# YES BANK Limited
# Q3 FY-15 Earnings Conference Call

# January 14, 2015

# hosted by
# DEUTSCHE EQUITIES


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**MODERATOR:** **MR. MANISH KARWA – EQUITY RESEARCH ANALYST - DEUTSCHE EQUITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the YES BANK Q3 FY-'15 Earnings Conference Call hosted by Deutsche Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Karwa from Deutsche Equities. Thank you. And over to you, sir.

**Manish Karwa:** Yes, Hi, everyone. On behalf of Deutsche Equities I welcome you all for the 3Q FY-'15 Earnings Call of YES BANK. We have the YES BANK Management represented by Mr. Rajat Monga – Senior Group President, Financial Markets and CFO; Mr. Jaideep Iyer – Group President, Financial Management; and Mr. Niranjan Banodkar – Head, Financial and Investor Strategy. I hand over the call now to Rajat for his brief comments on the Results and which will follow by Q&A. Over to you, Rajat.

**Rajat Monga:** Thanks, Manish, and I Welcome everyone to this Results Analyst Call for the 3rd quarter outcomes of YES BANK, and we are very happy to present another healthy quarter of performance on both top line and bottom line, and this also in a progressively improving backdrop in the macroeconomic sense as well as a clear improvement in the global backdrop through commodity prices, imported inflation as well as stability of the currency, which has been in a ranged behavior for many months now. While we are still awaiting significant uptick in the economy, I think the leading indicators continue to get better which are pointing towards improvement in the economic outcomes of the country as we go forward into time. We are already penciling about a 1% higher GDP growth rate for the next fiscal year, which is fiscal 15-'16 in comparison with the running year, which will wrap up in another 2-3-months time. And as you all already know pretty much the benefits of significant fall in crude oil prices and some other commodities and metals, should have a very significant ongoing positive tailwind for the Indian economic outcomes. This has slowly begun to translate into our own business planning strategy and also the outcomes that we are going to discuss.

So we are reporting a healthy growth in the business of the bank, starting with the Loan book, we have reported 32.4% growth in our Loan book which totals to a little over Rs.66,500 crores as at the December 31st position. It continues to be diversified across many sectors although the share of the Branch Banking lending continues to creep up, which now is at little over 31% in contrast with the Corporate Banking book, which is at little less than 69%.

We continue to see growth opportunities coming to us for lending from sectors which remained less affected by the business slowdown that India has been witnessing over the last 3-4-years. Among others, we saw growth emerging from the agriculture sector, telecom along with the IT, media and entertainment sectors; we are seeing activity emerging in auto components and export-related sectors as well as in healthcare, pharmaceuticals, and hospitality segments altogether. We continue to see tepid outcomes in the infrastructure, construction as well as the metal sector as far as the loan growth opportunities is concerned.

We are also looking at new licensing happening on both telecom as well as coal and other mining, which should also give some more opportunities for lending to some of our existing clients as they look to acquire more spectrum or more long-term mining leases.

Flipping over to the Deposit side, we have seen a 21% growth on total Deposits, taking our total Deposit number to a little less than Rs.82,500 crores. We have seen about a 30% interest rate growth in the CASA book year-on-year and within CASA we have seen a 40% growth coming from the Savings Account balances, which now exceed Rs.10,000 crores. The total CASA ratio is short of 23% that the bank is currently holding in its balance sheet, which is better than about 21% that the bank had in the same time last year.

Within the constituency of Deposits, we are reporting a 45.4% coming from the Retail Deposit segment, which is better than 43.3% that we were reporting the same time last year. So we are seeing gradual improvement in the share of CASA as well as within the overall share of deposits, the share of Retail Banking continues to be doing better than the past. The Deposit growth has also been slightly slower than Loan growth given the borrowing opportunities that came our way in the current quarter; we have done two large foreign currency borrowing transactions, the first being $422 million syndicated loan borrowing spread across 1, 2 and 3-years which we consummated in the month of October. This was also followed up by a 200 million lending support from the Asian Development Bank which is for certain directed lending objectives, which I will detail in a bit. This little bit ease the pressure on what we saw in the prior periods on Deposit growth as well.

