"YES Bank 3Q FY16 Earnings Conference Call"

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Operator

Thank you for standing by and welcome to the YES Bank 3Q FY16 Earnings Conference Call hosted by Nomura. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session.

I would like to hand the conference over to Mr. Adarsh, over to you, sir.

Adarsh Parasrampuria

Hi, hi everybody, good evening. Sorry, apologies for the technical issue. On behalf of Nomura, we would like to welcome the top management at YES Bank to discuss the 3Q FY16 Results. From the management, we have Mr. Rajat Monga, Senior Group President, Financial Markets and CFO; Mr. Pralay Mondal, Senior Group President, Branch and Retail Banking; Mr. Sanjay Palve, Senior Group President, Corporate Finance; Mr. Ashish Agarwal, Senior Group President & Chief Risk Officer; and Mr. Jaideep Iyer, Group President, Financial Markets. Thanks for giving us the opportunity.

I'll pass it on to Rajat for his opening comments.

Rajat Monga

Thanks, Adarsh, and thanks everyone for the patience. We will get on into the call directly. We'll try and – in the interest of time, tighten the briefs a bit in terms of the commentary and we will hopefully spend enough time for question-and-answers as well. So very good evening to all of you and I welcome you to the conference call for the third quarter fiscal year 2015-2016 results of YES Bank. Thanks, especially for this being a late Friday for many of us.

I would like to quickly begin my commentary with a macroeconomic backdrop that we have been witnessing and experiencing in the Indian operating context, as well as the global economic environment influence, which is currently marked by a sub-trend growth, broad-based disinflationary conditions and a degree of volatility, which has been associated with the markets among others due to the U.S. Fed's policy normalization, that has begun; as well as the rebalancing of the Chinese economy to a more consumption-driven model. We are seeing some knock-on issues and consequences on the Indian markets and businesses as well. Some of this has also resulted in headwinds for Indian exports, which have contracted about 19% year-on-year basis.

On the broad growth front, the GDP momentum has held up and has maintained about 7.3% trajectory of growth for the current financial year, essentially supported by increases in domestic manufacturing and domestic production. The government, on the other hand, continues to take both micro and macro reform initiatives with a degree of trust on the public capital expenditure, particularly in sectors like roads, renewable energy, civil aviation, power, food possessing and shipping. We do expect that this will result in a more crowding in of private sector investments, though there will be some lag in the same taking place.

Some of the recent developments also include the spending thrust that will be generated on account of the seventh Central Pay Commission recommendations, which are likely to put more disposable income in the hands of many employees and should have a support system lining up for the consumption part of the domestic economy going into the fiscal year 2016-2017.

Commodity prices have been playing varied roles in the Indian context as well. Crude oil prices have fallen additional 19% in this month itself, after having fallen 15% in the previous quarter, which is the third quarter. The levels of domestic capacity in general continue to be on the lower side and we also expect that the Indian consumer price inflation will undershoot the RBI target of 6% by at least 50 basis points, maybe 60 basis points as well. And we do believe that should open up a space for some more rate easing by the Reserve Bank of India.

We do expect a cut though after having seen the outcomes of the Union Budget for the next fiscal year, which will be announced by the end of the month of February. We believe the overall macro conditions are continuing to be supportive in a progressive manner. It is however taking its time for that to translate into increasing economic activity, which continues to be on a gradual uptrend. And we do believe that the policy facilitation environment for the economic improvement will continue to gain more and more traction over the coming quarters. The trajectory is upward, but the momentum is only building.

We also saw a couple of regulatory developments take place in the quarter gone by, one was on asset quality of the Indian Banking System where the Reserve Bank of India had conducted an asset quality review across banks to assess the situation on the NPA position of banks as well as the recognition of asset quality conditions. This was probably the first time RBI conducted an asset quality review on a concurrent basis where they were looking at data for banks and on a concurrent basis, usually, they look at credit quality data of banks on an annual basis, but each bank has its own cycle. This was the first time you saw they do it on a concurrent basis and some of the outcomes have been shared by various banks and we will also detail this during this call.

The other development which took place was the change of regime of loan pricing, where RBI has introduced the MCLR, the marginal lending rate per process of RBI has been formalized with the proposed introduction of MCLR. YES Bank has maintained its old base rate always on a marginal pricing principle. So we are not looking at any major outcomes on account of the shift from base rate to MCLR, at least not so on margins. It will create its own complexity in terms of having multiple rates and multiple pricing. I think it also gives us, YES Bank, an opportunity to rebase its lending rates, which were set five years ago on a very different operating construct. So we do believe this will be a good opportunity for YES Bank to set its base rate in line with the retail banking objectives as well.

I'll spend some few moments on the financial performance of the bank as well. We believe this quarter has been another sustained financial performance from the bank on the back of moderately improving margins, a stable situation on asset quality and progressively improving the retail banking franchise. The bank is reporting a year-on-year asset growth of about 20%. The bank's asset book is now INR 1.48 trillion. The book between – the asset growth was largely led by the growth in advances which was 26.7% for the year-on-year comparison; so taking our loan book to a number of INR 844 billion as at December 31, 2015.

The growth as we have witnessed, it continues to be diversified across several sectors and the contribution of retail and business banking continues to increase although from a smaller base. The retail and business banking book has grown at the rate of 33% and within that, the micro and small enterprises and the consumer banking group's books have both grown in the vicinity of 50% on a year-on-year basis, having the benefit of relatively a smaller base in the previous year. We do continue to expect the contributions from retail and business banking will grow and maybe should see them land to as much as a 45% share of the loan mix by the year 2020 and we're focusing, creating teams and Pralay will possibly outline a little bit more on that side as well.

On the deposit side, we had a healthy 23% growth on year-on-year basis and we have crossed the INR 1 trillion deposit mark in this current quarter. Our total deposit book size is now INR 1.01 trillion. CASA deposits continue to improve; we are now at a 26.6% CASA mix, which is a 4% increase from the same period last year. Between current account and savings account, savings accounts continue to dominate the outcomes. We are reporting a 64% increase in savings account balances on a year-on-year basis to almost reaching Rs. 180 billion.

