



“YES Bank Q3 FY17 Results Conference Call”

January 19, 2017



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Moderator: Ladies and Gentlemen, good day and welcome to YES Bank Q3 FY17 Results Conference Call. We have the following participants from YES Bank top management team; Mr. Rajat Monga – Senior Group President (Financial Market) and CFO; Mr. Pralay Mondal – Senior Group President (Branch and Retail Banking); Mr. Ashish Agarwal – Senior Group President & CRO; Mr. Sanjay Palve – Senior Group President (Corporate Finance); Mr. P. Kumar – Senior Group President & COO, and Mr. Jaideep Iyer – Group President (Financial Management). As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajat Monga from YES Bank. Thank you and over to you, Mr. Monga.

Rajat Monga: Thanks Aman and a very good afternoon to all the people on the call. This call is going to be about the management commentary of the third quarter for the fiscal year 16-17 results for YES Bank. We will take the first 10 to 15 minutes to give a commentary on the operating environment for our business as well as our view on our financial parameters and we will take the questions subsequently. A very significant theme for the quarter gone by was that of demonetization, it kept us busy for at least half the quarter. We believe this measure by the government should bring in long-term benefits for the economy through transparency as well as digitization of the transaction methods in the economy. The bank spent considerable amount of energies in logistics particularly for the demonetized cash in the quarter gone by in re-calibrating the ATMs and also process re-engineering some parts of the operations of the bank in order to accommodate the high velocity regulatory changes as well as the high volume of cash that was being put into the banking system. At the end of it, we already began to see some benefits. There has been a healthy increase in deposits in the banking sector. I think it is pretty democratic an increase as far as deposits in the banking sector is concerned resulting in essentially higher liquidity for the banking sector at large, dramatically reduced competition for deposits, and particularly benevolent impact on the CASA base of the banking sector and YES Bank included.

On the flip side, we also saw some growth being a little subdued in certain segments. I think segments that used to transact its own commerce in cash more than anything else as well as a related impact coming from possibly uncertainties may be lack of decision making with banks as well and as a result segments like microfinance and parts of SME sort of sector saw a little bit of slow down. The bank also saw part in our MFI book as well as in the business banking segment even degrowth in certain pockets as far as the loan books is concerned. On the overall, as a whole as such the bank was able to deploy the surplus liquidity, pretty effectively we could reduce our intake of time deposits as well as the loan growth continued to be a good opportunity for us to deploy the search of liquidity. The demonetization event also helped give impetus to the digital part of the bank involving the issuance of prepaid cards, postpaid cards, credit cards involving the issuance of various means of acquiring card based transactions like the GPRS based POS machines, mobile based POS machines. The increased use of mobile

wallet, the increased use of mobile banking as well as subject to availability of cash also a fairly high increase in ATM usage as well especially by non-YES Bank customers. I think this momentum on digitization is expected to continue with the government policy support and the regulatory support likely to be witnessed even in the near future as well and there are some more statistics that we will be sharing during the course of this communication.

I will move to the summary of some of the financial highlights for the performance of the bank in the third quarter of fiscal 16-17. We are reporting a total asset growth of 32% year-on-year. The total assets base of the bank is now close to 1.95 trillion rupees. This comprises of about 1.17 trillion rupees of loans. This year, we saw a 38.7% increase in our loan growth which is on a year-on-year basis. This was about a 6% growth in loans on a sequential basis. The growth continues to be diversified across various streams, the growth was more regular in the corporate streams, it got little skewed in the granular streams when it came to retail and/or SME as there was some pockets which were growing better given the bank's momentum and some pockets corrected as I mentioned earlier in this quarter. We also saw continuation of growth in our international banking business which we run from an IBU, which is International Banking Unit at the GIFT city in Gujarat. The total asset base of the IBU now stands at about 5500 crores of total assets that would be about 800 million US dollars of total assets is what the position of the bank is in the IBU book. The mix of our advances shift a little bit in favor of corporate. We now have about 69% share of corporate loans and 31% share of Retail and Business banking loans. The Retail and Business banking loans are also reflecting the beginning of phenomenon, which is on account of the issuance of priority sector shifting from banks buying loans to now buying what is called a priority sector certificate which is more a license or a right, so it does not come on the balance sheet. It just comes in the P&L, but the bank gets the benefit of counting that as priority sector compliance, so that essentially is resulting in the bank shifting its strategy of buying loans to buying these certificates, which has had some impact on the business mix which was in any case that business in Retail was an acquired business and not a homegrown business as such.

Within the Retail banking business, the consumer banking business, the Retail growth on the asset side has been at 124% year-on-year, so there has been considerable momentum and there has been a 27% growth sequentially on a quarter-on-quarter basis. The micro and small enterprises have grown at the rate of 77% on a year-on-year basis, however, demonetization cut this growth to a neutral position or a flat number as far as the current quarter is concerned in the MSE space. The impact on MFI portfolio was on the self-help group portfolio, which the bank has been suggesting that it has been consolidating that business for the last five months and I think it saw a little bit of challenged operating environment though due to the lack of meaningful business presents of YES Bank in a certain state which is due for election, etc., there was no meaningful impact as such the collections remained in the mid-to-high 90s in this book throughout the post-demonetization period in the last quarter, however, the book has had seen some degrowth in the quarter gone by.