Few comments on the P&L outcomes as well: We are reporting a net profit after tax of Rs.540.3 crores that represents about a 30% increase with the corresponding quarter in comparison of last year. This has been largely on the back of a robust loan growth and expanding NIMs that has resulted in the NII increasing by more than 36%. This was also well supported by the Non-Interest Income outcomes again growing at 38% year-on-year. The Non-Interest Income growth also was equally supported by the four components that we measure our Non-Interest Income under namely Transaction Banking, Financial Markets, Financial Advisory and Retail Banking Fees, all components showed between 25% and 40% growth, resulting in an overall 38% growth in Non-Interest Income. We did see a year-on-year margin expansion from 2.9% number of last year, we are now reporting a 3.2% Net Interest Margin. Although it is flat sequentially, but we have seen improvements in the funding dynamics, our cost of funds is down by little less than 20 basis points; however, the margins continue to be flattish given the burden of LCR that we have been taking up and the compliance for the Liquidity Coverage Ratio that is LCR has begun w.e.f. 1st of this month.

On the productivity outcomes, we are reporting return on assets of 1.8% for the current quarter, which is a notch higher than what we have been reporting in the recent past and we are also seeing ROEs normalize after a capital raise to now annualized-reported number of 19.2%.

While the cost of funds have nudged down, the yield on Loans has remained more or less steady, just a bit a lower than we were seeing in the September quarter and cost of funds have seen about 20 basis points reduction given the seepage of falling interest rates and the more comfortable liquidity position that the banking sector has been witnessing into the broader pricing of deposits.

A few quick comments on the asset quality front as well: We are reporting 42 basis points gross NPA and 10 basis points net NPA position. We added about Rs.70 crores of fresh slippages in the current quarter, this is similar to the corresponding quarters of last year; however, it is lower than the sequentially previous quarter. We are also reporting a small increase in our restructured asset position, which has come to 26 basis points number from 18 basis points previously reported position. This is on account of one single loan that was restructured in the current quarter. We are also reporting no sales of NPAs in the current quarter for ARCs.

The provisioning coverage ratio remains in its acceptable range currently being reported at about 77%. We are continuing to support an excess provisioning of about 50 basis points to loans, which is in addition to the specific provisioning that we used to deduct to report net NPAs. So this is over and above the specific provisioning that we have used to report net NPAs.

The capital position continues to be comfortable having raised capital not very long ago; the total capital adequacy position of the bank is at 16.7% and the total Tier-1 capital position stands at 11.8% as at December 31st 2015; the total size of capital funds book is a little over Rs.16,000 crores.

I did mention the uptick of $200 million facility from the Asian Development Bank that we consummated in the month of December. The bank will be using this facility for financial inclusion purposes among other also lending to SMEs and MSMEs. And with a specific focus on women-led self help groups, this was a common agenda that we had set out with ADB to further financing causes in the Indian banking operating environment.

We also have received more recognition in the quarter concluded recently, where we were rated by an Indian publication 'Business Today' which does a survey along with KPMG in rating India's best banks, where "YES BANK was rated as the Consistent Performer for Best Asset Quality for the year 2014."

We also got recognition for payments from the National Payments Corporation of India in both ATM as well as in IMPS, which are the mobility payment categories where we got a special mention.

We have got recognition at leadership levels as well, where among others are "Our CEO was also recognized for being the Best Business Innovator at the Prestige Year's Asia Business Leadership Forum which was held in Dubai." Bank continues to get recognition in line with its business outcomes.

We have also been taking meaningful steps towards fulfilling our responsible banking objectives; we have become the first Indian bank to release its 'Sustainability Report' and that was for the year 2014, which is based on the GRI Guidelines of Global Sustainability Reporting. This report has also received assurance from KPMG.

We have also committed financing for renewable energy in India and our commitment is to fund no less than 500 MW of clean energy every year going forward, and we have also joined in with the UN Climate Summit and the Indian Government in making this commitment.

I think this was a very quick summary, let me add a few more statistics; we are now at a branch strength of about 600 as at December 31st and ATMs of about little over 1,150, we are employing little less than 10,000 bankers, which is now an increase of about 1250 bankers over the same quarter last year.

I think these were some of the statistics I thought I would add to complete my introduction to these results and I think at this stage we will be happy to take questions.

**Moderator**: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Manish Ostwal from KR Choksey Shares & Securities Pvt. Ltd. Please go ahead.

