.7%, right, tier-1 inclusive of third quarter profits. Can you just share how much would be the component of hybrids of perpetual debt in that 9.7%, percentage terms? Is it 0.5%, 1%, what could it be?
- Rajat Monga:** I think it is 30, 40 basis points out of that will be hybrid.
- Suresh Ganpati:** So, you can assume that 9.3 is the core tier 1, right?
- Rajat Monga:** 9.3 will be equity, capital and reserves, more than that. So you can reduce.
- Suresh Ganpati:** So, finally on the CASA thing, can you give us some colour on what was your runrate of addition of accounts or customers, say in the previous quarter versus what has been say since the rate got deregulated and you launched those products, I know it is still early but you can give us a monthly runrate of your experience, it would be better?
- Rajat Monga:** Our runrate, like you said clearly, is still developing, might be too early to give indicators in terms of where things might finally settle. But it is fair to say that we will be depending upon how we measure, whether we measure traction, whether we measure account opening, we measure conversations or balances. I think the answers are all different. In terms of traction we are anywhere three to five times better off now than we were immediately prior to the regulation.
- Suresh Ganpati:** How do you define traction?
- Rajat Monga:** Traction could be in the form of, let us say, leads; it could be in the form of account opening. It will not translate into balances immediately. So our balances are not three to five times more. They are about 40% - 50% higher than they were prior to the deregulation, but the traction is for example, if I open a salary account, I possibly will start with some nominal balance but the balance will begin to develop as the salary pops begin to happen every month end. So the traction when we say is that how many conversation of salary accounts are we having and closing with customers, where are we getting impanelled and what frequency, one can define as traction and there is a little bit of conversion which is also in the same range of three, five times, is the rate of account opening as compared to the rate of account opening to regulation, but not so for the balances because they will develop.
- Suresh Ganpati:** Final question on corporate substitutes, which has been growing pretty rapidly is it one way of circumventing the priority sector norms thereby attracting regulatory higher in future do you perceive some kind of situation happening do you think the risk of such thing happening because they are growing a corporate substitute pretty fast?

- Rajat Monga:** Corporate substitutes are actually genuinely demanded by customers, so these are not something that we do this because we like them or we want to do in that manner, what is happening in the last 12, 18 months is given the frequency of rate changes and hikes in base rates there is genuine need from customers to get into fixed rate contracts becomes a lot simpler to do in the form of a commercial paper or a bond that gives also liquidity and the opportunity of distributing the same in the short medium term. I do not think it can be at all equated to the desire of circumvention of any prior the sector or guideline or anything, pretty much dependent on what customers are looking to raise their resources and in what form give them a solution.
- Suresh Ganpati:** Thank so much.
- Moderator:** Thank you. The next question is from the line of Manish Chaudhary from Citigroup. Please go ahead.
- Manish Chaudhary:** Just I had a couple of questions basically on asset quality firstly we could confirm it for Kingfisher you are in the CDR process or not really party to that?
- Rajat Monga:** I may not be fair to go on name by name basis, but there is no CDR that we have entered into in the December quarter at all. Mainly on Kingfisher.
- Rana Kapoor:** If I can add to what to Rajat is saying we know we have exposure of 62 Crores and it is not part of the consortium it is outside of consortium, amply secured and performing.
- Manish Chaudhary:** Secondly in terms of restructuring, do you foresee any kind of upcoming increase in restructured as such over the next two or three quarters or do you see any kind of pipeline building of that?
- Rajat Monga:** I mean the pipeline is the ordinary let me not said that there is no pipeline at all, but the couple of accounts that we might appear that there is a little bit of development in the near term or just a couple of accounts and these are very nominal exposures. So, we are not looking at any let us say any dramatic on that front as per the information that we are currently dealing with.
- Manish Chaudhary:** Finally one more question in terms of your savings rate just wanted to check in terms of the total cost of servicing in savings rate, to a large extent that it is not very different now from what is the term deposit rate. So, to an extent the only benefit that you are looking at basically the cross-sell benefit of the savings or is it something little more?
- Rajat Monga:** The first part is like I mean the rates are lower, so we are offering between 6% and 7% rates on savings deposit, so let us say on an average it will be somewhere around 6.5%, that is particularly lower than the term deposits by at least anywhere between 3% and 3.5% a benefit is there, the cost of servicing is actually the way we look at is that the cost of servicing in variable terms is very low. There is hardly any variable cost of servicing that savings account entail. It does entail a fairly fixed cost, because you have to set up branch network for that. So, as far as our thought process is the more we do at 6.5% to 7% the better it is. On top of that there is a cross-sell



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agenda, so there is actually only a win-win kind of a development that we at least envisage from this thought process.

**Manish Chaudhary:** Just I want to dwell in a little bit more, this cross-sell opportunity be significantly different in our savings accounts versus our term deposit account because then theoretically both your customers on the liability side?

**Rajat Monga:** Savings account customer is a transacting customer and every customer might be just standalone customer, savings account customer will also pay, he will have mutual fund online, he will have insurance servicing done online, so he will have many more service bundles that come along with the savings account and that enables to the cross-sell it also automates the cross-sell. FD is the single tickets standalone transaction, you can cross-sell into a FD base as well but you do not get the enablers in the process of opening just an FD.

**Manish Chaudhary:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Rajiv Verma from Bank of America. Please go ahead.

**Rajiv Verma:** I just wanted to check, actually just on the same CASA piece you have seen some improvement, I wanted to know what you think is the more sustainable target that you are looking probably over the next two to three years and also again early days but you are trying to have another strategy on cost of franchise or the savings franchise as I understand you are expanding your distribution. How is that panning out, if you could probably share some light on that?

