



“YES Bank Ltd Q1 Results Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the YES Bank 1st Quarter results conference call for financial year 2011 hosted by IDFC Securities. As a reminder for the duration of this conference call, all participants' lines are in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by entering '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pathik Gandotra of IDFC Securities Thank you. And over to you, Mr. Gandotra.

Pathik Gandotra

Good afternoon, everyone, and thank you for participating in the YES Bank first quarter results call for the fiscal year 2011 hosted by IDFC Securities. I am very happy to have Mr. Rajat Monga, the Group President, Financial Markets and the CFO, Mr. Jaideep Iyer, the President, Financial Markets and Mr. Aparajit Bhandarkar, Vice President on the call. I would request Rajat to just brief you about the results and then we can take questions. Over to you, Rajat.

Rajat Monga

Thank you, Pathik for the introduction and thank you all for sparing the time for us this afternoon. We are happy to share with you the performance of the bank over the first quarter of fiscal 11 as well as the business progress made during this quarter. If I start by with our profit and loss highlights. We are reporting net profit of Rs. 1.56 billion, that is 156.4 Crores for the first quarter of fiscal 11 and this compares to Rs. 1 billion net profit for the corresponding quarter last year representing an increase of about 56%. The increase is predominantly on the back of an increase in the net interest income of the bank which has increased from Rs. 1.57 billion to about Rs. 2.62 billion, which is an increase of about 67%. This in turn is driven by strong 107% growth in advances and a flat margin performance at 3.1%. Supplementing the non-interest income the bank had experienced about 30% growth in the core non-net interest income. The number we are reporting for this quarter for our core non interest income is about Rs. 1.44 billion which compares with a Rs. 1.11 billion for the corresponding quarter last year. For this comparison, we have reduced the base effect which the last year's non-interest income is carrying on account of the benefit of falling interest rates which on government securities which the bank had been able to capitalize which was to the extent of about 41 Crores or Rs. 411 million in the corresponding quarter of last year.

The non-interest income this year continues to be drawn from predominantly our transaction banking and advisory businesses with financial markets and retail opportunities providing the necessary support to the total non-interest income. The total net income as a result has improved from Rs. 3.09 billion to about Rs. 4.06 billion or 31.4% increase.

Costs remain tight. Our cost/income ratio, we are reporting a cost income ratio of about 38.7% for this quarter as compared to 36% in corresponding quarter last year. And similar to I would say what the bank has been experiencing over the last five to six quarters we have been consistently doing below 40%. The margins I mentioned have been flat versus corresponding quarter and 10 basis points lower sequentially.

A few balance sheet highlights. I mentioned earlier our advances have had a strong 107% growth in this quarter, the position as at June 30, 2010, as compared to the position as at June 30, 2009. So the book has doubled virtually and the growth has been reasonably broad-based across all our focus sectors with the exception of telecom which has been stronger, particularly, in this quarter in the back drop of 3G and BWA financing opportunities that had come about in the June quarter.

The segmental mix of our loan book remains pretty much similar to previous few quarters with corporate banking being in small excess of 70% of the loan book, commercial banking being between 20% and 25% and branch banking which is SMEs and retail being close to about 5%.

Asset quality again continues to be pretty much I would say minimal in terms of consequences even in this quarter. The headline continues to reduce. We are now reporting gross NPAs of 23 basis points. This compares with a reading of 48 basis points the same time last year. The net NPAs we are reporting at 4 basis points which compares with the 24 basis point net NPA position same time last year. It has also been a small moderation as compared to the position as at March 31, 2010 as well, where we had 27 and 6 basis points respectively gross and net NPAs. The restructured advances book has been broadly flat as compared to the March position which is almost at about 80 Crores, however, given the increase in the base of the loan book, the percentage restructured loans have reduced from 36 basis points in March 2010 to 31 basis points as on June 30, 2010 and more meaningfully from 94 basis points same time last year.

The yield on the advance book has been accruing at about 9.6% for the quarter which compares to little over 12% in the same quarter last year, adjusting for the drop in yields that the economy has experienced over the last 18 months.