**Manish Ostwal:** My first question on trading gains side. This quarter we have reported around Rs.73 crores of trading gain compared to Rs.100 crores last quarter. Seems to be on a lower side given the movement in the market. So, could you throw some light where we have relatively underperformed in the market?

**Rajat Monga:** Manish, these are not trading gains, what we are reporting is income that we recognize under financial markets and this includes many other varieties of income, which for example, foreign exchange income is reported here, so all the translation of currencies that we do for customers, all imports, exports, FDI, ODI that we handle and the margin that we make on that is reported under this line. All debt capital markets business that we do, where we are writing bond yields for customers and there is an opportunity to earn fees is also reported under this line.

**Manish Ostwal:** Could you give the breakup of provision during this quarter?

**Rajat Monga:** We have made about Rs.70 crores of total provisioning in the current quarter; provisioning on account of largely loans, NPA, standard asset provisioning, provisioning on account of unhedged foreign exchange exposures in our borrower customers, all that put together will be about 50 to Rs.50-55 crores.

**Manish Ostwal:** We have seen very good momentum in third party distribution and other segment. So, one is could you throw some light in terms of MFs and insurance lines, how has been the growth there? And what is outlook going ahead?

**Rajat Monga:** Essentially growth is of the order of between 30% and 40% in the distribution income as compared to last year. We are adding customers at that rate; new Savings Accounts are being opened at the same 30 to 40% rate, Savings Account book is growing at 35-40%. So I think the run rate of this business should continue to be in that range possibly let us say between 30% and 40%. What we are also reporting in the same line is Processing Fees that we are also booking on Retail Lending. While that is a smaller part of Fee, but that is also beginning to pick up because the Retail Loans are growing at 40-50% a year now.

**Manish Ostwal:** On margin outlook, you have touched upon that thing, but I could not understand properly. During this quarter we have seen the cost of funds declined by around 20 basis points and your loan is almost flat and NIM is also flat. So, why the impact of cost of funds has not resulted in NIM expansion during this quarter?

**Rajat Monga:** Because we have added to our SLR book significantly in order to comply with the new BASEL III guidelines relating to LCR, which is Liquidity Coverage Ratio, so we are now holding about 6% excess SLR. So that holding of excess SLR happens at below 8%. It depresses the NIM to that extent. So the benefits that we have seen in cost of funds going down in this current quarter not fully, so the NIM has improved, but it has not improved to the extent that the first decimal gets affected, improved not by 20 basis points, it would have gone up by 5-6 basis points.

**Manish Ostwal:** Two small data points; one is what is your duration of Credit Substitute book and AFS book duration?

**Rajat Monga:** Credit substitute book will be 2.5 years duration and AFS G-Sec book will be 1-year duration.

**Moderator:** Thank you. The next question is from the line of Nilesh Parikh from Edelweiss. Please go ahead.

**Nilesh Parikh:** One question on the entire Branch Banking and the emerging corporates. So this business has seen traction during the quarter. If you can just be more specific in terms of which activity – is it more Branch Banking or it is the emerging corporates?

**Rajat Monga:** I am assuming you are referring to the 31.4% ratio, that combines both Retail Consumption Loans, Retail Commercial Loans as well as SME, it includes emerging corporate, but we have cut the emerging corporate, so it includes the bottom half of emerging corporate, which is possibly large SMEs only. So the growth rates are much higher in Retail Consumption because the base is very small, but the driver of this book is still largely the SME book, jointly with the Retail Commercial Lending book.

**Nilesh Parikh**: MSME piece would be a part of the Branch Banking?

**Rajat Monga:** SME book is also run by the Branch Banking leadership, so it is being branded through branches, let us say if you are doing a Commercial Vehicle Loan or a Construction Equipment Loan or Medical Equipment Financing or Lending against Gold Jewelry or Mortgages or Housing Loans, Car Loans, all of this comes in the Retail Banking leadership. But, when you step into some of the SMEs, while it is part of the same Retail Banking leadership, there are second level leaders which are different. So all of this is under the same leadership Branch Banking and these are essentially the same philosophy of lending but from micro to large.

**Nilesh Parikh:** Any specific targets in terms of the proportion, where does it move over the next couple of years?

**Rajat Monga:** Yes, I think it should be nudging up, I would say close to 3% higher a year in terms of the business mix.