I will move on to some statistics on deposits and the low-cost deposits. The deposits of the bank, as I mentioned earlier grew about 31% to 1.32 trillion rupees. The CASA deposits had a particularly good period subsequent to demonetization and as a result our CASA deposits have grown 63% on a year-on-year basis totaling now to 442 billion rupees and representing 33.3% of our deposit base. The growth was also roughly equally shared by both the Savings Accounts and the current account product. They grew 64% and 62%, respectively, in this particular year. In the back of this reasonably healthy growth in the bank's balance sheet, we have seen it come through into our results as well, so we are reporting a net profit growth of 31% for this current quarter, which totals to 8.83 billion rupees of net profit after tax. Essentially, the profit is supported by balance sheet growth and slightly improved net interest margins, which has helped NII move to about 30.3% growth on a year-on-year basis. It was also well supported by the growth in non-interest income, which is also at a 34% year-on-year growth number. Non-interest income continues to have some benefit from the fact that interest rates have been falling and the bank has been able to monetize some gains in its fixed income books. We are reporting a yield on loans position of 10.9% and a cost of funds position of 6.6% for the quarter under discussion. We are also reporting a return on assets of 1.8% on an annualized basis and a return on equity of 22.3% again on an annualized basis.

I will now discuss some of the aspects of our asset quality performance in the quarter gone by. The performance was generally resilient across most parameters. Our gross NPA ratio stands at 85 basis points. It is a small uptake vis-à-vis the sequentially previous quarter. Our net NPAs are on the other hand flat at 29 basis points as compared to the sequential quarter. This quarter had gross slippages of 1.27 billion rupees and net slippages after recovery were about close to 1 billion rupees. There has been little activity in the security receipts book, no new sales and no major recoveries either in this current quarter. The legacy restructuring book has been on a decline given that the loan book is expanding and some of the old restructured cases are either resolving or are falling into NPA category. Our current position of restructured loan book is 42 basis points of our advances. The bank has had one new case of restructuring under the strategic debt restructuring format which is called SDR. The position of the bank has moved up from 1 basis point of restructuring to 16 basis points of restructured book under SDR in the current quarter essentially driven by one single case of strategic debt restructuring and the loan outstanding in this case prior to restructuring was 1.6 billion rupees. Not much has moved in this current quarter on ratings or on sectors. The ratios are plus or minus few basis points, so I am not getting into specifics there. The credit cost for the quarter is 8 basis points and the specific loan loss provisioning for the bank has inched up to 66%. In rupee terms, the provisions for the quarter on account of specific and general credit costs, stack up to 1.15 billion rupees. The bank's capital position has changed a wee bit in this particular quarter on account of it having raised AT1 instrument, so additional Tier I debt instrument has been issued for a size of 30 billion rupees in this past quarter which has upped the bank's Tier I capital ratio to up to 12.2% and the total capital adequacy ratio to 16.9% as at December 31st.



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The total capital funds therefore add up to about 270 billion rupees, so 270 billion rupees will be bank's approximate total capital position. There is a disclosure on LCR as well. The bank's LCR ratio for the quarter is reported at 88%, which is quite comfortable. There will be an increase in the regulatory requirement from 70% to 80% beginning the fourth quarter. The bank is reasonably well positioned to accommodate that increase already. There are some anecdotal sort of information on account of demonetization that I will share and also on account of some of the digitization which was ongoing and among others got benefited by the demonetization, so as such the banks debit card transaction on POS machines, pre and post-demonetization have seen a 3X increase in both value and volume. Correspondingly, our own cards and other bank's cards that got used on bank's installed base of POS machines have increased by about 4.5X by number of transaction terms and about 4X by spends. We have also seen 2X increase in mobile payment volumes through the IMPS getaway, which is pre and post-demonetization. We have seen still increasing installed base of POS machines. There continues to be running demand from customers to be able to take more means of acquiring card-based transactions and therefore, install a mobile based or a fixed line wireless and/or fixed line based POS machines.

We also saw introduction of the UPI product meaningfully in the last quarter. YES Bank has tied up with application developers like PhonePe which is now a Flipkart group company, Jugnoo, Myntra, etc., so that we can support the UPI switching for these entities and applications. YES Bank currently is driving 40% of the payment throughput in the UPI ecosystem as a consequence. The demonetization has also helped to put more momentum in the YES Bank's own mobile application, downloads have been increasing at a rapid pace on the social media applications like YES Tag, on the wallets that the bank supports called YES Pay. We have also seen the volumes that the bank supports for other sort of partners like Freecharge which is again a wallet. This also includes pre-demonetization period accumulative 47 million registrations on that wallet and the bank is the switching partner for that wallet as well, so this continues to be an exciting space, and hopefully, demonetization will give it yet more impetus as far as transaction banking opportunity is concerned. We continue to therefore invest more on the new age mediums and digital technologies to achieve a better customer experience. I was mentioning about UPI, so we have created about 5 million handles as far as the YES Bank supported UPI applications is concerned.

The bank also has initiated the deployment of block chain in banking technology and solutions, so we have gone live with an Indian company called Bajaj Electricals where we will be handling the supply chain financing of Bajaj Electrical and its vendors on a block chain sort of design wherein the vendors can present their invoices on block chain. The company can accept the invoices on block chain itself and a bank currently it is YES Bank. It could be another bank as well, can also discount those invoices on the block chain platform and this could also become many-to-many or any-to-any platform as well if it goes in that direction, so that has been a new sort of deployment of block chain technology from our point of view.

Few more data points that I would want to also share is about our headcount which is now at 19,400 people. This is about a 6000 people increase as compared to same time last year. Our branch network stands at 964 branches. They are supported by about 1757 ATMs or recyclers as at the reporting date. The bank also did a small transaction of US \$50 million as a green bond issuance to the Dutch development bank called the FMO. This was a seven-year green infrastructure bond, which was placed on a private basis. There has been continuing recognition for the bank and in this quarter we were recognized as the best mid-sized bank in the KPMGs best bank study which they do jointly with the public issue called Business Today. YES Bank was also recognized by Reuters as the most accurate forecaster for the year 2016. This is regarding the economics forecast that the bank publishes and the bank was also recognized by the Golden Peacock Award for sustainability for the year 2016. I think this is about all that I wanted to share about the bank's performance. I think we can go to question and answer.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. We have the first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: I had just a question on your corporate loan growth, it is indeed very strong whereas the growth for the industry which was weak continues to decelerate and now even some of the larger banks like Axis that were growing strongly are showing weaker corporate loan growth, so why is that others are giving up shares so easily or are we finding new pockets of lending, just some color on corporate loan growth would help and then also the amount of trading gains?