The savings account book has also gone through a 1% pricing correction in the last quarter. With effect from November 1, the bank had dropped its flagship pricing rate of 7% on its savings accounts, down to 6%, and they seem to be sufficient, continuity and momentum in the underlying business. It seems that the savings account book has navigated this pricing correction effortlessly for now.

Besides the CASA retail granular deposits continue to do well. The bank's position on retail deposits combined with CASA is now almost 54% of the total deposit book of the bank. This number has also improved from 45% same time last year to now 54%, which is a 9% of shift up mix of bank's deposits in favor of either CASA or retail time deposits.

A few highlights on the income statement of the bank as well. We are reporting a profit after tax of Rs. 6.76 billion, which is a 25% growth on a year-on-year basis. This was well supported by a 27% growth in net interest income, and a sharper 38% growth on the non-interest income lines. Net interest income line also benefited from a 20 basis point year-on-year improvement in margins. We are reporting a margin position of 3.4% for the last quarter, as compared to 3.2% for the corresponding quarter of the previous financial year.

We continue to maintain an upward bias for margins, as we see further improvement in the CASA mix of the bank. From 26%, 27% range, we still are working towards a plan, which should take it to closer to 40% over the next three to four years. This progressively should continue to feed into margin improvements as the CASA growth materializes, also supported by an increasing share of retail and SME lending on the asset side of the book as well.

On the performance ratios, the bank has had a fairly improved outcome on both return on assets and return on equity. We are reporting an annualized return on assets at 1.8% and annualized return on equity at 20.5%. We'll spend some more time on the data related to asset quality outcomes as well. The gross NPAs of the bank stood at 66 basis points and the net NPAs stood at 22 basis points. This represents a provision coverage of about 66.5% as of December 31, 2015. There was a gross slippage of Rs. 288 crores and a recovery of Rs. 92 crores during the quarter, resulting in a net slippage of about Rs. 190 crores.

The bank continues to maintain a contingent provision, which now stands at about 40 basis points of the loan book. Also because of lack of top-ups, this provisioning has pro rata run down because of the growth in the loan book as well. The credit cost for the quarter was about 14 basis points, annualizing to about 57 basis points. The credit cost for the nine months stood at 45 basis points. The bank is also tightening its provisioning guidance, as a consequence for the financial year from last indicated 50 to 70 basis points. We are now suggesting that the full-year provisioning or credit cost for the bank should be below 50 basis points factoring the expected developments of the fourth quarter as well.

The Bank did not do any restructuring in the current quarter nor did it see any slippages from the legacy restructuring book to an NPA classification. The standard restructured book now stands at 67 basis points to a total loan book, again has had some small repayments, but a higher base effect where the nominal percentages have come off from the previous quarter. But there's not been a whole lot of movement within the restructured book, some modest recoveries have been happening. But we are indeed observing 12 out of our 15 restructured accounts are showing progressive improvement and are approaching more and more normalcy of performance given that most of the bank restructurings were done with reasonably sound asset preservation logic.

The other three remaining accounts also the bank is working to create some resolution outcomes. But the 12 clearly are looking more constructive and positive out of the 15. The bank did not make any fresh sales to the ARC, loans or NPAs, no loans or NPAs were sold to ARC during the current quarter and last five quarters as well. The position remains at Rs. 212 crores, which is 25 basis points of advances as far as the ARC receipts is concerned. We do believe there are prospects of a recovery, which are improving on the realization of these receipts as well. There should be – the bank is on the belief that about 35% cash redemptions on account of these security receipts should be lining up in the next quarter or two as well.

And most of the remaining ARC positions continues to be backed by hard collateral, but there is more work, which has to be done to convert that into cash realization. The bank also did not undertake any SDR during the quarter, nor was there any refinancing done on the other 5/25 basis. The portfolio on aggregate continues to be well rated. And we have 75% of the portfolio of the bank which is rated A or better. But the investment book also is of very good vintage, extremely well related. We have only one position in the investment book, which stands below investment grade, and that is only a small position of Rs. 50 crores.

And the references to investment book are all on the basis of external ratings since they will all have 100% externally rated. The small exposure below investment grade also is not too far from being received in terms of its redemption of the underlying instrument.

As you will be well aware, Reserve Bank of India had carried out an exercise of sorts to assess the asset quality position and the Bank has also been given its share of actions, which has been duly noted by the Bank and have been acted upon as well. We do believe that about 75% of the impact on account of RBI recommendations has already been taken in this current quarter, we may have taken higher provisions than what RBI would be recommending. I'm not factoring the higher provisioning in suggesting that the Bank has taken 75% of what RBI would have required us to take. There will be some follow-through in Q4, but that has been factored when we are suggesting that our credit costs should remain within 50 basis points for the year and therefore within 16 basis points for the fourth quarter adjusting for the pending RBI actions. And the reason they are pending mostly is because the Bank still believes that there will be a repayment or resolution, which can happen on the minority of the remainder of actionables.

So The asset quality outcomes, I think, we can at this point in time, say that they represent fairly the better or superior customer acquisition and engagement that YES Bank brings to the table.

The bank’s risk management practices have also been tested for the last eight years, since the global financial crisis. And we’ve had variety of crises, global or Indian since then. The Bank has been tested for its success on proactive monitoring of problems and early resolution as well as also in efforts to resolve problems even when some of the earlier resolution attempts don’t succeed.

We’re also very happy with the overall risk governance structure, including being continuously monitored by a Competition Board, a big four auditor and also receiving constructive guidance from the regulators from time to time.

Some of the outlier decisions that the bank took have among others also its decision to exit the corporate debt restructuring process as far back as 2012 has also helped the bank deal with this problems on itself, and create resolutions, which are appropriate to its own interest and in the process preserve, wherever possible, the economic value of the underlying asset of the borrower as well. I think the combination of all these factors, we believe is putting the bank in a very good position to seek more growth and to execute the plan, the bank’s growth strategies across both retail and corporate sectors over the years to come.

We've also seen proportionate reductions in many of the monitorable sectors, which might include electricity, iron and steel, construction, commercial real estate, roads, all sectors have seen reductions in proportions of exposures, through repayments, we're also seeing churn in many of these sectors.

I would also would have wanted a few quick comments on capital adequacy. And I would also want our Head of Retail Banking, Pralay Mondal, to give his perspective on what we are doing on retail banking business as well.