**Rana Kapoor:** Rajiv, you know basically first and foremost as Rajat has said earlier and I did in my commentary that you know the real taste of our SA liberalization I think in a smallish way we have experienced in two months of the last quarter. As we both mentioned that you know we saw almost an increase of over 40% in our savings account balances in all of two months what took us almost you know the last six, seven years to build got to transfer and therefore our CASA leaped from 11% to 12.6%, so 1.6% increase in CASA in one sequential quarter means a lot in terms of at least the organizational inspiration in believing that our sweet spot in the life cycle of YES BANK has truly arrived. So, this these deregulation's, Rajiv, you know they coincides with inflection point in YES BANK branch network 331 branches, 5000 people enough capital to go along to support retail asset growth, SME growth as well as fact that you know we have also today the brand pull to be able to get more in more and more SA going. To answer a question on a medium long-term basis a version 2, we are even more committed after this development to achieving 30% CASA by 2015, so we have basically three years and one quarter to go. It would have been a Herculean task had this deregulation not happened, because our management guideline was that you know will probably end somewhere between 25 minimum to 30, but I think we are very, very steadfast in believing as a management team that we will get to 30% CASA in all the next three odd years. The third point what we hear is on the cross-sell, because up to now, we were using current accounts to really cross-sell SA. The other very significant advantage of now going to corporate companies and say that listen we have employee value



preposition at a 7% and 6% combo for employees at various levels and any company which is not paying for employee benefit and getting it some of vendor partner as in a bank if in the right mind we will find that 7%, 6% combination works very well for their employees. So, what is not reflected in the numbers and which is beginning to take off in the bank is really impanelment and I do not want to name the company, but we are getting impanelment everyday from the top 500 business today, 500 we are getting the impanelment from a mid market CRM base of almost 10,000 existing and target, so the multiplier of this savings is the enormous because SA can also help you to generate CA. It can reverse into compelling companies to look at the salary disbursement through us, salary payments through us, bill payment through us, motor insurance and a lot of other retail assets, which typically employers want to provide to employees and today short of credit cards we are almost they are on all retail asset products, so your question is the very, very strategic question and I just believe that we are all set not to just build CASA, but to also build a very comprehensive full blown retail preposition in the process on the back of this sharing deregulation. It is a massive multiplier for the bank in the next three years. Definitely till 2015, every quarter we will demonstrate.

**Rajiv Verma:** I just wanted to related to that, you probably also have the opportunity as you have expanded distribution. I believe a lot of your branches had to break-even, so is that true I mean to get the full benefit of that?

**Rajat Monga:** It is true because we are building averaging now literally 30 branches a quarter minimum, if you take quarterly average over the last one year, we have done over 30 branches per quarter, so there will be a cost structure to the branches but the branches today the branches we are building are much smaller not necessarily all in high fluting metro location where tier I, tier II, tier III cities, so per capita cost for branch is coming down, size is coming down, the number of employees per branch is lower, because the core infrastructure has defined by hub branches of the bank is already is well embedded in the bank. For instance in the ten regions across the country we have 51 clusters, do not ask me why an odd number like 51, so that is how it is right now, 51 is possibly go to 60 in the next one year. Each one of them has at least one hub branch if not a second hub branch and the third hub branch, so that cost structure is there, so almost 90% or new branches are really spoke branches and those cost structures are very, very reasonable relative to the existing cost base of the bank which is largely hub branches and the metro branches. So I think with an average vintage of about two years or so, we should start getting also a fair amount of branch incrementality with a wider product offering on liabilities, SA and CA ductile with retail assets which are all very nascent but definitely gathering momentum. The break-even on the branches will be much faster and we will not erode and this is the commitment to whoever is here on this call and I believe there about 275 people, the commitment is that we will not let cost-to-income break beyond 40% cost-to-income and we are still at a very comfortable 37.5 %, so that is something that will keep our eyes on as the cost-to-income ratios.

**Rajiv Verma:** I appreciate thanks a lot.

- Moderator:** Thank you very much. The next question is from the line of Nitin Kumar from Quant Capital. Please go ahead.
- Nitin Kumar:** Congratulations on a very good set of numbers. I have couple of questions, firstly like what is a progress on achievement of priority sector lending targets given that widely our loan growth has been almost 4% and lastly we had done almost 50% growth?
- Rajat Monga:** PSL is a finally a March delivery and as you are familiar lot of the agricultural lending is seasonal and it is just about picking up, so the next two to three months and by the next couple of months would be reasonably I would say brisk activity on the PSL front, so the growth that we are demonstrating is not going to be in anyway telling us that we will not meet the PSL that may be wrong interpretation we also churn our loan book quite actively, so we have about at least 3% to 4% of our loan book which has actually been churned in the last three months itself, so there is consent process depending upon our view on the risk in the environment as well as the other balances in the macroeconomic situation, so as far as the position today is concerned we have seen reasonably confident over achieving a PSL.
- Nitin Kumar:** In context as you go about achieving these targets in the next quarter, would it be fair to you assume that tier I can come down sharply given that right now the growth has mostly in the credit substitutes where the bank is getting the rating benefits?
- Rajat Monga:** Tier I will fall only if our growth in excess of our ROE, so our ROE is about 23% annualized, so let me say 6% per quarter and compounding, if our sequential growth is 6% or lower, we either maintain or increase our capital ratios, so we can grow at 24% per annum without reducing our tier I ratio. It does not factor in the efficiencies that we can generate from the various stipulations that are available under Basel II guidelines. There are exposures most new loans take few weeks or months to get rated. So, as when you get ratings if the ratings are better investment grade you get relief on capital, so there is also that life cycle process that we have do undergo, so there is in my judgment another 50 to 70 basis points of tier I capital that we can unlock just by becoming more precise with some of these developments, which do not get even the business they better through our presentation.
- Nitin Kumar:** Lastly our cost of funds went about 30-basis point during the quarter, any specific reasons for the same?
- Rajat Monga:** No, there is no specific reason. It is just that there is some old deposits come due for repricing, so if I can take 18 months deposit 18 months ago would come at, it will now come at 6% to 7%, it will now come at 8% to 9%. There is some residual repricing that is coming through on deposits, some short of deposits would have definitely become more expensive the one, two month deposits, because RBI raised their rates as late as third week of October. So that would have caused some cost push to the very short term deposits, those would have been the couple of drivers on our cost of funds notching up a bit. Another variable is that we would also raised the rates that we pay on our existing SA book, so the preexisting to deregulation SA book also

became expensive for us and that would have add a four, five basis point impact on the overall cost as well.