**Nilesh Parikh:** In terms of the financial markets, how much of that would be trading gain?

**Rajat Monga:** Not much, may be Rs.5-10 crores will be trading, we are preserving.

**Moderator:** Thank you. The next question is from the line of Abhishek Kothari from Quant Capital. Please go ahead.

**Abhishek Kothari:** Credit substitutes have increased sequentially. So anything to read in that and what is the average yield on the Credit Substitutes?

**Rajat Monga:** Credit substitutes actually may have decreased, customer assets have increased; customer assets includes both loans and Credit Substitutes. So the difference actually has come down which means that the Credit Substitutes have reduced.

**Abhishek Kothari:** But, on a calculation basis for customer assets minus advances, it is showing an increase.

**Rajat Monga:** So you see Rs.78,000 crores of customer assets in December, Rs.66,000 crores of loans, so the Credit Substitutes is Rs.12,000 crores the difference. So if you look at September, it is Rs.13,000 crores the difference, so Credit Substitutes have come down by Rs.1,000 crores.

**Abhishek Kothari**: What is our average yield on that book?

**Rajat Monga:** About 10.75%.

**Abhishek Kothari:** Could you also give the average Saving Account cost for the quarter?

**Rajat Monga:** It is 7 to 7.1 range.

**Moderator:** Thank you. The next question is from the line of Adarsh P from Nomura Securities. Please go ahead.

**Adarsh P:** First question on the LCR buildup of investments. Just want to understand after the buildup where are we on LCR compliance, and more importantly, I think there were some relaxations, which one of the monetary policy statements gave, this build up in that context as well?

**Rajat Monga:** Yes, so we are compliant by what the requirement is and LCR is a daily changing number because it changes almost every day. So we are compliant with a sufficient margin if I may say, what was required to be done by January we have already fulfilled.

**Adarsh P:** We will be like 60% and we need to go to 100%, so that will be over a period of time?

**Rajat Monga:** Yes, so we are already more than 60% and 100% is not too far, in the sense that and plus there is no hurry, because some of the achievements has happened by increasing the holding of liquid assets. Now the remaining achievement will not happen by holding of more liquid assets, the remaining achievement will happen by improving the liability profile, which is anyway happening. So, as CASA mix improves, my liability profile improves, so my LCR requirements come down, but the percentage of LCR is increasing over the next 5-years. So I think our work is done more or less. As requirement from RBI increase, our funding mix is anyway improving so that will keep playing each other, and we will be left with just handle the error.

**Adarsh P:** So means strain from the lower yield investment, yield should not be a material part going forward?

**Rajat Monga:** Not incrementally so. Like I was mentioning we are already holding about 6% of excess SLR and it is already in the territory which is closer to a criminal ratio, if I may say. So there is no point holding more liquidity this is over and above the reserves we are holding in any case. So there is also likelihood that RBI may want to still think of more management of LCR going forward basis the monetary policies step that you are mentioning, they are cutting SLR as well, so SLR gets cut and the monetary policy dispensation is maintained, your LCR compliance moves up automatically. Let us say the 90% issue has been tackled, 10% will be always be in the maintenance sort of zone.

**Adarsh P:** But my question was that in spite of that benefit we had to invest a little bit to get compliant this year?

**Rajat Monga:** We have to invest a lot.

**Adarsh P:** On the SA accretion part of it, obviously, there is a little bit of volatility, but what I wanted to check is last three years, if I look at the nine-month accretion, I think this year it has been lower than what we have seen in the last two years. So anything in that context in terms of account additions and how balances are moving so that to get some context?

**Rajat Monga:** The additions are also being affected by the fact that we are moderating prices, we are moderating the uptick of customers we are focusing better, at some level we have to open accounts, but we do not have to open all accounts. So I think the idea is to get more transacting accounts more higher balances, so the average statistics, the mean statistics, the median statistics balances continue to be improving. Volume is not something that is worrying us much; some up, some down will happen, and also depends on what were the competing let us say same time last year, money was moving away from mutual funds to banks, so SA was being helped, this year the vice versa is happening, people are again trying to ride the yield curve lower, so it changes the asset allocation. I am not we are not particularly sort of weighing this too much. What we are looking at is that the customers that we are getting, are they the ones we require? The answer is a very vehement 'yes'. Are the customers transacting well and maintaining good average balances? The answer is also vehement 'yes'.