But before that, I will just put few more data points on the financials. Our capital adequacy, the total capital adequacy position is being reported as 16.1% and within that, Tier 1 capital ratio is maintained at 10.9%.

The total capital funds of the bank are at Rs.195 billion as at December 31. The bank has also raised a tranche of Tier 2 capital from one of leading Indian financial investors for an amount of Rs.1,500 crores – about Rs.150 billion of Basel III compliant Tier 2 bonds.

The LCR coverage position of the bank continues to be healthy at 88% and has been improving. Bank has been making many initiatives on the digital banking space as well. We can discuss that in detail if necessary, but among others, they include a smart box collection solution for ecommerce delivery, a co-branded wallet and a virtual credit card amendment with a Snapdeal Freecharge collaboration.

We've also launched YES tag which is the banking solution available on social media apps. There are some basic banking querying and transactions can be done through Facebook for instance.

We continue to be focusing on social media as we believe that will become a powerful engagement source of bank with the wide variety of potential customers. The Bank was also ranked at a number 11 globally in the Power Hundred Social Media Ranks. This exercise is run by the financial brand for the year 2015.

The Bank continuous to get accolades and encouragement. We were recognized as the Bank of the Year for the year 2015 by The Banker magazine, which is a part of the Financial Times Group out of the UK. I think it's a very prestigious recognition for the Bank. We also have been recognized as best mid-sized bank by the Business Today KPMG survey, best business Bank in quality of assets, best mid-sized bank on growth and also the most improved bank for some reason. We will also adjust as the strongest bank in India by balance sheet for the year 2015 by the Asian Banker magazine. And this is the third time in the last four years that the bank has received this recognition. We also were recognized at the ET Best Corporate Brand 2016 awards run by the Economic Times publication. We continue to do well in terms of initiatives on the social banking side and we can get into details if necessary. And I'll take this opportunity also to get some comments from Pralay Mondal on how we are progressing on our retail banking business. Pralay, please.

Pralay Mondal

Thank you, Rajat. So while Rajat has given most of the numbers, I will primarily focus my commentary on the qualitative aspects of what we're doing on the retail side. Broadly, the numbers as Rajat said that we have grown the SA deposits by 64% year-on-year. Our CASA ratio has improved by 1.2% to 26.6%. Retail plus TD plus CASA is almost 54% and year on year growth on the deposit franchise has been significant on a year-on-year basis. So, leaving aside the numbers, I'll just talk about little bit what you're doing on the retail side. If I go back two, three years back, we were primarily focused on building our very strong liability franchise, backed by the distribution and creating a one-stop shop franchise in the retail segment for all customers. So now, that job is pretty much on the momentum right now because quarter-on-quarter, the growth what we want to have is happening and parallelly what you are building three, four ecosystem and that's very critical to build up a long-term quality retail franchise. One is building a very strong retail assets franchise.

Building a very strong business banking franchise on the back of distribution. Building a best-in-class credit card franchise because at the end of the day to build up strong retail franchise credit cards is the top of the wallet product for all customers. So we are working very hard on that and we are going to launch that in the next quarter. And we have also created an ecosystem in terms of distribution, people, networks and technology, which is going to create the future for the retail banking. So in short, what I am saying is that our monoline business in a retail franchise is not a long-term solution. So we are building these four, five vectors around it, so that we have a one-stop solution to all customers and today what growth we're seeing on retail, on the liability side, the momentum is pretty much there and it is continuing on an auto mode right now.

Each of these levers which we're creating, whether these are credit cards, are they retail assets, whether this is a business banking, whether in the fee side; each of these is going to leverage that and the operating leverage will create a multiplier impact even on the liability base, while we build up that asset franchise, because most of the businesses, we will obviously cross-sell to our existing customers. So the fundamental difference between what we reported in the last one year and today is that the liability franchise momentum is strong and we have created significant leadership within the other businesses, which I just talked about.

For example, our retail assets, we have got a retail assets head who has joined us from one of the largest institutions and has built up one of the best retail assets franchise in the country, his name is Rajan Pental. We have created a significant expertise in the retail risk side where we have created one of the senior most -- we have hired one of the senior most people in the industry. We have got one of the best brand service delivery and contact center experts because at the end of the day, customer service is going to be key to what franchise we built.

We've hired one of the senior most credit cards professional within the industry who has built up the largest businesses, both on the equity and the issuance side and also we have hired one of the senior guys in the commercial business banking space and who also has large understanding of the distribution side because in the end, as we grow granular, the granular distribution-based business banking is going to be the key, because the bottom of the pyramid also helps us in creating the larger PSL base which is on the MSME side. And that is something which we leverage on the distribution in a big way.

On the distribution side, we have added 50 branches in the last quarter and we are on 750 branches as we are talking today and we hope to at least add 150 branches next year and reaching – by 2020, we should be reaching 2,500 branches. On the people side, we have now almost 75% of the bank's stuff within the retail now. We have around 10,000 people in retail and even in the last quarter as a bank, we had the highest tiring in the bank around 770 people out of that, almost 700 people are in retail.

We are investing significantly into the back office and the technology side. We are creating a very, very large, a more than five lakh square feet area in one of the southern states in the country, which will be supporting the internal distribution in the business which we're creating. And within each state and in city, we are significantly building up infrastructure which is just beyond branch which will leverage the – on which the entire retail assets, stars and any other business will get leveraged.

And lastly, I'd like to report that all this will be on the back of a very strong technology backend which we are investing into, whether it is CRM, or thy are in the core system, whether it is in the card side, we are going at fast times out of best systems available in the world.

So, in short, we are putting everything together to now get a multiplier impact on our liability momentum which we have created and it will take two to three years to see all these operating leverages coming in and having a multiplier impact. Why this is going to happen? The momentum on that will continue to grow and along with that, the entire ecosystem will keep building it up on the ground and will create a much larger franchise and that's the multiplier impact which we get in retail once you are in that particular business for four to five years and we have. And I'm reasonably sure that by 2018, this entire multiplier impact will start showing up across just not in retail liability but in fees, but in assets, cards, everywhere.