Rajat Monga: I think maybe we should relate it more to the sequential loan growth which is in our case is 6%, so if you look at the growth of loans in the bank has been about 6000 crores this quarter and if you cut it by 70-30 between Corporate and Retail, it is about 4000 odd crore loan book growth that we have sort of publishing. I think it is hard for me to say what other banks are doing or not doing, but in our opinion there continues to be opportunity. There is plenty of M&A happening in the economy. There are lots of buy-side opportunities like we are engaged with all the buyers already, maybe we get the little bit of a growth benefit because we are not so much there already in that financing, so I think that bit is outside opportunity for us when we look at it. We have also been adding the IBU growth in to these numbers, so that is also which was not a product that was available to us one year ago. That product itself is now 5500 crore book which was 0 about one year ago, so that does not explain all of it but explains about 5% of the year-on-year growth and then the Retail business, so our new disbursements in December, for example, were more than in October even though October was a December season and there was demonetization in the interim period. I think it is difficult for me to tell where one is more or less than the other, but the market has opportunities is the small point I was making.

The other question you had was on the monetization of government bonds is the results have about 120 crore rupees on account of monetization of G-SECs.

Mahrukh Adajania: Just one more question Rajat, because you always been out-of-consortium lender what I wanted to know is that you could give us an unbiased feedback on what is really happening to resolutions because you are anyway an out-of-consortium lender, so you have your independent means of resolutions in most cases, which is good but what is really happening to sector resolutions, would you have any color on that in terms of whether the progress remains slow or your view on that?

Rajat Monga: This might be a let us say a secondhand information or an observer's information that we share, but we do think that there are delays that are creeping in terms of these resolutions, may be the case in point I can refer to also as you will also know there are lots of announced M&A transactions, but they are still not closed out in terms of settlements. I think there are delays because there are several permissions that are required, you might have to re-haul some banking in the process, etc., so these are I would say more procedural delays and not intent delays as far as the resolution processes.

Moderator: Thank you. We have the next question from the line of Nakul Manaktala from Samaira Investment. Please go ahead.

Nakul Manaktala: My question really stems from demonetization and its impact specifically on the SME, that is the small and medium enterprises, so what you see on the ground because our research shows a lot of job losses, production cut, there seems to be a lot of volatility and uncertainty going forward especially in the short-to-medium term, so what are you seeing on the ground and in terms of your collections from the SME portion of your loan book, so you can just throw some color on that?

Rajat Monga: I will request Pralay who heads our Retail and Banking Business to answer this question.

Pralay Mondal: Specifically on SMEs I think immediately post-demonetization in November there was significant slowdown. There is a sort of little bit of shock into the system and for two reasons, one, is obviously there was a cash economy on which these SMEs used to have a play and that immediately stopped and there was a shock, and these SMEs were busy doing little bit of housekeeping on their side because that came as a higher priority to them than running the business as usual. So November was the shock but as we saw in December, things started coming back to more normal than November and as we have progressed into January, things are looking lot better, so from that perspective, but it will take another two-three months to settle down. Within the SME, the smaller segments had a slightly bigger problem and as we divide our businesses into three parts in SME, the large, medium and small, the small segment grew the lowest, the medium portion grew reasonably well especially when it went into the December and there had been a little bit of especially on the non-fund businesses and some of these other which are supply chain related businesses, etc., that went through a little bit of a

back-cycle if I may say, but if I see there is a long-term structural issue anywhere, I do not see that because the SMEs are pretty smart, I think they have found a new normal into the situation and one significant change we are seeing is that SMEs while they are managing whatever they had to manage, but they have also realized, I am talking on the ground, I went and met lot of people, they are saying that the new normal is doing business in a more formal kind of an environment and if that is so, they are quickly putting structure processes in place which eventually give and take a quarter or more, it will be actually good for the banking sector because of two reasons. One is there will be more formal information and formal way of banking and banks like us who primarily do formal banking will help us, and B is this will actually bring in more efficiency to the SMEs themselves where they will be able to come to the formal banking system lot more and that will be true for even smaller segments within the SMEs. In the longer run, I think it is not going to be an issue. Short term there is a shock. November was a fairly difficult month if I may say so.

Nakul Manaktala:

You are saying that they are recovering, but now you have GST as well wherein there is additional paper work, there is additional processes to be adhered to, so will that be a double blow for example, or do you think GST impact would not be that material?

Pralay Mondal:

GST, I would request Rajat to talk about it, but specifically I can tell you what is happening on the ground for us. GST is still a little time away and SMEs will have to do business and as GST comes through, there will be more and more formalization, so in a way this shock would help people to transition into the GST mode eventually and in a way it is positive in my view, not negative what has happened. Having said that, I just did a review with my team the other day on all the three segments of the SME and I think we are pretty positive that things are only going to get better from here whether it is SME, whether it is businesses like commercial vehicles for a different reason because commercial vehicles will have that emission norms coming from April, so commercial vehicles will have a good quarter and even the other business whether it is on the consumer side whether it is auto, whether it is two wheeler so all of these are starting to get better. Coming back to your fundamental question on GST, I think eventually and what is happening people are realizing that more they come to the formal part of the economy or more formal part of the business, it is better for them and eventually they become more bankable at the end of the day, so from a bank perspective and from a relationship perspective with the SMEs, in the long run it is not bad, it is good only.