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

**Amit Ganatra:** What is the risk weighted assets as of this quarter end?

**Rajat Monga:** Rs.96,760 crores, so it is closer to Rs.97,000 crores.

**Amit Ganatra:** Capital consumption has been pretty fast in last three quarters. At same run rate, we will once again reach almost 9.8% in next 1.5 years. Any comment on that?

**Rajat Monga:** No, capital there were some adjustments in first quarter because new RBI they had increased capital requirements, for example, the foreign exchange open exposure-related they had introduced capital requirements on CVA, which is related to derivative, so there have been some one time adjustments that have also been taken in first quarter and partly in the second quarter. The capital drawdown that you are seeing in the last three quarters you should not extrapolate that. So most of that has already happened.

**Amit Ganatra:** Because 80 bps consumption in last three quarters, it is a very high run rate in terms of consumption because you are generating 19%-20% ROE, still…

**Rajat Monga:** If I am growing at 30% hypothetically risk weighted assets and we are generating after dividend ROE of 20%, I am taking very illustrative numbers, I will lose 1% to 1.2% of capital every year, I will lose 10% of capital, because the numerator is growing by 20%, the denominator is growing by 30%. We can slow down the growth, the controls are with us, we can sell down more, ideally we will not want to do less business, but we would rather distribute more business away.

**Amit Ganatra**: To put it other way, when you last raised capital what was the cycle during which this capital should have sufficed you, Rs.3000 crores raising that you did?

**Rajat Monga:** If our growth is 20% and ROE is 20 to perpetuity I do not need any more capital, because the numerator and capital adequacies capital that grows at 20%, the denominator is risk weighted assets, that is also growing at 20%, the ratio will always be constant with some noise. But, if the denominator like I was explaining is growing at 30%, you will lose 10% or 11% cap add every year, it is just a very illustrative mathematics.

**Moderator:** Thank you. The next question is from the line of Yash Mehta from Equirus Securities. Please go ahead.

**Yash Mehta:** What was the amount of MTM reversal that happened and any corresponding back on the other income side?

**Rajat Monga:** MTM reversal we would have done maybe to the extent of between Rs.10 crores and Rs.15 crores and there is no impact on other income.

**Yash Mehta:** Can I have the break up between SME and Retail within the Branch Banking space?

**Rajat Monga:** It will be 60-40 in favor of SME.

**Yash Mehta:** What is the SA balance?

**Rajat Monga:** Rs.10,900 crores.

**Yash Mehta:** Can you provide me with the NPA movement?

**Rajat Monga:** New NPA added is Rs.67 crores.

**Moderator:** Thank you. The next question is from the line of Manish Chaudhary from IDFC Securities. Please go ahead.

**Manish Chaudhary:** Just wanted to understand this Branch Banking book in a little bit more detail within say Retail, Consumer, Commercial, SME, and Agri. Could you provide some amount of breakup there and then some indication of growth rates?

**Rajat Monga:** If I have to look at Consumption Lending let me say, which will include Housing Loans, Auto Loans, and Personal Loans that will be about 3% to 4%, now I am looking at 3% to 4% on 100, where Branch Banking is 31. You would have to give about 2% to 3% to Micro Lending which will be micro finance, lending to self-help groups and the like, you will have to give about 6% to 7% to CV/CE, Medical Equipment Financing, give about 3% to 4% to supply chain financing which will include inventory, invoices, dealers, vendors, about 7% to 8% would be SME, which would be, let us say, working capital, term loans, LCs; LCs will not be part of loan book though, but essentially Commercial Banking Lending to small businesses which are below Rs.100 crores of turnover, and another 4% to 5% would be let us say the lower end of emerging corporates as we were discussing a bit earlier on another question on the call, I think that should stack up.

**Manish Chaudhary:** Just to understand a little bit more in terms of say next couple of years, where the growth in the Loan book will come from in respect of these 7-8 segments, at least a larger part?

**Rajat Monga:** We are very positive about Consumption Lending, Self Help Group Lending, we are neutral on CV/CE, we are positive on supply chain financing, and we are neutral on SME and neutral on the Commercial Banking part which is under Branch Banking. When I say neutral they should grow in line with the overall bank's growth, the positive ones will be the ones which for now will be doing, the view might be different 6-9-months down the line.