Deposits matched the growth almost of advances and they grew 97% in the last 12 months and as a result we now have a deposit book which is in excess of 30,000 Crores or 302.4 billion is the number of deposits that we are holding as on June 30, 2010.

The balance sheet also as a whole grew about 89% between June 30, 2010 at the same time last year. The cost of funds has come down from 8.1% in the same quarter last year to 6.3% in June quarter and flat as compared to the March quarter. The CASA ratio has also improved about 1.5% from the same time last year and we are now holding CASA deposit mix of about 10.5%, however, it has been flat as compared to March 31, 2010 reading.

The growth in turn however is quite healthy at about 120% in terms of the absolute CASA growth which carries lot more momentum, in a sense as compared to the balance sheet growth that we are seeing at this point in time. So the prognosis of CASA remains healthy in that context.

Stepping back a bit to the asset quality picture a bit is also just to add statistics on the coverage ratio as well, we are now 81.4% covered on our specific coverage requirements rather the requirement is 70% so we are reasonably clear of the 70% requirement which is stipulated by the regulator. And our total provision cover has now gone past three times our NPAs if we include the general provisioning as well.

Capital reporting, cap-ad of 16.6% as of June 30, 2010, comprising of a Tier-1 capital of about 10.32%. I must mention that beginning this quarter the retained earnings which are unaudited are not eligible for being counted as Tier 1 capital is therefore another 70 basis points which at this point in time is not standing part of the capital that has been considered for the computation of capital adequacy. That would become available only when the results of the bank get audited which our cycle at this point in time is only annual.

Capital book as such is now we are holding Rs. 31.55 billion of Tier 1 capital which is pretty much the net worth and we are holding another 2,300 Crores of tier 2 capital, about 5,500 Crores or Rs. 55 billion of total capital is now in the bank.

Our return on ratios for this quarter have been respectable as well. The return on assets on an annualized basis for the quarter is 1.6%. And return on equity is 19.7%, again on an annualized basis, but that return on equity is a very satisfying performance given that we have raised equity only five months ago. And we are knocking on 20% ROE almost again.

The book value of the share now stands at 95.5. This compares with the Rs. 58 book value at the same time last year. We are reporting an EPS of Rs. 4.59 for the quarter which is not annualized, which is the number only for the quarter.

Financial advisory on the income streams has been somewhat outstanding in this quarter. Of our total non-interest income about 50% of the income in this quarter has been on account of financial advisory which is also on the back of some transactions which we have lead managed including an Rs. 8.46 billion road project which involved four-laning of a road stretch in Eastern India. We have underwritten Rs. 5.12 billion for a leading power company for implementation of a captive power plant in Orissa. We have joint underwritten and lead arranged senior debt of about Rs. 2.05 billion for a port berth expansion again in the Eastern part of India. So the bank's ability in corporate finance, infrastructure space is finding a lot of execution evidence and is also showing up in the fee outcomes as a consequence.

We are reporting a financial markets income of about 226 million in this quarter which stands somewhat reduced from the underlying operating performance on account of about 100 million on a 10 Crores realization of a provision that we are carrying, which results in the headline kind of moderate as such for disclosure purposes.

We are reporting 34 Crores or 343 million income from transaction banking which continues to show fairly healthy prognosis given the recent expansion in client base and loan book as well.

The bank has also received 91 new branch licensees in June of 2010 which along with some other concessions which have been made available as part of branch relicensing. The bank now proposes to consummate 100 new branches between July and June 2011 to take the total branch network strength of the bank to about 250 by June 2011.

We have been also fortunate to be able to host the Hon. Finance Minister for inaugurating 15 new branches in Eastern India which have also resulted in the bank now being present in 26 of the 28 States in the country. So the branch network the host currently has already been empowered with sufficient breadth and hub infrastructure and the new branches will likely build to intensify the distribution opportunity for the bank. We now are present also in 127 cities across the country where our current 153 branches are operational.