**Nitin Kumar:** Thank you so much sir.

**Moderator:** Thank you. The next question is from the line of Amit Ganatra from Amit Ganatra. Please go ahead.

**Amit Ganatra:** Can you provide amount of your risk-weighted assets, absolute amount and also the total borrowing amount?

**Rajat Monga:** It is about 55,000, but what you can do divide the capital. Out capital is about 8118 Crores that could be divided by 16.1.

**Amit Ganatra:** That capital funds which you mentioned in the presentation that is your total capital?

**Rajat Monga:** That is the capital fund.

**Amit Ganatra:** If you just divided by the CA?

**Rajat Monga:** It will give you risk-weighted assets. That include all risk-weighted assets that include capital charge for operational risks that will include capital charge for anything market risk and not just risk-weighted assets as in not only loans and off balance sheet that will include even others.

**Amit Ganatra:** Also the total borrowing?

**Rajat Monga:** It is 14,000 Crores and that includes tier II.

**Amit Ganatra:** Also one small question, overall this time also till now at least your asset quality performance has been very good and the outlook also remains robust?

**Rajat Monga:** I do not know to answer this question, but at this point in time there is no let us say concern other than what we will ordinarily face in terms of developments on the asset quality front. We are also watching the environment I think there are macroeconomic risks still out there. There are also other sociopolitical risks which are still prevalent and I am not fully mitigated, we are watching the situation and we will what I can say with confidence is that we will be proactive in managing these risks as they develop, but I do not have any real drama to report on this front.

**Amit Ganatra:** Thanks.

**Moderator:** Thank you very much. Next question is from the line of Rajatdeep Anand from ICICI Prudential Life Insurance. Please go ahead.

- Rajatdeep Anand:** Good evening, can you hear me. Congrats on a good set of numbers. I have two questions, which are related to each other. First if you can tell me the rational behind going from 6% SA to 7% rate and secondly now that we are at 7% SA rate, does it mean that this rate will be sticky and that when term deposits are repriced and TD rate come off in the market we will not be able to derive full benefit out of that?
- Rajat Monga:** All right, I think I will just clarify on the first part we have not changed the 6% rate entirely for everyone, so what we did, we acted on that the same way that the policy was announced where RBI had indicated that we could set our rates but that they will issue detail guidelines separately, so we did not have the detailed guidelines at hand when we were taking our upfront view, but we were sure that we were going to raise the rates to 6% in any case, so what we did on October 26, I think it was when the deregulation was announced, and then there was also a case for us to wait for the response of other banks and then we got a second opportunity when NR rates were deregulated that is when we could take both are moves out we were able to extend the 6% rate to even the NR segment and we also introduced a 7% rate for the greater than one lakh balance customers. It was more a second salvo or a logical next step from the bank standpoint also assuming the fact at least keeping in the back of mind that are higher balance customer will also offer a better opportunity for handling his savings he is possibly, we will have a opportunity to engage a more and cross sell more than with the customer who is earning 6% effectively. On the second part of your question in terms of how this moves with how the rates behave? Our sense is that market will begin to price savings account as medium term rates with the spread below them, so we will have at least most banks allocate SA to long-term buckets in their ALM, SA balances, so I see no reason why the banks should not be pricing it like a medium term deposit.
- Rajatdeep Anand:** When you say medium term do you mean three months to one year?
- Rajat Monga:** Banks actually put SA in five year bucket, if we look at the real state you will find that allocated SA in the five year bucket. So, they will be a volatile component, they will be a stable component more or less according to me SA rates will be driven by medium term rates according to me three to five years deposit pricing.
- Rajatdeep Anand:** Three to five years.
- Rajat Monga:** There could be banks.
- Rajatdeep Anand:** You will be also as and when the three-year and five year deposit CD rate move in the market, your SA rate will also reflect to that?
- Rajat Monga:** Not necessarily that it will be still our discretion, we were discussing on an earlier, the way we look at this costing differently from any banks in that we see this SA as a very predominantly fixed costs. So even if it is half a percent cheaper than term deposit I am still better off, so that thought process we cannot completely dismiss, nor can we ignore the fact that the medium term rate structure has come of. So, there could be potential maneuvers that we will have to call but have we thought about them thoroughly not yet, we will also have to take it as it comes. At the

moment, we want to maximize the bull from 6%, 7% it need be we can be indifferent till as much as when the term deposit rates come closer to 7%, the three, five years term deposit rates, so in terms of timeline and visibility I think it looks one to two years away in terms of if we believe that RBI is going to cut rate by 1% to 1.5% this year, I do not think that the three year, five year rates as low as 7.5% in a hurry. So, we have to therefore look at this decision at least 12 months and therefore I am not carried away by that and maximize the opportunity in the midline, we will always have the right to reduce this rate.

**Rajatdeep Anand:** Can I ask one more question, if you can explain to me your retail strategy and if it is changing I understand you have introduced some new products for retail customers?