**Manish Chaudhary:** What portion of this 31% would be bought out book?

**Rajat Monga:** That will now cut across, so it could be part of supply chain, it could be part of commercial vehicles, it could be part of micro finance, so all of that, I think somewhere in the 6% to 7% range will be the bought out.

**Manish Chaudhary:** What number could it have been say about a year or two years ago just roughly if you…?

**Rajat Monga:** 8-9%, the bought out book number is going down. So please excuse if our growth is not looking as much as I am trying to present because the bought out book is reducing.

**Manish Chaudhary:** Just to round it off, on an organic basis, could you give some sense of the YoY growth in the rest of the book, I Mean, the non-Corporate?

**Rajat Monga:** Some parts will be 100% also, but my guess is closer to 40-45% organic book.

**Moderator:** Thank you. The next question is from the line of Nikhil Bhat from Barclays. Please go ahead.

**Nikhil Bhat:** Could you give an idea about the RWA growth year-on-year? You mentioned the number for this quarter. Also, I wanted to understand RWA growth in relation to Loan growth year-on-year, if you could kind of compare the two?

**Rajat Monga:** We are looking the numbers up, I am not sure if he has them right away. If you have any other question, otherwise we will answer this as and when we get the data on while we are on the call only.

**Nikhil Bhat:** Sure, thanks a lot.

**Moderator**: Thank you. The next question is from the line of Nilesh Parikh from Edelweiss. Please go ahead.

**Nilesh Parikh**: You mentioned on the call about that the yields on the Credit Substitutes is about 10.75%, is that the right number on the…?

**Rajat Monga:** That is approximate number, yes.

**Nilesh Parikh**: If you could just talk about the rating distribution of that portfolio?

**Rajat Monga:** The portfolio is at least 80-90% between AA+ or Tata Group as the minimum criteria, if that helps, I am not too sure, 80-90% of the book either has a AA+ rating or better or is a Tata Group company, those companies do not all have AA+ rating, many of them are AA, (AA-).

**Nilesh Parikh**: Given that what has happened to yields, so we should be setting on a substantial because if you are looking at the fresh AA+ or better or the Tata Group companies would probably be borrowing much at much final rates today?

**Rajat Monga:** This portfolio will have legacy positions also. We are still holding on to some positions where people were assuming last year or rather about 15 months ago that we should be having significant losses for example. So while those positions might be in profit, but this book on an average have profit, but not that this is a number that we are measuring already, because even if I measure the number, it is not that I can sell this in a few days, even if I decide to sell all the book it will take me a year-to-year-and-a-half to sell the whole book, because these are not G-Secs which can sell overnight, these are Corporate Bonds, which will have to wait for the investors who have to build the demand, in turn have funds to invest, and then we will be able to distribute this book. So we do not measure the profitability simplistically that okay, yield is 10.75%, maybe today average yield is 9.5%, so we should be about 1% in the money, multiply by duration, multiply by the book, no, we are not doing that, because it is not going to materialize and realize like that. Will we have gains to book from this book? Yes, we will have gains to book. We can calibrate that.

**Nilesh Parikh**: But the intention at some point would be to downsize, right…?

**Rajat Monga:** We also keep adding new positions.

**Nilesh Parikh**: But given where the current yields are basically rolled, then on the outlook also in terms of…?

**Rajat Monga:** I might still have some legacy positions which are still out of the money for example, because this is a 5-year-old book in the making.

**Nilesh Parikh**: My question is that substantial part was built, if you leave aside last year, I think over the last 2.5 years, we ramped up this book?

**Rajat Monga:** Absolutely. To say that, "Will all the position be mostly in the money?" Yes, that is a fair assumption, but please do not relate that we bought everything at the peak is all I am saying. Related to the fact that we have been buying it to an average over the first three of the last four years, and then you relate it to what the rates now are, that will possibly give us a better sense and that also is a very approximate way of finding it out, because the book also churns.

**Nilesh Parikh**: In terms of the mix between the Credit Substitutes and the loans, fair to assume after that from 21% it is now up to about 14%-15%, that will remain close to these levels or can actually shrink further?