Rajat Monga:

My point on GST still it is an incomplete sort of picture right now. We do not know a whole lot of how implementation will be done, what will be waived. We are currently hearing that up to 30 million rupees of turnover there may not be any GST, etc., so some of the small segment, so this is again all hearsay, so still there is a little bit of an open sort of picture there. There is no doubt that both re-monetization and GST will require business to disclose more and more than they have been disclosing in the past. There is a likelihood that this will increase the cost of doing business for certain people. Will there be an impact in terms of their profitability, may be the marginal business that they are disclosing is less profitable as

compared to the business they were already disclosing, etc., so there are too many open points for us to be able to make judgment. There is also for a fact that the government will be supportive of the SME segment. They might tax them from an angle, they might like to give benefit from another standpoint, so budget might be a good direction. The reason I am holding back my view is because the budget is also almost around the corner, so might as well hear the finance minister on this subject.

Pralay Mondal: Specifically on YES Bank both on Retail and SME side, I have done my reviews with my team, there does not seem to be any worries in terms of the kind of growth they would have planned next quarter, so I see them reasonably bullish the way this quarter will pan out.

Moderator: Thank you. We have the next question from the line of Nitin Aggarwal from Antique. Please go ahead.

Nitin Aggarwal: First question is like our fee growth in this quarter excluding the FOREX and dead capital market segment has been like pretty soft, so what is the outlook here, any reason like why it has been like this?

Rajat Monga: Well, there is one trend which we are observing is that the trade fee has been softer, but most other items actually would have seen, let us say if I go line by line other than the corporate trade and cash management, there is including in Retail, the trade in remittance portion is little subdued, but other most items are similar or better and one quarter sometimes is too less a time for it to show a very significant move. In fact, if I am seeing 5%-6% growth in each of these three lines, I am more happy than if I am seeing 20% growth because 20% growth means that there might be one-offs or have we done underlying 20% business that we should see 20% growth in some of these line items. I do not think there is any trend that we need to be really worrying about here as such, so key business will grow more or less in line with our lending business or liabilities business or transaction banking business or a combination of all of that.

Nitin Aggarwal: How has been the productivity of our new branches during demonetization phase, do we expect their break-even period can change now because of the strong SA accretion that we have seen this quarter?

Rajat Monga: Maybe Pralay will also have good inputs on this, but just to straighten this context here, the demonetization benefit in terms of CASA would have come into existing accounts predominantly, so it is not that we have suddenly opened millions of more new accounts. New account opening actually slowed down in November and then it has done better in December, so 99% of what we collected in Current Accounts and 93% of what we collected in Savings Accounts has gone into existing accounts, so those by definition would mean old branches, but yes, there would be some fillip to this in general. We have got more customer recognition or praises or such letters in one month than we possibly get in a few years, so all that is helping in terms of helping the banks brand and the perception and the service engagement with customer. I think demonetization has been a great opportunity for us to be able to create those

anecdotes with our stakeholders that we can do better perceptibly in standing with the competition, etc., so those opportunities also were something that we could capitalize on.

Pralay Mondal:

Absolutely, so the point is as Rajat said that it is not about new branches because most of the money would have come through the existing customers, hence it would have helped the larger branches and the older branches more obviously and the new branches has added like, December we did lot more than what we do generally in terms of customer transition as well. Having said that, I think it is a new normal in terms of a base lining, so if you say that if you are 30.3 to 33.3, wherever we are, from here on if you continue to grow at the same level what we are growing in CASA prior demonetization, I think we are reasonably happy with that because then what we have done is we have done our one step up and then continue to grow at the same pace as we were doing before because there will be no event after this, and one of the challenge is of course will be that some of the money which has come in, how do we hold that money back, etc., specially what is coming in the current account and things like that and even then we have to grow at the same pace on the larger base going ahead. What we are confident is that we have analyzed our data. We are confident that even with an step up of a three odd percent in one quarter, we should be able to hold it and grow it on a sustainable manner over the next four quarters and that is the positive, but the bigger positive in my view is the inter-productivity point you made, I want to answer it in a slightly different way.

At a time when the branches were handling at times 5X more transactions than what they have ever done before, at a time when there are so much of compliance and other things which is happening all the time and everyday things are changing on a day-to-day basis, in spite of that fact almost all Retail products, when I say Retail, I am not talking about SME, almost all Retail products we almost touched all-time high, whether it is Savings Accounts, Current Accounts, insurance, investment products, Retail assets, even our broking products whichever way we look it, which created a separate productivity and the ability and the confidence in the system at the same time, our bank got well appreciated and recognized both by the RBI incognito visits as well as the ED visits as well as the PMO office visits etc., and we got as Rajat said that more than 300 customer appreciation letters which you have not got in more than a year's time, so this entire thing gives the confidence saying that the branch is now on their feet and say that they can do more than what they have ever done before in spite of the highest volumes and that confidence builds productivity and that is the biggest gain for us, so definitely in terms of confidence the bar has been raised, how do they deliver from here on a higher baseline, we have to see and that gives me the confidence that in spite of the fact that we have grown by 3% in CASA ratio in one quarter, we should be able to maintain and grow on top of that with businesses as usual growth and CASA ratio.

Nitin Aggarwal:

Lastly, what is the average SA balance now versus the previous quarter?

Pralay Mondal:

What has happened is we have got lot of new accounts as well, so broadly SA balance give and take little bit here and there it will be similar, okay number of accounts have gone up, some

balances have come into current, some has come into savings, so broadly SA balances will be similar.

Moderator: Thank you. We have the next question from the line of Parag Jariwala from Religare Capital Markets. Please go ahead.