**Rajat Monga:** Well, there is we have just about launched some basic retail lending products for customers and I think there is a reason to believe that this will take some months if not quarters to develop in terms of meaning. We are completing our retail product suite some we are doing joint development, some we are doing in-sourcing depending upon what scale we are fighting and how quickly in these products. So our credit card product is still not on the table for example as far as the customer offering is concerned. We are also working a lot on retail liability products as well which could be with this been license for importing gold and silver so we would be putting that product also on the branch proposition we have

**Rajatdeep Anand:** Gold coin, Silver coin?

**Rajat Monga:** Absolutely so gold coins and bars we have obtained the license. We are tying up with brokers for also for a three in one product offering. The tie-up has been in process and we will have more tie-ups. We are looking at prepaid cards, gift cards, travel cards and any other nature of prepaid including reimbursement cards. Reimbursement cards also go very nicely with and some of them also go well with the salary account proposition. So we are basically working to complete our product capability on both assets and liabilities. Strategy on this front will start from liability so we will build, scale customers in the next two to three years from liabilities. We will use assets to inherently stabilize the product and through cross-sell from the liability segment. So we want to embed, anchor our asset products in the customer kind of set of the bank and then expose ourselves to the more generic competition outside as well, become dependent on civil information rather than our own captive intelligence about customers. So those are the things that we are pursuing in terms of both retail assets and liabilities. Our hands are lot more free now on distribution because both of them are quite distribution dependent, but these tier II to tier VI is liberalized not that it was available for licensing earlier but it had a uncertain planning period because we do not know which centers RBI will give us, which they will not. Now we are free to have I would say distribution strategies, which could be regional, which could be local, which could be cluster, based. So our distribution is not prior we have not dependent on a critical national scale we can actually create regional scale as well in some of these products. So there is a fair amount of I would say development work excitement that is there in this place and I think we should be by the time we have close version 2 a reasonably complete demonstrated retail player as well. Pending I would say optimal scaling of the business though.

- Rajatdeep Anand:** Great. Thank you for your answers.
- Moderator:** Thank you. Our next question is from the line of Nilesh Parekh from Edelweiss. Please go ahead.
- Nilesh:** Hi, this is Nilesh here. I just wanted to get a sense on the borrowing profile as you have mentioned about we have about Rs.10000 Crores of borrowing how much of that would be borrowing and how much was received and what is the duration of these borrowings we have?
- Rajat Monga:** See, we have about Rs.5000 Crores of tier II, Rs.4000 Crores to Rs.5000 Crores of tier II that is about I have thought it of that back. That would be average eight, nine years so that is the start then we will have another Rs.2000 Crores to Rs.3000 Crores of refinance so we take one to three year reason and think from EXIM, NABARD, SIDBI for various eligible portfolios particularly PSL. There would be another Rs.2000 Crores to Rs.3000 Crores of foreign currency borrowings average tender of 18 to 24 months.
- Nilesh:** Okay, so the increase that we have seen during the quarter it is largely on the foreign side?
- Rajat Monga:** Both foreign and refinancing. We have had only a small issuance of tier II that was about Rs.250 Crores. The others would have been because foreign currency if you would tracking what happened in others when rupee began to depreciate was that the hedging cost became very attractive in the process. So in October and November there were times where you could take two years, three years funding at 6% to 7% landed fully hedged in India. So we were honestly trying our best to maximize it even though spreads over LIBOR were going higher but the hedge cost was very, very affordable it was negating a lot of the other developments. So we have tried to lock in some of that lower cost in particularly in the third quarter.
- Nilesh:** The other question was on the investment side the credit substitutes. What is the yield on investments on this portfolio?
- Rajat Monga:** On just a credit substitute portfolio?
- Nilesh:** Yes, on an average base.
- Rajat Monga:** Yes, I do not think I have carrying that number, but if I can give you a sense it should be between 11-11 quarter.
- Nilesh:** Okay and how this split between CDs and the bonds?
- Rajat Monga:** About one third, two third between the CD and Bond respectively.
- Nilesh:** The other thing is on the financial market stream. How much of that would be in forex?
- Rajat Monga:** I think about forex is basically a difficult number to compute I will just describe why because we though will give the number about half of that will be from foreign exchange the income, but that

foreign exchange their number is computed to mark-to-market, because if I do a hedge for a customer I do a opposite trade with the interbank counter party and I then begin to mark-to-market both these trades. So the difference of the two is my revenue which we report in that which I mentioned is about half of the financial market.

**Nilesh:** So, but this is on merchant on the.

**Rajat Monga:** We cannot separate it. First let us say a customer hits me on a six month that all rupee forward and our merchant desk will hit the interbank trader. The interbank trader might hold on to that position during the course of the day and then offload it. So I will have two trades entered one with the customer and one with the interbank trader enters during the course of day later with the interbank counter party. So we have only two trades so some of that is merchant income and the other is market making income and we can divide that, but it is not it is well embedded into each other.

**Nilesh:** The reason I am asking is basically what was the proportion in Q2 on the forex side?

**Rajat Monga:** Similar well our forex will be very steady because this comes because of remittances trade, LCs and FDI and retail and SME remittances this number is very transactional and the volatility might be in the market making component because if we have a good trader he will possibly add the 10% to 20% on your flow, but that is 10% to 20%.

**Nilesh:** When we looked at all the results of the other banks which was reported numbers so far this is one line item which has been a significant ramp up and actually I do not see that happening for us particular reason for?

**Rajat Monga:** That is because of inconsistent reporting. I believe some lines report even other incomes under that which is actually not foreign exchange income that is let us say income from LCs or income from arranging buyer's credit so it is a very nonstandard reporting so very difficult to compare across banks. I know a couple of banks who do that so we do not report buyer's credit product income under FX we report that under transaction banking. It depends how people cut their products into these categories because these are not very standardized categories.