Among a few other significant developments before we take some questions the bank's technology platforms continue to find appreciation. In this quarter also received Asian Banker IT Implementation Award for 2010 and this time around for the HR Systems Implementation project where we were selected as the best across 50 financial institutions short listed from about 15 countries across Asia. Our CEO, Mr. Kapoor has also received recognition in the form of being awarded the Indian Business Leader of the Year award in Madrid in FICCI hosted global Indian business meeting in the month of June which is also in recognition of the growth and institutional excellence at least been able to create at YES Bank.

The bank has also received credit rating upgrades in the month of June by both ICRA and CARE which are rating agencies. As a consequence, the subordinate debt or lower Tier-2 debt program of the bank now stands rated as 'AA' from 'AA-' earlier and the upper Tier 2 and hybrid tier I programs of the bank now stands rated 'AA-' from 'A+' earlier. Important milestone in terms of further enhancing the capital raising activities of the bank. The bank has head room of about 2,000 Crores of hybrid Tier-1, upper Tier-2 and lower Tier-2 capital which we plan to substantially raise in the remaining part of this fiscal year. And the rating upgrade should go a long way in reducing the cost of that proposition as well.

One last statistic – I think possibly on headcount. We are now 3,450 strong. We added about 420-odd people in just the June quarter itself. I think reinforcing the need for the bank to be investing in its growth opportunity which we believe is available for us while we execute our version II plans over the next five years.

And I think at this stage we will possibly take some questions.

Moderator

Ladies and gentlemen, we will now begin the question and answer session. Our first question comes from the line of Manish Karva from Kotak. Please go ahead.

Manish Karva Hi, Rajat, congratulations, good set of numbers. Just wanted to check on few things. One, what is the total telecom portion in our total loan book?

Rajat Monga We should be looking at a high single digit number.

Manish Karva Okay. And roughly what would have been the telecom disbursements in this quarter?

Rajat Monga I think we can make that number to low teens. It is about 13% or 14% exposure to telecom itself. And the disbursements in this quarter I would say – there is always obviously some repayments and roll-overs but I am assuming we should have done about 2,000 Crores of telecom disbursement in this quarter.

Manish Karva And just some color on this, would this be short-term in nature or

Rajat Monga It is a mix, but yes, it has a predominantly short-term bias, depending upon how the requirements have been sought by the borrowers, we have been able to put together, in a long-term, but predominantly short-term opportunity here.

Manish Karva Right. And would it be fair to assume that most of your growth in this quarter on an incremental basis has been back ended in this quarter or mostly happened in the month of June?

Rajat Monga June has a dominating performance on credit, yes.

Manish Karva Okay. And what has been the average CASA for us during this quarter?

Rajat Monga We do not have that statistic ready but I am assuming maybe a couple of points here and there on the overall number.

Manish Karva Okay. And what is the savings and current mix?

Rajat Monga Mix is about 85/15 between current and savings.

Manish Karva Okay. And lastly, can you just share the break-up of provisions?

Rajat Monga Provisions, we are reporting a net number of 12 Crores. There is a general loan loss provision of 19 Crores. There is a reversal or realization of provisions of about 7 Crores, all on account of investments.

Manish Karva Okay. In the fee income you mentioned as a part of financial advisory you have done a few things on road projects, should we consider that thing as a one-off or is it an ongoing thing that can happen in the next few quarters as well?

Rajat Monga I think let us say the bank's relevance in terms of as an intermediary solution provider in infrastructure space is only going to grow. Roads at least for this year there is enough activity lined up. So there is visibility on that side. But I would say some of the examples or reasons we put this indicative deal list also there in our disclosure is also because we do believe that the bank's infrastructure strength have become viable in terms of putting a deals go through. So you should assume that bank will do more and more business in this area. And as we acquire more size and more capital, I think our capabilities will get even more optimized.

Manish Karva Right and lastly, if you were to include the profits, what would have been the tier I ratio this quarter?

Rajat Monga 70 basis points higher.

Manish Karva Okay. Thanks.

Moderator Thank you Mr. Karva. Our next question is from the line of Aditi Thapliyal of Noble Execution. Please go ahead.