Parag Jariwala: I have a question for Pralay and team. One is that since long now we are debating about reducing our headlines, saving rates and for a meaningful balance, we also offer around 7-7.5 type, so any thought on reducing those rates that is one, and secondly if you can give us in terms of disbursement both the business banking division as well as the Retail, probably how much was the DEPP from October and how much we have recovered so far, if not in absolute number, in percentage will also be fine?

Rajat Monga: This is Rajat and I will take the question on the deposit rates, so yes, we will be continuously looking at our deposit rates on savings account and one such change is underway, so let us announce that it will be effective February. We are currently offering what we will come to will be a basically two price products; one is at 6% and the other will be 6.5%. We are just trying to still consolidate the strategy of 6% SA as such so we just reinvesting in that particular design for now. In the medium long term, I think the basic design to get to our desirable CASA mix and then in the process also rationalize the pricing that holds good as well.

Parag Jariwala: Basically, what would be our average cost of SA right now and what is our expectation it will come off to?

Rajat Monga: There are only two products, so it is somewhere little bit more than 6 given that there are two products which is one is 6% compensation product and the other is 6.5% compensation product. It will be closer to 6 than to 6.5 generally speaking.

Parag Jariwala: By whatever changes you are doing do you think the cost will come off to at least 25-30 basis points only on SA product?

Rajat Monga: May be little less than that because it is not a very large step of rates reduction, but over a period and finally we should be paying only as much as the large banks are paying which is 4% unless they change their rates in the meantime, but that finally is quarters in the making. It is not like imminent, it will take us few quarters to get there and we also have to get 40% CASA, which hopefully with the help of demonetization, we will possibly prepone our targets. Once we get our fair share of CASA, we can tweak our pricing, so if you see we have a 63% growth in Savings Accounts on a year-on-year basis balances. When my need falls to 20% year-on-year growth, I will have to have a different strategy. It is a function of also what strategy and what outcome and the feedback loop and the whole cycle again. I just wanted to appreciate is that we are also looking at a fairly high delivery on SA balances, and therefore, price has to have some help factor in its design, still we do not need that help and that is also coming.

- Parag Jariwala:** On the disbursement side, if you can give some color, SME and Retail?
- Rajat Monga:** I am not carrying these numbers, but we can give you some big picture, and you want new disbursements?
- Pralay Mondal:** On the Retail asset side, the disbursement was highest in October, then we went down by around 100 odd crores in November then December was the best ever, we crossed 1000 crores 1050 to be precise, so which was the first time we crossed 1000 crores, highest ever numbers. On SME, we dropped fair bit in November, but then we did not still touch what we wanted to touch in December, but we have done much better than what we did in November, so from that perspective after a huge drop both on disbursement, but the bigger drop was actually on utilization more than disbursement because of the cash flow related thing, lot of cash deposits happened and things like that and utilization has started going up as we are talking right now and disbursement started going up in December, so the trend is very positive, but there is a huge deep end, again a huge top, but the top still is not top enough so we expect that Jan-Feb-March should be much better for us.
- Moderator:** Thank you. We have the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** I had a question on this AT1 that you have raised, now in a declining rate environment, you have rated that around 9.5%, how do you see that in the context of this affect cost to capital, plus how does it impact your plans for raising equity capital?
- Rajat Monga:** Naturally, this is not a straight fixed income instrument, it is a capital-styled instrument with those caveats in servicing the debt etc., so it will never be the same as what senior debt will trade at, but among the reasons that we possibly put this transaction together, in our opinion these are I would say reasonably attractive prices to look at a capital instrument in terms of slicing and costing. It is not like I was saying if we have to do a senior debt, we might be pricing ourselves somewhere, I am giving an approximate number, it will be closer to 8% than not, and that is just senior debt. This is being an AT1 instrument which has not sure too rating disadvantages as well, is at 9.5%, we thought it was worth a look. Most banks are thinking like that. We have seen issuances from PSC banks, a large issuance from SBI, we saw Axis bank. We have seen that couple of other large private sector banks have also taken fresh ratings for doing an AT1 issue, so it is a fact that at least from the banks point of view that the interest rates are lower than what we have seen some three, four, 5 years now and there is investor appetite, so the choice was not that difficult. This does not compete with equity as those are both independent sort of milestones. We have to work on both in terms of our overall capital requirement given the emphasis being more on Tier I including by regulators then on Tier II or total capital for that matter. The exercise of AT1 got completed in December. The QIP will be done when that time is conducive. We still have all the approvals that we need to raise equity capital as well.

- Amit Premchandani:** The question on the telecom exposure, in your pie chart it is almost at 5% of the overall book and considering the headwinds that we are seeing in the telecom sector, how do you consider your exposure there, has it moved to tower assets, if you can give us some breakup?
- Rajat Monga:** I think our exposure will be referenced more with the telecom services company, from the mobile services companies, so our exposure if you look at the top three-four telecom operators would account for 70%-80% of this telecom exposure.
- Amit Premchandani:** Axis just reported numbers and they have taken a huge interest reversal on accounts of change in norm on SDR interest recognition, have you also seen any interest reversal on that account?
- Rajat Monga:** We did have many SDRs, actually we had only 1 basis point of a loan book which was under SDR, so to be honest, therefore, I am not even familiar with this change, but we have had a new addition, a meaningful addition of 15 basis points of our loan book has been added to SDR just this quarter and that would have followed these new guidelines in any case. It did not have to be reversed, it was the first time that we were doing it.
- Amit Premchandani:** If you can share with us the sector from which this SDR came up?
- Rajat Monga:** It is a construction sector company.
- Moderator:** Thank you. We have the next question from the line of Manish Karwa from Deutsche Bank. Please go ahead.
- Manish Karwa:** Just on capital what is the like-to-like capital now versus the previous quarter, as on the CET-1 capital if you can give?
- Rajat Monga:** If we had not done this AT1 issue, we would have reported at 10.3% Tier I ratio.
- Manish Karwa:** This 10.3 is against 10.2, last quarter.
- Rajat Monga:** 10.1, last quarter.
- Manish Karwa:** What is the CET-1 now?
- Rajat Monga:** 9.9.
- Manish Karwa:** CET-1 if I am not wrong was 8.9 last quarter, right?
- Rajat Monga:** No, that is without profit. The difference will be profits, yes. It was 9.7, essentially had this AT1 not been raised, you would have seen a 20 basis point increase in core equity Tier I and therefore, Tier I. With this capital raise, you are seeing another 190 basis points of increase in Tier I.