So, overall, I think we are sort of having that confidence right now and the other thing is that we are not hurrying into any of these businesses, because what happens is in retail, if we – on the asset side or the business banking side, if you want to grow too fast, people generally tend to make mistakes. So we are very clear that we will build up our good portfolio, we'll go through these cycles, we will go through around certificate analysis and then we will create distribution and growth.

So that's broadly where we are whether it is in the people distribution, products, processes, service, contact centers, digital which I just talked about. And finally the delivery system which we are focusing on is our technology platform. We believe that today we are ready to have a full – a 360 degree retail franchise ready, some it's showing and is going to show in the next 12 months to 18 months.

So that's where we are on the retail side. Over to you Rajat.

Rajat Monga

Thanks, Pralay. I think we can head into question-and-answers. So the operator can help us with that.

Question-and-Answer Session

Operator

Certainly, Sir. First we have Sanket, from IC Mumbai. You may ask a question.

Mahrukh Adajania

Yes, hi. This is Mahrukh.

Rajat Monga

Yes.

Mahrukh Adajania

Yes, Hi. Congratulations.

Rajat Monga

Go ahead. Thank you.

Mahrukh Adajania

Yes, hi. I just had a couple of questions.

Rajat Monga

Yes.

Mahrukh Adajania

One is that, when you said that 75% of the RBI list has been daily care, it doesn't necessarily mean in this quarter or it could have been in the previous quarters, because anyway it could have slipped in the previous quarters and does it also mean recognized only through slippages or also through repayments and other means?

Rajat Monga

Well, let's say, 75% will clearly be, we will be referring that to the actionables on account of the bank. And you're right, there are some past actions that have an overlap because RBI has decided to reference their recommendations with a reference date of March, 31. So any action that bank has taken since then has been overlooked by RBI and there is an overlap clearly. So when we say 75%, we are saying 75% of the actionables only have been tackled by the bank.

Mahrukh Adajania

Okay. So not the list but the actionables. So there may be something has slipped or repaid then that way?

Rajat Monga

See, let's say by number, the majority will go into NPAs we recognized in Q1 and Q2. So there is some overlap. So that is an action bank has already taken. There would be other situations where money has been received in ordinary course and therefore, the principal amounts have come down or be revised. So the actionable will be then left with only with the remaining principal amount.

Mahrukh Adajania

Got it. Got it.

Rajat Monga

So we are clearly saying that 75% of the actionables have been tackled. In fact, the provision we have made in the current quarter, maybe more than what 100% of actionable from RBI standpoint is required.

Mahrukh Adajania

Got it.

Rajat Monga

Because the RBI might say 20% provisioning, we are saying no, we will take 65% provisioning.

Mahrukh Adajania

Got it. So, but sir, basically, if your slippages is were, say Rs. 3 billion this quarter, Rs. 2.8 billion this quarter and next quarter, you are saying that only 25% of the actionable is remaining at best, that loan might be recovered or become standard or whatever. So that means that now this bridge is in 4Q would be much lower?

Rajat Monga

Well, slippages...

Mahrukh Adajania

Given that 25% slipped.

Rajat Monga

Well, let's say, slippages will be lower, that's fair. The reason we have, let's say differentiated between Q3 and Q4 on the 75%-25% is because we do believe there is – there is still a recovery or repayment possibility in the remaining 25%. So we clearly want to take the benefit of those incremental three months as well.

Mahrukh Adajania

Okay. Got it. Sorry, sorry, please go ahead.

Rajat Monga

No, I was saying that from the actionable standpoint, one is looking at, okay, what is the NPA classification pending and what is the provisioning pending?

Mahrukh Adajania

Right.

Rajat Monga

So broadly speaking, 75%, 85% is the – let's say the actions that have been taken, minority remains.

Mahrukh Adajania

Got it. And the other question I had is on your fee exposure. The A and above rated has gone down sharply, so whatever repayment has come in is in this category largely, would that be a fair statement?

Rajat Monga

No, both, because our proportions haven't I think changed a whole lot. So it has been on, I know we have sold some bond positions which were AA+ and I also know we've had a recovery on difficult steel account, so it will be both.

Mahrukh Adajania

Okay. And just one last question, would you give any indication of what your exposure to large overleverage group had perceived by the industry would be something like what Axis Bank gave, would you like to comment on that?

Rajat Monga

Our context is not the same as some of the other banks, because we have not taken leverage risk positions in some of these names, like we have been suggesting, the reasons we have given of how we have had an exit from JP Power, how we have had an exit from Lanco, how we have had an exit from Essar Steel. So these are names that we have been discussing in the past as well. So I mean while there will be a statistic, but it can be completely misinterpreted.

Mahrukh Adajania

Got it. Got it.

Rajat Monga

Because our work in these names is clearly structured. It is a work we have done, if we have done in these names with the benefit of understanding of the risks that have developed in those companies, groups' names. They multi-leveraged. But there are pockets of high quality assets, which are still available in these names and our attempt is to constructive banking with that design in mind. And like I've been saying, there is also a good corporate banking opportunity which is available today if we have the right skills to deal with.

Mahrukh Adajania

Got it, perfect. Thanks so much.

Rajat Monga

Thanks Mahrukh.

Operator

Thank you ma'am. Next we have Veekesh Gandhi. You may ask your question and say your company name.

Veekesh Gandhi

Sorry. Hi Rajat, congratulations. Appreciate your timely guidance and disclosures around the asset quality. So, I had outside of asset quality couple of questions: a) are you getting out fiscal 2017 guidance on any count, any operational parameter? b) I had a question for Pralay or probably either of you on the retail asset composition of 9.5% so what does it make up currently? Thanks.

Rajat Monga

Thanks Veekesh. I will possibly take the first part of the question, which is on guidance. I think we have broadly, let's say there is no firm of guided numbers from the next year at this point in time. But we are working on a broad base plan, which entails about mid-20s growth that should cover both loans and deposits. So it is often stated intend of the bank that we want to see CASA ratio go up, we've been saying, we should see 3% to 4% improvement in CASA mix, on a year-on-year basis, we will maintain that for next year. We want to see a 2% to 3% shift of business mix in favor of retail and branch banking lending business, which, Pralay will also talk about, so that we maintain.