**Nilesh:** Yes, that is true Rajat but the transaction banking piece has not seen any movement on a quarter-on-quarter basis and the reason what I am asking is you add up both these line items and when you compare it with all the other banks they have done we have seen a big ramp up players?

**Rajat Monga:** Could be it depends how much risk appetite you have expressed because buyers credit is actually a guaranty product you are willing to guarantee foreign currency borrowings of companies it will give you revenue so it is a function of also how people have been expressing the risk appetite it is not flow income it is what I am trying to tell you. If I do a buyer's credit the product is basically an Indian importer is asking me to open in LC and I am arranging for my LC to be discounted by a foreign bank and then money is paid to the importer.

- Nilesh:** Okay, just one last data point what is the non-fund exposure as on December 31?
- Rajat Monga:** It is about Rs.20000 Crores to Rs.21000 Crores not adjusting for risk weighting so this is the gross exposure. So if I have AAA non-fund exposure there will be a 80% haircut to that exposure when I translate that into risk-weighted asset this is without the haircuts.
- Nilesh:** Great thanks a lot.
- Moderator:** Thank you very much. Our next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.
- M B Mahesh:** Good evening sir and congratulations on a good set of numbers. Just a couple of one two data points; can we have the breakup of provisions for the quarter?
- Rajat Monga:** Provisions I think we are reporting Rs.22 Crores number so that include Rs.12 Crores reversal fixed and recovery of NPA.
- M B Mahesh:** That is Rs.12 Crores reversal.
- Rajat Monga:** So Rs.12 Crores at the Rs.6 Crores each from reversal of mark-to-market provisioning and reversal of a recovery of a provided for NPA.
- M B Mahesh:** Okay, so I have a total another provision of about Rs.34 Crores?
- Rajat Monga:** A claw back of Rs.12 Crores that is right.
- M B Mahesh:** So this Rs.34 Crores of provisions pertains to?
- Rajat Monga:** It pertains to general loan growth provisioning and specific provisioning.
- M B Mahesh:** But, specific there has not been too much change on the asset quality line right?
- Rajat Monga:** At least can we get a share between general and it is about Rs.8 Crores to Rs.10 Crores will be specific provisioning and about Rs.15 Crores to Rs.20 Crores will be general provisioning.
- M B Mahesh:** Just on the loan growth front see currently the YTD growth looks to be fairly on the lower side and you might have to do priority sector loans at the end of the quarter how do we see FY'12 loan growth panning out?
- Rajat Monga:** FY'12 is two months away so mean it cannot be a whole lot difference from what it is already. I think we should be expecting about we would have had a priority sector incidence even same time last year so the base will also begin to set in and so my sense is growth should be possibly about 20% or little bit better than that.
- M B Mahesh:** For the full year right?





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**Rajat Monga:** Full year with this couple of months.

**M B Mahesh:** So which is about 16% growth for the next one quarter on a quarter-on-quarter basis 15% odd percent growth on the next one-quarter?

**Rajat Monga:** Flat growth is it?

**M B Mahesh:** On, a quarter-on-quarter basis?

**Rajat Monga:** No, it will not be so much. I do not think we should budgeting for more than a 10% sequential growth. I do not know what the corresponding numbers will be in terms of year-on-year growth but sequential growth will not be more than 10%.

**M B Mahesh:** YTD growth we are at about 4% odd percent?

**Rajat Monga:** So therefore we will maintain our current growth rate.

**M B Mahesh:** Of 15% to 16% so which is about 12% to 13% the reason I am asking is see if I just for another the expected dividend pay out of let say about 10% on your profit we will probably reach a capital of about 8.80 to 8.90?

**Rajat Monga:** So capital we can unlock enough in efficiency in the way we kind of maintain capital in the sense that there is net ability in our foreign exchange exposure there is rate ability of our asset so we will also unlock that so it is very unlikely that you will find that our tier I ratio will drop.

**M B Mahesh:** From current levels?

**Rajat Monga:** We will make it up because there is enough efficiency in the way we do the documentation around capital.

**M B Mahesh:** Okay, so just take this forward see we have come to a stage where probably the prices are of the underlying there is capital process probably and there is an opportunity out here for you to raise capital at current levels we really do not know how things could plan out probably with one quarter or two quarter down the line. Just wanted to check how are you looking at capital raising plans at least for the next couple of quarters. Even though you are fairly comfortable on the overall tier I ratio?

**Rajat Monga:** Well yes I think as long as we are comfortable and not terribly let us say gung-ho about short-term, medium-term growth and short-term growth is not something that we are particularly chasing. So I think as long as that balance is what I am describing when we will have conversations on capital, but we will keep our options open in terms of timing. The public markets have been conducive for an offering so what we can and have been doing is that there have been private conversations that have been taking place but I do not see we are precipitating any conversation given our thought process currently of how we are seeing our own risk position,

how we are seeing our own aspiration for our short-term, near-term growth and the market conditions overlaid on top of that. I think we are able to churn our book so we are not compromising on the customer end we can do loans indication, we can do innovation, we can do risk participation. So all that is on the table for us to be able to continue higher churn share in our business, which will give us higher fee also which will keep us possibly even more efficient on return ratios in that strategy.

**M B Mahesh:** Okay, if I may just two last questions. One is on the one Diwan Housing tie-up and India Bulls tie-up, which you probably, which we have seen in the papers. Was there any income, which has been booked at the time of the tie-up, or it just a pure transaction oriented deal, which has been made out here?