- Manish Karwa:** Just remind me this 190 basis point on this AT1 is a permanent and it remains 190 basis points assuming your loan book does not grow at all points of time or there is a rundown effect also that happens on AT1?
- Rajat Monga:** No, there is no rundown effect on AT1.
- Manish Karwa:** So, that 190 basis point is permanent and will help you over a reasonable period of time?
- Rajat Monga:** It is a proportionate number, it will have its value in 3000 crores of rupees equivalent, so 30 billion rupees equivalent worth of capital support. The rest will be function of your risk wares and capital adequacy requirements, etc.
- Manish Karwa:** Coming back to CET-1, you are saying 9.9 versus 9.7 including profit, but not including the dividends that you pay out?
- Rajat Monga:** No, we adjust last year's equivalent dividend. When we are adding profits, we are also assuming that we will repeat our dividend of last year that we adjust down.
- Manish Karwa:** Why did that 20 BPS increase happen because you have grown pretty fast?
- Rajat Monga:** Yes, it is basically capital efficiency related. There has also been some statutory reduction on capital, so usually you see statutory increases in capital. There were statutory reductions in capital also this quarter.
- Manish Karwa:** On capital raising, while you may raise capital at some point of time, but in the interim as you are growing pretty fast what are the other measures which you can use to conserve capital or you think that this is good enough to run at a similar growth level for the next one and one-and-a-half years?
- Rajat Monga:** Let us say if I have to extrapolate my growth and if you look at the growth of this just quarter Manish it is 6%, if you annualize it, it is 24%. If I grow 24% here on everything else being the same, you have to allow me some simple assumptions. Our ROE is 22.5%, that will jump a bit because of the growth consequences, so that itself might be 24.
- Manish Karwa:** You are paying 20% payout as well.
- Rajat Monga:** Yes that will be a factor that we will lose to growth if we have to extrapolate that, there is some of that we can find from efficiencies also, like there might be exposures that are not yet rated by rating it and see, so we could get that done. We always hold fair amount of corporate bond exposures. It is already good time to monetize them because the yield picture is constructive, so when you sell a corporate bond holding, I release capital as well. It is in a basis point range that is manageable was the point I was making. It is in a 20-30 basis point range, if not an outline range and so what you are seeing is a 37% growth which happened nine

months back, so the capital ratio has dropped then. There on the growth has been more in line with the ROE sort of performance, and yes, we still have our fresh capital raising options open, so I am not ruling out a capital raise in any manner, so we will have to allow our growth to pan out in line with our expectations of ROEs on one hand and ability to raise new capital also on the other hand.

Manish Karwa: On OPEX, especially the other OPEX where is this pending happening? Is it largely branches and new products?

Rajat Monga: See a major factor is the cost of priority sector lending certificates. So, what used to be a low yielding loan purchased or a pass-through certificate purchased is now a penalty of sorts. So, we are paying a premium to acquire our right. We are no longer buying loans; that is the new method that got introduced about six months ago, so that comes under expense. So, this quarter there was a Rs. 270 million of expensing on account of the PSL Certificate. So, this is the premium that we have paid to another bank, let us say, who has, who is foregoing the rights to apply a part of its portfolio as PSL in our favor. So, we will apply those rights when we submit our compliance to the regulator and they will apply a deduction correspondingly. So instead of us buying and selling loans, what the regulator has said is that you might as well buy and sell rights.

Manish Karwa: Sure and then does it means that this continues for some time because your book is expanding and you will need to keep buying these?

Rajat Monga: Yes, so this maybe relatively, let us say, a permanent sort of item in the cost sort of structure till we overcome that by having our own internal priority sector generation; by the way which is also well underway, a lot of our business banking is priority sector compliant, not all of but much of the retail assets also will be priority sector compliant. We got a little bit of a step back because some of the micro finance loan books sort of pulled back in this particular quarter, so we had to also step up on our compliances or priority center.

Manish Karwa: And you think this is better for you than buying out loans.

Rajat Monga: Yes, it is actually I would say, far more efficient. If I can add few more Fars also it will be understating it.

Moderator: Thank you. We have the next question from the line of Sameer Bhise from Macquarie, please go ahead.

Sameer Bhise: Just want to know the trading profit for 9 months.

Rajat Monga: I think we have been roughly announcing about little bit more than Rs. 100 crores of government security bonds gains every quarter. So, the number will be somewhere under Rs.

300 crores to Rs. 350 crores range; Rs.3 billion to Rs. 3.5 billion for the 9-month period. If you want precise number I will get back to you.

Sameer Bhise: Coming back to OPEX again, obviously balance sheet has been growing at a pretty robust pace but do you see that this will kind of continue with the pace at which balance sheet has been growing?

Rajat Monga: Yes, so that allows us. Let me say that there is a direct connection. So, the growth and therefore planning for supporting the growth has to go hand in hand. So there will be ultimate benefits, no doubt in terms of the fact that we should not be needing to hire at the same pace as our business scales. Last year to year and half particularly has been, let us say, heavy also because we have been investing in the retail assets business. So that does require let us say, we have to hire management upfront, we have to put technology into place upfront, we have to get the control people upfront and then sales can begin. So, there is a little bit of gestation, a classical example is credit cards. We had to spend about \$8 million, \$9 million just on the whole technology provisioning but that we will capitalize and amortize that over 3-4 years but still is a just an example of how cost is manifesting.