We are looking at our continuous uptick in margins basis both these developments, which is increasing the retail and business banking lending shares as well as increasing CASA. We haven't really put our, let's say, analysis together on account of credit cost in terms of what we are setting out for next year. I think we will possibly address that in the next time when we have the full year that we are addressing. Maybe the noise of RBI will be completely out by then and we're also suggesting that we are not carrying forward any RBI noise into next year.

So I think you should see more of the same path that we have been currently sort of walking and that we will continue to walk that path. There are market differences today and I'm sure, you observe it well. There is a very, let's say, peculiar competitive landscape. There are banks, which are in different sort of plan momentum. There are resource issues, there are capital issues, affordability issues, NPA issues. I think this is also giving us a window of opportunity to see how we can sort of walk faster and better in this scenario.

So there is also that influence that is we are running with. And hopefully, we will also express that in the retail business as well, whereas Pralay was mentioning, we are clearly stepping up on retail technology, on retail management and on retail support infrastructure through various actions that you see, we have done in terms of the acquisition of technology and solutions that Pralay talked about. A fair share, a lot of addition to retail assets stock management and these are very good additions. And also the support system in terms of infrastructure where we are looking at a fairly large space where all our retail assets will be supported from let's say 500,000 square feet space you've taken in Chennai.

So, all of that is being looked upon and while this is not operating metric by metric guidance but a more sense in terms of where we're going. Pralay, sorry, what you have on retail?

Pralay Mondal

On the break-up of the retail assets, we divide the business into two, three parts. One is the earning assets as we call it, which is CVCE lap where basically it is people who take these products actually earns on this. Then we focus separately on home loans and affordable housing. And the third part is a consumption assets, which is personal loans, auto loans, two wheelers, gold loans, loan against shares and securities and so on and so forth. So, we have three very senior people who drive this, obviously reporting to the Head of Retail Assets, which I just talked about.

The reason I'm giving this little detailed background is, while the breakup today looks that almost 60%, 70%, will be on the earning asset side, which is CV lap, NOCE, and healthcare and those kind of businesses. But a lot of work is happening on the other consumption part of the businesses where it is not about how much business we're doing, but what kind of distribution, what kind of channels and what kind of products, and what kind of credit operating processes we are creating.

Also we have some amount of strength in the – and on the back of now are – lending and micro finance and that also constitutes some part of the business, which A, operational back of busy network and B, in our branch distribution we are dividing branches into urban and rural completely separately, urban and metro as one vertical and rural as separate vertical, and we are leveraging that part of the branch banking to build whether it is KCC or whether it is small business banking or whether it is micro finance and SHG, JLG kind of business. So that also constitutes some part of this business, so that's broadly where we are on the breakup.

Veekesh Gandhi

Perfect, thanks. Just one quick data point. So, what would be the savings deposit customer base as of now and like are we still adding at a similar run rate? I would imagine it would have stepped up given the way your size moving

Pralay Mondal

Yes, so we have around INR 1.2 million kind of a base right now, and we're adding around – we have kept around 15%, 20% on the run rate. However, as I always say that we don't believe in just numbers acquisition because numbers is only a problem, we believe in quality numbers acquisitions and we remain focused on that. And hence when we look at new customer and we look at also the vector NTB is building what value with a lag of three months.

Because at the end of the day, if you get customers and if you are not able to gather big balances and more importantly if you cannot cross-sell to them, then you are not building up the right franchise. So we are not focused on just number of customers, we were focused on quality of customers. We have grown by around 15% to 20% quarter-on-quarter on the acquisition side.

Unidentified Analyst

Perfect. Thanks guys, all the best.

Rajat Monga

Thank you.

Pralay Mondal

Thanks, Veekesh.

Operator

Thank you, sir. Next we have Parag, you may ask a question.

Parag Jariwala

Yeah, this Parag Jariwala from Religare. Pralay, you just outlined about consumption-driven assets and income-generating assets. Largely what I think that so far as the consumption-driven assets are concerned, the competition is very fierce like in home loan, there are probably 15, 20 institutions within 25 basis point of rate differentials. So does it suggest that more of our portfolio would be towards income-generating assets like, most of the fast-growing mid-sized, private sector banks have large portion of income-generating retail loans, as compared to consumption?

Pralay Mondal

Sure, yeah. So my view on the competition part is, if you know how to do the business, competition is never a problem and that's why we need to build a franchise for us. So let me break this into two parts; one is on the income-generating assets, as you rightly said, that's little more addressable and direct because you know that segment, you know that customer and you know how to go and get that business. So, yes, that is the focus for us, to build the assets in the next 18 months, but we are going to work much more fiercely on the other side, in terms of execution and kind of our investments is going more into the other side, which is building channels, building manufacturer relationships, creating distribution credit hubs, because the first part of the business is not too much of a cost actually.

The second part is that cost which – and investments, which are going in and eventually if you build the right infrastructure and right processes there, I can go back to 2008 when some of the public sector banks are giving 8% home loans and less than 8% auto loans and things like that, I don't think competition has reached that level as yet. And also, I think that if we build it up in the next 18 months, 2017-2018 onwards, we will have a significant opportunity, where we can significantly deep into the growth momentum, which will be there on the consumption side. And always in these consumption assets, you always get opportunities because always, there are some mistakes happen and something happens.

So for example, credit cards, personal loans, these are all good businesses to do and there, competition is not an issue at all. Competition will be in things like auto loans and two wheelers and those kind of businesses, and there are ways to do it on the back of manufacturing, inventory funding and many other things. So we know how to build this business, we are not rushing into it. And we will build everything in terms of infrastructure and processes and we will get aggressive in that business only after 12 months to 18 months.

Parag Jariwala

Okay. Any guidance you'll give for at least say next two years in terms of proportion in the retail advices, or as a total loan book?

Pralay Mondal

So, as Rajat said before that, by 2020, the aim is to reach around 45% retail plus business banking as a part of the portfolio, which is around 32%, 33% today. On pure retail, the way we plan is that by 2018, the consumption assets including home loans and affordable will actually on a run rate basis will be higher than the income-generating assets, which I just talked about. So, and then onwards, that will grow faster. And by 2020, consumption assets plus home loans will be larger than the income-generating assets, which is CVC lap, that's the way we're planning it out. Somewhere around 2018, it will be sort of intersecting at the same level.

Parag Jariwala

Okay, okay. Thanks.