**Rajat Monga:** The latter. No income has been booked.

**M B Mahesh:** There is no upfront income, which has been booked on the tie-up?

**Rajat Monga:** No, this we will get paid for all this.

**M B Mahesh:** The second one is on the financial advisory there has not been so much of activity on that line, but yet the fee income on that business has been fairly strong. So I just wanted to check what is can we have some granularity of this fee income of Rs.81 Crores that has been booked?

**Rajat Monga:** There has been lot of activity. Financial advisory for example one product that we do with loans loan syndication, but I think the example that we have put here is that we were for example the underwriters for a Rs.870 Crores road project financing takeout for L&T.

**M B Mahesh:** In the current quarter?

**Rajat Monga:** In the current quarter. We actually are doing we are overwhelmed with the loans syndication business that we are currently dealing with. There is plenty of work that is happening where work is not happening possibly there you might be associating financial advisory is investment banking.

**M B Mahesh:** No, even in the loans syndication I thought the activity levels have dropped?

**Rajat Monga:** No, loans indicate there is plenty of refinancing opportunity in this market.

**M B Mahesh:** Any specific sectors that you can?

**Rajat Monga:** Refinancing there is activity happening in cement, in roads, in ports, in Airport, in I mean you tell me how much business you want to do in power you will get it, but that is not necessarily that we want to do in hotels, in real estate, there is lot of activity.

- M B Mahesh:** So you think this Rs.80 Crores to Rs.90 Crores of runrate is fairly achievable number going forward to because it does not seem to be connected on the equity side of the business?
- Rajat Monga:** This has no connection to the equity side of the business.
- M B Mahesh:** Fair enough. Thanks a lot.
- Moderator:** Thank you very much. Our next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** Good evening everybody. Could you just give us some sense on in your interactions with the SMEs or the mid corporate how are you sensing the business confidence there and more importantly how is it changing incrementally that is question one. Second question you want to say all the questions or you want to take one?
- Rajat Monga:** All the questions will help.
- Shrey Loonker:** The second is we on-shoring of SA we have seeing right now on a incremental basis could you could just give us a sense of the average balance is there and probably the potential duration that they could be of or rather our approach when we think of deploying it on the asset side across what durations are we deploying to onshoring of incremental SA and the third question being on the if you could just give us some sense on the traction or a throughput that we having on the NRI balances although its initial days but still on a probably over the last one month or so that if you have seen any tractions if you could just give us some sense of how we see the NRI base? These are the three questions.
- Rajat Monga:** If you allow me I will answer that in the reverse order because I am not prepared for your first question very well. The NRI I think unfortunately for us the percentage numbers are very, very high because our base was very ordinary. So I think you can assume that we will be possibly doing anywhere upwards the Rs.100 Crores of our deposit business with NRIs a month from a startup I think a Rs.200 Crores platform is now growing at Rs.100 Crores a month so that is the kind of traction which is currently developing on the NRI side and there is more to come, because we are not fully reached out to our opportunity there given that we do not have a overseas presence.
- Shrey Loonker:** Rajat should be this incremental Rs.100 Crores throughput that we have seen this on a monthly basis these are what kind of customers given that we do not have international presence or though they are the one who this customers typically be?
- Rajat Monga:** These are mostly referral customers because we will use our current customer base to get referrals for their NRI kind of contacts overseas and then we will touch base with these customers.
- Shrey Loonker:** So largely they interface with YES BANK through just the internet channel.

- Rajat Monga:** Well, they are serviceable on the internet channel or the phone channel let say, but you need a courier channel to kind of wrap it up or a scan channel. So we still need the KYC to be done, but it does not have to be a physical kind of a one on you do not have to be physically in India to open accounts. We have to open your account we are doing your KYC we have to get your remittance and open the NRI SA or the NRI FD. The KYC can be done without face-to-face meeting that is not a bigger deal the bigger deal is to reach out to the NRIs, get the referrals, have a calling plan, get leads and convert them. The process is handleable. So what I was mentioning about the NRI book is that what in itself was a 204 Crores book is now developing at the rate of Rs.100 Crores a month that is the current trend that we are witnessing. On your question on the onshoring of SA I think the average ticket will be about Rs.35000 to Rs.40000 and I just want to caveat that by the fact that lot of us SA which is salary kind of accounts will need a month end salary credit for it to kind of find a little bit of a test of sustainability. So lot of our accounts will be new in that sense but on an asset various basis we will have about Rs.35000 to Rs.40000 of average SA balance. On the duration part of your question we actually we are not so concerned about the duration risk year because the loan book is still about 1.5 years average. So it is not our without the SA incrementality our loans and liabilities are already quite matched. So unless the SA adds reduces the duration of our book then that will have a bearing on our lending strategy but I think SA can safely be assumed to be better than 18 month durations in at least in our context. So it is not something that we are measuring in a hurry because we also need to observe our SA over a period. It is a meaningful shift in policy that will also have a certain change in our own SA behavior, which is we will have to test it overtime. It is very difficult to predict that for example if we reduce our rates we might see outflow of SA at that point in time. So I think it is not just behaviorally sensitive it is also now rate sensitive and we have no statistic with us to kind of figure out how SA will develop in an eventuality when we cut rates. Though that is not a near-term eventuality as we envisage today, so not so much of a driver of our asset liability decision making more the merrier is the thought process at this point in time.
- Shrey Loonker:** But more on an incremental basis as it is?
- Rajat Monga:** The first question I think if you allow me I will possibly get back to you with the specific feedback from our SME head. I do not have a handy answer for the business confidence and how it is developing in the SME space.
- Shrey Loonker:** Rajat, just on the arbitrage number basis if we are onshoring Rs.300 Crores on either a quarterly basis or a monthly basis. What is the approach on deploying with SA I agree on an average basis it will look good because it is just about the start of the curve but where would we look to deploy this on an incremental basis?
- Rajat Monga:** So, see it will substitute the inflow of big ticket FDs. It is not that we are going to deploy this somewhere. We will manage the intake of other forms of funding such that we are not kind of going over funded and underdeployed, because that is the continuous balance and that is where pricing helps on particularly on your time deposits. So if you are of the view that we are getting too much money from SA then what we have to do is reduce the influx of FDs or time deposits,

which is pricing sensitive. The bulk end of time deposit is very pricing sensitive. So all you have to do is just become little conservative in your pricing of bulk FDs and the flow will go slow.