Moderator: Thank you. We have the next question from the line of Saurabh Das from Franklin Templeton, please go ahead.

Saurabh Das: Just looking at the savings account traction and if I just compare that 12-month trailing growth of savings balances, it is approximately 64%, 65% which is not very different from what we recorded this quarter. So, I do agree it is a very high number but given the context in which we are operating in terms of demonetization related flows, it is not really a real break of trend from the past. So, did we kind of retired some bulky SA and replaced it with granular ones this quarter or can you give some numbers around that?

Rajat Monga: On the latter part, I do not think it is at the bank's discretion. I think our discretion only will be by the reducing rates, so, no we did not take any. We did take a rate action at the beginning of the quarter and like we were discussing on another question that we are contemplating a rate action in this quarter as well, that will be effective next month. So, the demonetization consequence particularly for us, I would say Saurabh were more on current accounts than they were on savings accounts.

Saurabh Das: Right, that is evident.

Rajat Monga: Yes, let us say, if my CASA grew 3%, 1% comes from current account; that is predominantly, you can relate that to demonetization. Savings accounts on the other hand would have contributed a 2% growth in SA mix and they usually contribute 1% every quarter or thereabouts in terms of the growth of the CASA mix. So therefore, I would say normal circumstances we may have been reporting a 31.3% CASA but now we are reporting a 33.3% CASA and in that delta the contribution between CASA is roughly equal. I mean it is still not

easy to relate to which deposit came due to demonetization and is in CASA and all of that is just I mean it is saying we are still using whole lot of approximations and assumptions to come to this conclusion.

Saurabh Das: And another line item was corporate banking fees. I do not know if there is any reclassification which has happened there but if I just look at the last five quarters of that number, then it is kind of flat lined. So, do you think that; that is a segment which is really tough to grow in this environment or we have changed the way we do business there, anything around that?

Rajat Monga: Well, let us say to the extent that it did better last year than this year. I think it is a little bit of the operating context that the industry opportunity is offering. We have discussed that several times, I think last couple of years, if I exclude the last nine months and if I am just dividing the years by financial year kind of division, I think the last couple of financial years we did get structured financing opportunities. I think what we are seeing mostly now are the, so we were using some let us say structured type of financing to and in some cases also address them to balance sheets which were little stressed on account of their financing or mis-financing. Opportunities of late have now flipped to the buyers. I mean there will be some limitation to what we can earn from these buyers in terms of fee but the volumes are better. So, we cannot take a very large exposure with that is a structured finance design because it is limited by design itself. However, on the buy side, we can be lot more open, for example you just taken an approval to raise a single borrower exposure limit to a certain cement company in India which is a part of a certain group, quite acquire a large cement capacity. So, we would be able to possibly look at that opportunity in terms of maybe whole of the banking, including bond financing if there is and cross border if necessary. So, while the volumes are stronger but the fee tickets will not be which may be playing itself into this trend that the growth is not translating into the same degree of fees as such.

Saurabh Das: And what is just housekeeping number and what is the credit substitute book right now?

Rajat Monga: We will get you the number but it will be flattish versus the last quarter, maybe a little lower only, Rs. 9600 crores is the exact number.

Saurabh Das: And finally, the relationship which we have with Freecharge, how does the economics work and there if at all any fee is getting captured in our fee line? Where is that fee getting captured?

Rajat Monga: So Freecharge, we have couple of designs. So we essentially are the bin or the switching bank for Freecharge, so the transactions that happen from wallet to bank in that environment will be routed by us, the balances that the wallets accumulate are also resting with us. In Freecharge particularly, we also have a feature of a virtual debit card. So Freecharge wallet holder can also ask for a debit card which can get attached to his wallet, so it becomes a pre-paid card of sorts and that pre-paid card can be used so the wallet balance can be used by the wallet holder anywhere because he has to punch in the card number, the CVV and the expiry date, etc. which

is available to him on the App. So, the wallet gets debited, now that also earns interchange. So it is a mix of these opportunities.

Moderator: Thank you. We have the next question from the line of Dhaval Gala from Birla Sun Life, please go ahead.

Dhaval Gala: Couple of questions; one if you look at fee income growth and if you exclude the FOREX that capital market line item, the growth has been pretty sluggish. Do we have any linkage for this to the balance sheet growth or the loan growth number and how do you look at this line growing say in times to come when we do not have too much or reasonably strong capital gains the way we had this financial year?

Rajat Monga: Dhaval please do not dismiss the whole of that line.

Dhaval Gala: No, I am not dismissing the whole of the line.

Rajat Monga: Lot of that line is customer business only though there is a little bit of overflow of, because we can monetize some of the fixed income positions therefore the numbers sort of relate. So if you look at each of the line items and if we look at the sequential trend, yes I think what I am worried about a little bit is the Trade Financing business. I think that has been sluggish since the commodity prices fell two years ago, and it has been sluggish since then. I think it relates to the fact that the Indian macroeconomic picture is better because CAD is stronger, so if CAD is stronger imports are weaker and which is what is reflecting here essentially which is what we are dealing is a very sluggish import economy as such. Crude prices fell, gold imports we could have done that. In this quarter, for example we had a huge opportunity to import gold after demonetization but we did not take that opportunity because I would have been justifying that to the authorities for the long time to come as to why did we not question, why are we importing this gold on the 11th of November, 2016 and in huge quantities, etc., so there could have been more opportunities of imports and import financing but we also let go because of the apparent risks that might have been associated with them. So, if you look at these lines, these are from transactional banking lines and they will get affected by the big picture, they will also do well when the velocity picks up. When that happens, it is incidentally when the velocity picks up, is because the economy is doing well, interest rates will be rising and I will be finding it hard to justify why the FOREX and securities line is falling. So it is a little bit of that trade-off and we look at that nicely in the Indian banking context is because usually when interest rates are falling the credit cycle is weaker, the economy is weaker so your volumes are not as strong but the securities gains compensate and the slips when the economy is stronger. Rates are going higher, velocity is good, so we are getting more throughput-based revenue. And if you go a little bit lower into retail, again if you skip the trade part I think there seems to be I would say a general growth on a quarter-on-quarter basis on each of those lines including an interchange income even though interchange was stopped on certain products for certain time in this quarter but we still have a quarter-on-quarter sequential growth of 10% despite these changes. General banking fees is up, third party sales is up, and the facility and