**Rajat Monga:** While we are reporting a reduced Credit Substitute position this quarter, according to me, the tendency is already that the credit substitute book should be increasing vis-à-vis the Loan book, but we are reporting a slightly counter number than what I am suggesting, because the new propensity of issuance has increased by corporates, that is because the difference between borrowing rates and bond yields is at a reasonable gap, no borrower will get a bank loan below 10%, but today, the best of the borrowers who can issue 10-year bonds at 8.5%, and 8.5% is an annual yield and 10% is a monthly payable base rate. So if you look at the gap there will be continuous issuance by corporate in this backdrop. It could also happen that if RBI cut rates, banks drop base rates, bond yields are already reflecting that, the gap will narrow. So the circumstances are such that the Credit Substitute book should again be growing in relation to the Loan book, but what we have also witnessed is that the Loan book also has had a very accelerate outcome in the last two quarters, again supported by the fact that we had more capital and we could afford to distribute less, keep more.

**Nilesh Parikh**: If you are talking about granularity in the Loan book, so basically, we will be picking up more of Retail and Branch Banking-led SME. So that demand may not shift to the…?

**Rajat Monga:** It will not affect.

**Nilesh Parikh**: Only the Large Corporates maybe…?

**Rajat Monga:** Absolutely. What I was mentioning in an earlier question was that we also are holding bought out retail assets. If we are originating our own retail assets, the bought out we will start holding less, we will not replenish the bought out, so that will also be a negative on the growth. So there is an interplay between both Credit Substitutes and Loans as well as retail and the boughtout. So boughtout could be the Credit Substitute equivalent in the comparison, but we report that as Loans, because they are bought as Loans.

**Moderator**: Thank you. The next question is from the line of Manish Chaudhary from IDFC Securities. Please go ahead.

**Manish Chaudhary:** Just going back on this Credit Substitute issue, the gains you are sitting on it, if you remember last year, you had the swaps against them, so you did not have process? What is the status of those swaps – are they in the money, out of the money or they are out so completely?

**Rajat Monga:** The swaps are still there, but swaps are now covered by G-Secs, and it was convenient because we had to build LCR as well in the same sort of backdrop. Swaps exist, but they are no longer hedging the Corporate Bonds. Please tell me where I am sort of not making sense.

**Manish Chaudhary:** Earlier there used to be swaps both for G-Secs and…?

**Rajat Monga:** Earlier, the swaps used to be only for G-Secs. Let me start with that, when the rate environment was changing, we sold those G-Secs. So I still had swaps and they were effectively then covering my Corporate Bonds effectively and we added some more. But some more was 20%, the sale of G-Sec and opening in the swaps up be opposite for Corporate Bonds was the 80%. Now we bought the G-Secs back effectively, and that was also needed because LCR was to be built.

**Manish Chaudhary:** So in effect, the swaps are now covering the G-Secs part?

**Rajat Monga:** Yes and Corporate Bonds are not being covered by swaps. So while we are reporting losses on swaps, we are also reporting gains on G-Secs, so you are not seeing that coming through as a net number.

**Manish Chaudhary:** That is where your G-Sec gains have been negated largely by the swaps?

**Rajat Monga:** Yes, we could have taken more G-Secs, because we are not into G-Sec trading at all, we have very little market risk appetite on G-Secs. The G-Secs are there…

**Manish Chaudhary:** In the last 3- 6 months rates are fallen on G-Secs. So you would have been sitting on gains, but because of the swaps that has been negated?

**Rajat Monga:** Absolutely, yes. And we will not show G-Sec gains other than sale from HTM, which will happen in the March quarter and later, because we are now cutting HTM, those gains will come, but that is not like trading, those are held in held-to-maturity, no mark-to-market and we are selling because we have to now cut our HTM portfolio.

**Manish Chaudhary**: That will cut your overall SLR as well, right?

**Rajat Monga:** Yes, but since I need more excess SLR, I will replenish, but I will buy shorter dated paper; I will buy T-Bills.

**Manish Chaudhary**: So now effectively, the Corporate Bond book is free of any lien?

**Rajat Monga:** Yes and Corporate Bond like we were discussing in the earlier part of the call also has some latent gains. So latent gains will first act as a cushion, let us say, for whatever reason, rates begin to go up again. Firstly, have latent gains, I will lose those gains and I will buy time to put any mitigant strategy which could again be sell G-Secs and open the swaps, for example.

**Moderator**: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Manish Karwa for closing comments.

**Manish Karwa**: Yes, Hi, thanks, everyone for joining the call. Thanks, Rajat, Jaideep for being on the call.

**Moderator**: Thank you. On behalf of Deutsche Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.