Operator

Thank you, sir. Next we have Nitin Kumar. You may ask a question.

Nitin Kumar

Congratulations on very good results. I just have couple of questions. First, like, what are the top three sectors having highest proportion of NPLs and how much of the NPL ratios therein? And secondly, like, how many employees did we add in the previous quarter? Just want to recheck my numbers here. And has there been any change in the floating provisions during the quarter? So these three questions, sir, basically.

Rajat Monga

By employees, just to put the number, we've added 777 employees in the third quarter. And our total employee base as at December 31 is 1,477. That was on the question on employees. There was a [indiscernible] on…

Nitin Kumar

No, I asked for the second quarter, like how many employees that we had in the second quarter?

Rajat Monga

Second quarter?

Nitin Kumar

Yes.

Rajat Monga

Sorry, I will have to dig that number. So can I answer the other question?

Nitin Kumar

Sure, sure, please.

Rajat Monga

So, on the NPAs in terms of sectoral mix.

Nitin Kumar

Yes.

Rajat Monga

So there is a – it depends how you want to look at it because the numbers are not many. So our NPAs are, if I keep the retail side aside, there will be only handful, maybe 15, 20, 30 names. So, I'm not sure if that is a very good…

Nitin Kumar

So, industry wise, if were to talk, say metals and…

Rajat Monga

It may not be a very good sectoral representation, so please do not extrapolate that to our portfolio. But the influences are, as there is – I mean including restructured if you don't mind, so I'm putting it all together, there will be roads which will be among the highest, then they will be small presence of EPC cement, real estate, engineering and then textiles.

Nitin Kumar

Okay.

Pralay Mondal

But these are all 5 basis points, 10 basis points each.

Nitin Kumar

Okay, okay.

Rajat Monga

Other than roads, roads is 34 basis points of the total combined NPA plus restructured.

Nitin Kumar

Okay, okay. And on floating provisions, is there any change there?

Rajat Monga

Yes, so floating provision there is – we have moved from a peak of 50 basis points to 40 basis points to loans, most of that will be on account of loan book having gone up and us not having topped up.

Nitin Kumar

Okay.

Rajat Monga

And a minority of that also has been where the – it has been clawed back and put into specific provisioning. Not into P&L, but we have raised the specific provisioning at a bank level as well, including when you do the math, you will also see, we have taken write-offs of some loans. So that provision has gone to top of the specific loan loss provision.

Nitin Kumar

So just to think on employees like, whenever like you have it available, yes.

Rajat Monga

Yes, so if you allow us we will send it to you separately. I don't think we're having it right away.

Nitin Kumar

Not an issue, thanks so much.

Rajat Monga

Thank you.

Operator

Thank you, sir. Kaitav Shah, SBICap Securities.

Kaitav Shah

Thank you. I am from SBICap Securities. So just one question on why you are lowering your guidance for credit costs and not maybe do extra provisions, that is one.

Rajat Monga

So we are lowering our credit cost guidance is because 9 out of 12 months are done. And so when we gave the guidance at the beginning of the year, it was for the full year. And as the year progressed, we have only been tightening the guidance and now that only one quarter remained, we have to reflect the fact that there is only one quarter and therefore, the number has become more precise. So from a range of 50 basis points to 70 basis points, it is now looking, it will not exceed 50 basis points.

Kaitav Shah

Sir, if you may permit the second question is broadly on the investment book. So within this, would you be able to give us a breakup of what would now be sort of g-sec and what would be the corporate bond portfolio?

Rajat Monga

See the classical corporate bond portfolio will be, if you allow me some rounding up, between Rs. 8,000 crores and Rs. 9,000 crores. The g-sec book will be about Rs. 26,000 crores.

Kaitav Shah

As against if you can give me a year-on-year comparison, sir?

Rajat Monga

So g-sec is Rs. 26,000 crores. Last year was Rs. 23,500 crores.

Kaitav Shah

Okay.

Pralay Mondal

Sorry, I'll revise this number, this was only one category of g-secs. So the total number is, December position of g-secs is Rs. 34,000 crores and December 14 position is Rs. 29,000 crores.

Kaitav Shah

Sure. And one final question on impact of MCLR on NIM, I think our NIM has been doing pretty well. So how do you think it should play out for you?

Rajat Monga

Essentially first-level understanding while we're still working on the MCLR math is that it should not have an impact. Because from the concept of marginal costing, there is no change at our end. We were always on marginal pricing basis as far as a base rate was concerned. We will now have five rates instead of having one rate. So that is the change, it is more complex. I don't think it has any great direct bearing on to our margins. But it will have a bearing on how we contract our loans. So very likely if we do a mortgage, we will do a mortgage with a one-year MCLR, and it will only re-price once a year unlike the earlier regime where you would do mortgages on base rate and mortgages will change when you change your base rate. So it was all bunched up. So what used to happen in the base rate regime is that one fine day, all my floating rate loans will go up or go down. That will not happen in MCLR. There will be a smoothening because we will settle our loans on a calendar of re-pricing as opposed to all bunched up on a single management decision. So it will make the NIMs less volatile and I don't think it has any direct consequence because as long as like we are, we are on marginal already. We just move to a complex marginal pricing. NIMs will change predominantly by a factor, which will be led by competition. If competition becomes aggressive either on deposits or on loans or both, that has the maximum consequences on margins and as you see competition right now. Unless there is a dramatic change on the competitive landscape, I don't see margins getting impacted. Other than, for example in the consumer loans like we have been discussing on the call where competition is little aggressive.

So, you should see margins getting little bit into question on the consumer lending business, for example, because all banks are trying to grow that part of the business more than anything else. You will also see there is, now a very large pricing difference between even time deposits between government banks and private banks, again because of the flex which is there between the businesses.

One business is not growing the other business is growing pretty sharply. So there are dynamics in play already and none of them seem to be changing or getting affected by MCLR in any case.

Kaitav Shah

Okay, sir. Thank you, sir. Thank you.

Rajat Monga

All right.

Operator

Thank you, sir. Next we have Kunal Shah. You may ask a question.

Kunal Shah

Yes. Congratulations, Rajat. So firstly, in terms of the corporate banking fee, so odd Rs. 380 crores, so is there any lumpiness in this particular line item?