processing fee is up but could have done better, the MSME has also been supporting had they not got affected as much as Pralay was describing earlier. So, I do not have a very good answer but philosophically speaking the fee has to grow in line with our business. We have to be adding more fee products over the course of our business and we have to make them more granular the fee, we have to take some of our services to more customer and more retail and as that happens we will possibly do better. So it is broadly in line with balance sheet given that there are some interest rate trade-off, is my suspend and that is how it has been actually for a long time over the last two, three, couple of economic cycles or interest rate cycles you would see this phenomenon kind of happening every time.

Dhaval Gala:

No but do we expect the fee income or overall loan interest income growth to trend the balance sheet growth number or how do you look at it because slightly we are lagging loan growth number, we are around that balance sheet growth number?

Rajat Monga:

See I have to go little bit line by line. So corporate trade and cash management will outperform balance sheet, it is already on a depressed base so to say. The FOREX debt, capital market, and securities is clearly under the fixed income sort of cycle influence; this cannot grow with balance sheet, maybe a little bit more than half of this can grow along with balance sheet but not the whole of it. Corporate banking fees will grow in line with balance sheet but it will have its own variants and cycles and ups and downs but it will, if you look as a trend, it should be able to substantiate growth in line with clearly the corporate part of the balance sheet. Then we come to retail banking fees, this will trade in remittance. I think I still want to believe that this quarter was demonetization effect. So, we will have to wait for one more quarter to be able to change my view, if my view is wrong and therefore it was not demonetization, it was something else but at the moment it seems like demonetization. I think the rest of the lines are sort of showing the right behavior including in-line with how the balance sheet is growing. So there has to be a connect, I think the only disconnect is in securities income if at all and that also is cyclical point and it is not like that it will never come again. Everything else is driven by customers who either have a deposit with us or have a loan from us and therefore they have, there is a play on balance sheet always.

Dhaval Gala:

And could you highlight what would be our lending rates at this juncture, the moment of the base rate, the moment of the MCLR and how do you look at scenario now that SBI or other banks have cut rates aggressively in Jan, so does this have any impact on our NIMs?

Rajat Monga:

So, the story as far as MCLR is concerned is little bit let us say has to be looked at over a longer period and not just January because some of the banks, among other SBI were not taking a monthly cut in their MCLRs, unlike us we were. So, we had taken more cuts than SBI already by December.

Dhaval Gala:

How much would be that?

Rajat Monga:

We were already I think 40-50 basis points cut by December; SBI was I think was 20-30. Only on one rate there were 20-30 basis points cut, other rates were no cuts since April and then they suddenly took a 90 basis points cut. So, I mean I can question that strategy but I am no one to do that because according to me if I had a free hand I would also do something like that because it does not affect my back book in a hurry, so I would rather take a drop, add a spread and then start doing new business, which is what SBI might be wanting to do, etc. So, it is debatable in terms of whether or not who has done is right or wrong but yes there has been a sharp drop but seems like they will be adding a spread to that. And if you go back to April we were 40-50 basis points worse-off than SBI or other at that time the larger banks, in terms of our reference for MCLR. Today we are about 60-70 basis points worse-off. So, in this let us say 10 months we were higher than SBI to start with, our gap narrowed then the gap has again widened and has got little more than when we started and I am assuming in next couple of months we will cut and SBI will not cut. So, in maybe 2-3 months we will catch up. It is also because this is a strategy we cannot follow because we are not a mortgage-led bank in terms of our rate designing for example. So a little bit two each is on and we might have to compete differently for the business between, particularly the business which settles close to between 8-8.5% because we still have rates which are below 8.5% otherwise we can always look at a capital market instrument and we are not missing out on retail as yet and there is time for us to adjust our pricing if necessary. Now the question on margins I think as long as my pricing adjustment is gradual, I do not believe there should be a margin impact even if my pricing adjustment is sudden, for example let us say we had dropped our base rate like other banks have done by 90 basis points, there is no repricing, there will be repricing in February which was to the extent loans were made on one month MCLR but not many loans get made on one month MCLR. There would be some extent repricing in February to the loans which were made on 3 months MCLR in October but only those many. So there would be a staggered repricing over a period and not a whole lot and I am also assuming SBI might have done a lot of business on one year MCLR because one-year MCLR came into being only in April, it would have been reset only in April '17. So, it is actually a defer transmission if you ask me. It is not an instant transmission. It might be little bit more instant transmission, it might be little bit more instant transmission to the new book depending upon how they reference it, it is only a floor there is a spread on top of that, there could be policy on top of that each banks has its own but I do not believe this has any great margin consequences than which were otherwise anyways coming.

Moderator:

Thank you. Ladies and gentlemen due to time constraints that was our last question, I would now like to hand the conference over to Mr. Rajat Monga for closing comments. Thank you and over to you.

Rajat Monga:

Thank you everyone for your patience on the call despite this being a three-four financial sector results day and hope I was able to answer your questions satisfactorily. Thank you very much.



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