**Shrey Loonker:** Rajat just lastly if you just give us your sense on how do you see the yield curve moving or shifting over the next three to six months?

**Rajat Monga:** Down.

**Shrey Loonker:** So it is going to be upwards it cannot to get more upwards sloping?

**Rajat Monga:** No, you are talk about the lower end I think we are looking at 100 to 150 basis points of rate cut by RBI in the next 12 months. So that will determine the shorter end of the curve. I think there is possibly an equivalent about a 75 basis points to 100 basis points rally which I believe is also visible in the next 12 months on the longer-term yield curve end as well.

**Shrey Loonker:** But essentially the shorter end will?

**Rajat Monga:** Will see a steepening of the yield curves with the shorter end coming of more than the longer end that is a next 12 months at least how I would rate.

**Shrey Loonker:** Right in that case could it be fair to estimate or fair to imagine that we will be probably to first one to cut base rates?

**Rajat Monga:** Not necessarily why do you say that sorry maybe I missing the point?

**Shrey Loonker:** Just because the liability duration is much more supportive and plus we have to SA throughput incrementally which is forming a thick share?

**Rajat Monga:** I think it depends because base rate will move only if our SA share becomes I would say meaningfully better, share not incremental share the average share so that is one of the drivers of our base rate. The second driver is that deposit rates. So if deposit rates move down the base rate will move down, but deposit rates again it depends on when we want to take that call because the last time around when rates were being dropped. Nobody could drop deposit rates because SBI was not moving. So it is not necessarily a function of what we are doing because these markets can shift and quickly. So the SBI does not drop deposit rates we going to have a choice we will also have to keep our deposit rates there.

**Shrey Loonker:** Got, very helpful Rajat. Thank you very much.

**Moderator:** Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Rajat. Just two quick things one is that any trading profit in the financial market line involved here?

**Rajat Monga:** Nothing of the great consequence, but we were discussing in one of the earlier question.

**Hiren Dasani:** Yes, so I am hearing the forex related.

**Rajat Monga:** Market making income will be there but that is not opportunistic that is more because it will come with the flow. Outside that may be Rs.2 Crores to Rs.3 Crores.

**Hiren Dasani:** Okay, and Q2 I think you had say it about Rs.5 Crores so similar like?

**Rajat Monga:** Yes, unfortunately we have been not been running trading risk, so there is turn of trading income.

**Hiren Dasani:** That is good to know. The other thing is that on your tie-up with the Diwan as well as India Bulls a what the rational behind choosing these two names vis-à-vis let us say probably an HDFC or LIC Housing and what could be the economic arrangement?

**Rajat Monga:** The rational is among others these are nonexclusive tie-ups and we could tie-up with HDFC as well so there is no rational of anything particularly with these two names though there is will be an element of PSL origination rational, because we will have to for housing loan also look at companies that do housing loans in the PSL category not all housing companies actually end-up doing small ticket housing as a product also. The tie-up will be a risk share tie-up predominately.

**Hiren Dasani:** So you will originate and you will I mean they will book it on their book and then you will take back some of the loans?

**Rajat Monga:** Yes, it is a risk-sharing tie-up it would form various levels of sharing. One would be that we originate they keep and there is a sharing on that. One could be also that they originate and we buy there also they will be a element of risk sharing.

**Hiren Dasani:** So, it works both rates for?

**Rajat Monga:** There will be a two way kind of throughput that is the idea for it to be let say more stable, one-way tickets will not always be mutual.

**Hiren Dasani:** Okay, and would this be rated transaction, the assignment kind of transactions?

**Rajat Monga:** When we do the let say we take over their originated loans on a risk sharing arrangement it will be an assignment of the loan, but rating will be optional because we will see if you already had a comfort of how the business is running, how it is originating their processes, their control we do not always need a rating kind of a knock or a rating level to kind of also support it we will have our own intelligence.

**Hiren Dasani:** The originations, which you do, the credit appraisals will be done by the respective housing finance company?

- Rajat Monga:** Well I think if it is risk sharing there will be appraisal sharing also, if they appraise and if we want to take it we will take their appraisal and reappraise that if we are originating and they are keeping then both of us are appraisers.
- Hiren Dasani:** Thank you.
- Moderator:** Thank you very much. Our next question is from the line of Ashish Sharma from Enam AMC. Please go ahead.
- Ashish Sharma:** Good evening sir and congratulations on a good set of numbers. I just wanted to get a sense on first the balance composition now we are seeing that investments a large share of your balance sheet 37% as on December but you mentioned that because we are routing some loans through credit substitute which is sitting in CB and CDs has investment the earliest thought process was that these later one will be converted into advances now you are mentioning that even the year end balance sheet will look like that only?
- Rajat Monga:** I do not think there is a thought process of conversion of CPs to advances. I think the CP does tend to get rolled over into a CP only as long as the capital markets are conducive and bonds have to be like term loans they have to be paid out of cash loans so you do not always refinance the bonds. Now because the term loan does not get typically refinanced it actually should get taken out by the cash flow generation from the borrower. So it is not going to be a substitution type of an outcome to exist.
- Ashish Sharma:** What we early got was that it was more of a temporary phenomenon to have CB CD as exposure to take an exposure on the loan a later on you will take it on the normal route through advances, but yes in the last three quarter we have seen the credit substitute book increasing bit too faster?
- Rajat Monga:** What we will do and have done is that this time around when we are giving our portfolio breakdown so including our credit substitutes book in our portfolio breakdown. So that you can also see the developing mix of the credit substitutes along with loans, which is one part. The part that we are kind of trying to highlight is that this is not our choice. If the customer says I want to issue a bond I say okay I will quote your price as your rating is acceptable to me and I have lines on you and I will quote your price and what has been the significant most driving force behind this is the base rate hikes that corporates got little sick off and they said okay we want some certainty in the tenure of our issuance so let us issue commercial paper, let us issue bonds that has been one of the key drivers of this product only enhancing so what all you have to do is look at how the outstanding CPs have done in the last 12 to 18 months. You will see that at a system level they have gone and quite they must have more than doubled at a system level in the last 12 to 18 months and we are a small part of the system.
- Ashish Sharma:** So now do you think this phenomenon will continue well in FY'13 or will it is all about the environment if the rates trend down will see people taking the loans through normal route?