Rajat Monga

Well, there always is and there continues to be in terms of the – there will be a minority of this income, which will have some big-ticket items and there are big-ticket items in this quarter as well.

Kunal Shah

No, but as compared to that of last four-odd quarters average which is around say odd Rs. 220 crores; so this time it is almost like Rs. 380 crores, is substantially higher.

Rajat Monga

See, there will be a little bit of influence that there is more corporate banking business that happens in the second half and then you will see it wanes in Q1 and Q2, Q3, Q4 pick up; then, Q1 and Q2 are again a little bit weak. So it is not unusual and therefore, I will expect Q4 should be matching and Q1 should be a struggle to sort of keep pace.

Kunal Shah

Okay.

Rajat Monga

So it's a functional – underlying, let's say throughputs that we are doing with. So if you get a – make a lot of new loans that gives us opportunity to put more free tickets on the table as well.

Kunal Shah

Okay. So if you look at the previous numbers as well. So maybe in the last half, when we look at it, we had done almost like say odd Rs. 440 crores. So in the first half of FY15, that number would have been much lower, you're saying.

Rajat Monga

Correspondingly, yes. You will see a pickup which is there in the second half, and there is a lull in the first half usually and that is how – because, lending business itself has seasonality. So to the extent that this book has a connect with the lending business, a loan underwriting, loan syndication, et cetera, there will be that kind of seasonality in the fee as well.

Kunal Shah

Okay. And secondly, just to reconfirm. So the customer asset number would be somewhere around Rs. 93,000 odd crores?

Rajat Monga

Yes, it will be, yes. Rs. 93,600 crores.

Kunal Shah

Rs. 93,600 crores. Okay. And thirdly, any pipeline in terms of say the SDR or 525, maybe this quarter there is nothing but anything in the pipeline?

Rajat Monga

Not that we will determine, let say, if we are in a group of lenders, where we are not the lead bank and if the lead bank decides to call for a 5/25, maybe then yes. But something that we are going to be sort of driving by ourselves, not that I know.

Kunal Shah

Okay.

Rajat Monga

Funny thing is that is not always our decision. Sometimes, if you have a minority position in a bigger consortium which is not very common in our case, but it is not zero either. And if the consortium has to undergo any 5/25 refinancing, we will have to play along.

Kunal Shah

Okay.

Rajat Monga

Then 5/25 is usually in the current circumstances, it is a good sign, not a bad sign.

Kunal Shah

Okay. But…

Rajat Monga

So is a sign where you should look at a little bit more critically what have the banks done, have they just bought time or is there also a resolution which has been sort of sized up which can be executed over the next 18 months, et cetera

Kunal Shah

Okay. And these three accounts, which you spoke about in terms of restructuring, so now would the proportion be quite significant amongst the 15 accounts when we talk about it, so maybe in terms of a quantum, could it be higher?

Rajat Monga

Well, maybe let's say not distinctly higher, but it will be proportionately higher, yes. So they might, let's say, three out of 15 is like 20%, there might be 25%, 30% off the value.

Kunal Shah

Okay. But not substantially?

Rajat Monga

Not – I'm approximating, but I will not be very off. Okay, my team is telling it's lower.

Kunal Shah

Okay. It is lower.

Rajat Monga

Okay.

Kunal Shah

Okay. And lastly, when we look at it, you give out the breakup of rating as far as the corporate banking is concerned in terms of A and above, when you say A and above is 76%, but again if we have to look at say the business banking, and if we look at the equivalent rating, which would be there, if I include another say, 23%, 24% of business banking and SME, how would the entire rating profile be?

Rajat Monga

See, lot of SME will be properly backed.

Kunal Shah

Okay.

Rajat Monga

So, ratings if you go and ask for a rating, just sort of give a rating, they'll give you a BBB rating. Because the inherent borrower is a small borrower.

Kunal Shah

Yes.

Rajat Monga

He can't get AAA. Unless you – so even if you look at, let's say, I'm taking a case of a housing loan, a stand-alone housing loan will not get a AAA rating.

Kunal Shah

Okay.

Rajat Monga

It will get a BBB rating. But if you bundle 100,000 or a thousands of tens of thousands of housing loans, then you get a good rating, because their group behavior will be far better than isolated single behavior, that's how rating agencies will look at it. So if we have a SME book, which is all property backed, in aggregate, it will be AAA because we have either house property or office property which is backing it.

Kunal Shah

Yes.

Rajat Monga

But we will not get it rated like that and no rating agency will rate it like that, because it is not an isolated pool of assets. It is part of our balance sheet.

Kunal Shah

Yes.

Rajat Monga

So on a stand-alone basis we don't look at their rating, we look at their rating on an aggregate business basis and that rating will be pretty good to the extent that there is property backing.

Kunal Shah

Okay. And how about business banking? So SME, maybe that would be the case, but in case of like medium overall business banking piece?

Rajat Monga

See, SME will be a large part. So I've already described – so Pralay described 9% of the 32% which is the consumer and retail banking side.

Kunal Shah

Yes

Rajat Monga

I've described majority of the remaining.

Kunal Shah

Okay, majority of the remaining. It's not only MSE. Okay. Okay, yes. Thanks a lot.

Rajat Monga

Alright.

Operator

Thank you, sir. Sameer Bhise, Macquarie Capital Securities.

Sameer Bhise

Hi, thanks. Congrats Rajat. Just wanted to get a breakup of the provisions this quarter, I believe write-offs were a bit on the higher side?

Rajat Monga

Yes. Write-offs higher in – in the last couple of quarters, there were no write-offs. So to the extent, yes, they're higher. So breakup of provisioning, we have given a total provisioning of Rs. 148 crore. So NPA provisioning is Rs. 170 crore.

Sameer Bhise

Rs. 170 crore.

Rajat Monga

Yes. And if you look at the combination, which factors in write offs, the provisioning in effect that we have booked out of this Rs. 148 crore will be Rs. 120 crore of provisioning.

Sameer Bhise

Okay. And the utilization of general provisions, you said is some amount, which has been transferred to specific, I believe?

Rajat Monga

Yes, so which is what – so about Rs. 20 crore, Rs. 30 crore is that movement.

Sameer Bhise

Okay.