- Rajat Monga:** What happens in that as long as the pricing of loans is higher than pricing of CPs and bonds there will be a tendency for customers to keep their options open. I can do a CP cheaper why not.
- Ashish Sharma:** Another question was on the asset quality we see that this year the overall credit cost will be closer to 25 to 30 BPS approximately. What sort of a normalized outlook will be on credit cost for 2013 do we see what market believing that the risk of our higher what was your sense on the overall asset quality for FY'13?
- Rajat Monga:** Our sense on asset quality let us say if we have to give I have not going to give a number nor a guidance but what I can say is that our asset quality will behave cyclically in nature. If there is a down cycle we will have pressures on asset quality and it depends on how bad the down cycle is but where we can put our foot forward is on the fact that we will be a top quartile performer.
- Ashish Sharma:** But any numbers as to what could be the worse case the rate cost will price in your loans?
- Rajat Monga:** Like I said it depends on how sharp the down turn is and how quickly it comes.
- Ashish Sharma:** Okay, and one last question on this whole CASA strategy and particular savings strategy what we have seen is that in the last two three months only a few banks few mid-sector, private sector banks have rated. Do you believe that the bigger banks, bigger private sector banks and including SBI are highly unlikely to change their rates if there a too much of conflict between depositors and share holders in the case?
- Rajat Monga:** I am not to sure about the conflict part but what I am more confident about is that they will not change their rate and will burden it was just towards.
- Ashish Sharma:** I mean that gives create the conflict those in the your P&L and takes it?
- Rajat Monga:** Your will see that the banks that will not change the rates are the ones that was already more endowed by SA if the larger bank has larger SA because of its legacy or because of its distribution I think that advantage will have to go away. They will raise rates provided they can efficiently service the same customers. So the competition sooner than later I do not know when will shift to cost efficiency. We will pay a rate where we can service the customer as well. So if I have lots of salary account customers which I know a lot of them will be self service variety because they will all have access to internet we have a good one of the better internet service platforms our cost of servicing will be miniscule in many of these situations. So it depends on what kind of customer base you have and what kind of cost you incur and servicing them that will determine your rate strategy.
- Ashish Sharma:** That is all. Thank you. All the best for the next quarter thank you.
- Moderator:** Thank you so much. Our next question is from the line of Rahul Shah from Aegon Religare Life Insurance. Please go ahead.



- Rahul Shah:** Thanks for taking my question. Actually I just wanted to check is there a change in terms of our thought process for retail lending because earlier we happened to see home loans and auto loans because of the competitive scenario in this products and whether this disbursements would be restricted to our liability customers or it will be open to other customers as well? Thanks.
- Rajat Monga:** Core thought process is still the same I think we need to embed our retail asset products in our retail liability franchise, but they will have to be tie-ups, in auto for example it is very difficult to practically embed the that in your liability base customers because lot of the auto lending happens at dealership relationships. So it is not going to be a one and one deal unlike a mortgage a mortgage will have a fair amount of one on one relationship with your customer. It will also have its nuances no two products will be the same, but if you look at the other products like construction equipment or commercial vehicles a lot of this will have again a mix of bank to customer so B2C relationship or a B2B to B2C relationship through dealers. So we cannot change the ways of the markets but we can only accommodate that in our strategies and risk management processes and that is what our endeavor would be to be able to entrench and embed the retail asset in our own customer franchise but simultaneously keep a balance exposure with the outside situation.
- Rahul Shah:** Okay, and my next question is do you see continued traction in non-interest income because it has been well pretty strong throughout the year going forward even into FY'13 do you see is the same traction?
- Rajat Monga:** Well I would only caveat the non-interest income will have a cyclical tendency. It will do better in a up cycle it will do worse in a in a down cycle because it is very transactional in nature, which is to say that if there are our clients who bank with us have a term loan let us say about also open LCs as the import the term loan might stay but the LCs may not roll, ports are going down during the down cycle or whatever reason. So our LC commission revenues will suffer in that sense. So the transactional revenue will go down but what typically also happens in the down cycle is that our bond books make good be the deficit. As you will know all banks sit on 24% of their deposits in SLR and SLR is a medium, long duration fixed income bonds in a down cycle as the rates go down these portfolios make money and that is also expressed by banks in their non-interest income line in a down cycle. So that compensates the cyclical kind of correction that takes place in otherwise the non-interest income.
- Rahul Shah:** Thanks and good luck for the next quarter.
- Moderator:** Thank you very much. Ladies and gentlemen I would now like to hand the conference over to Ms. Chinmaya Garg for closing comments.
- Chinmaya Garg:** Thanks to the management team and participants for participating on the call. Thank you, Rajat for all taking time out to give us details on the results. Thank you so much.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.