Rajat Monga

So which has moved from contingent to first specific and then has been utilized for writing offs.

Sameer Bhise

Okay. Rs. 20 crore to Rs. 30 crore. Fair enough.

Rajat Monga

Yes.

Sameer Bhise

Thank you.

Rajat Monga

Right, Sameer. Thanks.

Operator

Thank you, sir. Alpesh Mehta, Motilal Oswal Securities.

Alpesh Mehta

Hello, hello.

Rajat Monga

Yes, is that Alpesh?

Alpesh Mehta

Yes, hi, Rajat. Congrats.

Rajat Monga

Yes, hey.

Alpesh Mehta

So just one question related to your investment book, does the RBI audit also include the scrutiny of the investment book for the system and as well as for you?

Rajat Monga

See, I think I try to sort of explain what my understanding or what RBI has done. See, RBI looks at your books every year, including credit book and investment book, every year. What they have done this year particularly which is peculiar is that they have looked at all banks on the credit side concurrently. So it's not that they looked at my book in March, some other bank's book in April and another bank's book in July, that's what they do on – because they distribute their bank monitoring over the year.

This time, they've said that let's look at a concurrent sort of position across banks. So that they get a good concurrent idea of what's happening in the – let's say borrowers who have exposures across banks, that has been their attempt. So they would have looked at the investment book as part of their routine yearly exercise, but we will not know also Alpesh if they have looked at investment book because there is nothing in us to look at in the investment book in any case.

Alpesh Mehta

Sure. And does this also include the overseas operation of the – you may not have a substantial exposure, but for other banks, would this also include the overseas exposure?

Rajat Monga

Yes, they would look at it, because if they are looking – see when – if you look at – how will they look at a bank? They will ask me for my exposure on a company. They will ask me for my credit files. The credit file contains details of my exposures in every company in every product in every geography. So whether they have looked at it from that perspective, I mean it is their prerogative but do they have it on the table to look at it? Yes, including investments.

Alpesh Mehta

Okay. And when we talk about a company, does it also include the affiliated or affiliate of that company or a subsidy of that company?

Rajat Monga

So when they look at my credit file, it will have my exposure details will of the affiliate, sister in the group. Subsidiary, parent, sister, as long as it is in the group will all be there in the single file and there will be sub files.

Alpesh Mehta

Okay. And lastly, if you can give some idea about for the first nine months, we had the total slippages of around Rs. 5 billion and you mentioned that 75% would be RBI related audit we have already addressed in the first nine months and some of that would be implement as well. So out of this Rs. 5 billion, what could have been the approximate amount because of this RBI thing? Even you would have definitely taken it in the normal course of action as well, but just to get some sense for what proportion of your loan book was involved into this investigation?

Rajat Monga

Yes, I don't – I am not sure what the – I am not clear. So, are we taking let's say NPA classification because of RBI is both yes and no. We do not have any let's say majorly disputed cases with RBI.

Alpesh Mehta

Okay.

Rajat Monga

Right. So there are – essentially for us, if I have to narrow it down, there are just two exposures.

Alpesh Mehta

There are two exposures but there was a dispute between – you said there was –

Rajat Monga

Where there is materiality, so there is no the rest is all, let's say, and we haven't even had a – RBI is saying, we believe this should be classified; we're saying, okay, we will do it, why fight? So, it is that kind of a scenario. It's not material. And therefore, for me to begin to assess whether this is because of RBI, whether this is because something else is actually a non-starter.

Alpesh Mehta

Sure. And just the last question about this again RBI thing, this concurrent audit that happened for the first time, do you expect this kind of an audit to continue henceforth as well or it's just a one-off kind of a case that you expect right now?

Rajat Monga

I don't have an opinion honestly on this. Nothing stops RBI from doing it again, they have full right. And it is, according to me, administratively more difficult for them to be able to pull in resources like this all the time because it also has a bearing on many of the other concurrent sort of regulatory issues that they are also working on. My hunch is that it may not happen like this again. But I mean I'm not the one who decides. So, you'll have to allow me.

Alpesh Mehta

Okay.

Rajat Monga

A little bit of a disclaimer here.

Alpesh Mehta

Thanks a lot for this explanation. And the last one about your margins, the 10 basis point sequential improvement, can we assume that around 5, 6 basis points has come because of the savings deposit re-pricing?

Rajat Monga

Yes, let's say, on the margin, you can say that. About 8 basis points would have come from the savings deposit re-pricing. But we've also seen a base rate cut on October 5 that was the beginning of the quarter. So we've seen loan yields fall off because of that as well. So there is naturally and margin is a culmination of all of these sort of ins and outs. But yes, savings deposits have had played a role in that direction, clearly.

Alpesh Mehta

And now, that the behavior seems to be quite stable even after cutting these our deposit rate, would you be planning to further cut it down in the next one or two quarters on the SA side?

Rajat Monga

Well, without ruling that out, I have to say that we're not thinking about it right now. So we are also hoping to time our decision with the right backdrop. So according to me, the next opportunity will come in April, when RBI looks at possibly a rate cut and we could use that to revisit our pricing sort of thought process such that the customer pushback also is managed, it should not be – let's say, it should not look like that we're doing it just for sort of the heck of it. It should look a little bit synchronized with what is also happening, customers should also see FD rates are falling and therefore savings account rates are also being dropped should make concurrent sense for customers for it to be more acceptable as well as with minimal relationship repercussion.

Alpesh Mehta

And our plan for the branch is 2,500 by 2020, right, or 2,000 by 2020?

Rajat Monga

Its 2,500 is the plan by 2020.

Alpesh Mehta

By 2020. Thanks a lot and all the best.

Rajat Monga

Thank you, Alpesh.

Operator

Thank you, sir. Now, I would like to hand the conference over to Mr. Adarsh and YES Bank management. Over to you, team.

Adarsh Parasrampuria

Yes, Rajat, any closing comments from your side and…

Rajat Monga

Thanks Adarsh. Our apologies for the delay in terms of the starting of this call. I'm at least glad we were able to hold it. And thank you everyone for sparing their valuable time that too little bit later in the day. Thank you so much.

Pralay Mondal

Thanks everybody for being on the call. Thanks.

Operator

That does conclude the conference for today. Thank you for participating. You may all disconnect now.