Aditi Thapliyal Hi, thanks. My question to the management team, by adding just 3 branches in this quarter, is it not like making the job difficult for the rest of the year because to utilize the remaining 88 licenses of the 91 that you got, you need to add about 28 to 29 branches for the rest of the three quarters, am I right on thinking that way or?

Rajat Monga I think one variable which I would like to add is also the fact that we did not have branches. So we got branches only in June. Yes we keep doing our ground work but we are not in a position to sign up leases and pre-build the branches till we know that we are going to get the branch license. So there are execution as well as I would say approval delays which we have to content in our planning and I do not think we should assume that the delays will always repeat because this time around it was particularly influenced by the fact that the RBI was revisiting its branch licensing policy. I think there is yet more in the bilateral space between banks and RBI than there is in the public place. I am not at liberty to speak about that. So there are expectations which RBI is working on with banks to direct the branch development as a whole. So it has been delayed predominantly on that count, but the advantage we have in execution now is that most of the branches are not going to be hub branches. It will be more spoke branches which do not need the same level of complex execution. They already have help from hub branches where in their respective geographies. So it is more building distribution, more building intensity rather than building new blocks and infrastructure. So it will be relatively smaller branches cheaper more in residential areas where therefore we have more choices in terms of real estate. In summary, what I am saying is that the branches are now going to get easier to execute relatively but more in number.

Aditi Thapliyal Sure, sure. For the rest of the three quarters, it would be at least say two dozen branches being added every quarter now that hurdles have been ironed out?

- Rajat Monga** Yes, we are still saying that we will need four quarters to roll these two.
- Aditi Thapliyal** Sure. And CASA deposits they are not going to pick up in a hurry, are they?
- Rajat Monga** Well, not in a hurry, in a sense that we would still be looking at a 3% to 5% mix improvement per annum. What we know is that CASA is growing at 120% at this point in time. That momentum is sustainable. We also know that we cannot assume that the balance sheet will grow at 89% every year. Therefore, CASA will acquire more and more space in terms of its momentum vis-à-vis the balance sheet momentum. So it will grow. I mean it is accumulating business, it is accretive, it is vintage oriented, it needs more branches, and all the variables are in at play. The difficulty is sometimes is the relative proportions of CASA, not the absolute. Absolute is growing at 120% per annum.
- Aditi Thapliyal** And particularly, when you have the kind of lending opportunity that you did have this quarter, particularly, in the telecom space?
- Rajat Monga** I think there are two basically part for CASA. One is the stability and sustainability of the deposit base there. Credit trading off it with the costs, which are entailed. The other is also the margin consequences that CASA brings. I think the former is what we are seeking lot more than the latter. So we do not believe that there are margins at risk because of lack of CASA. We have seen margins between 2.7% and 3.2% over the last five years in the bank. So there are some variations but there is also a lot of balance sheet activity which is going on. We move a scale quite significantly. Given the operating range I think we are reasonably assured of margins, we still believe margins have more upside than downside, predominantly because of incrementality of CASA. The main opportunity in CASA is the distribution, the gross sell, the stability and the diversity of the funding base that we are creating.
- Aditi Thapliyal** Okay, thanks. Definitely look forward to the excellent set of results both on CASA and branch addition, I am sure those will be interesting times. Thank you. That is it from my side.
- Moderator** Thank you Mr. Thapliyal. Our next question is from the line of Amit Ganatra of Religare Asset Management. Please go ahead.
- Amit Ganatra** First question is on the, almost 4,000 Crores of incremental advances grew during this quarter, now is this kind of momentum going to continue for the rest of the year as well?
- Rajat Monga** I do not think the intensity would be the same. Also because there was a peculiar opportunity in this quarter. While we do believe that there is a broad basing of the credit opportunity which is taking place in the economy in general, but yes, we do recognize that there has been a peculiarity in this quarter. So I think our prognosis for the year is more like a 40% to 45% credit growth. Let us say by March end. At least the percentage headlines also have a little peculiarity because at the same time last year there was hardly any credit growth.

Amit Ganatra No, no, that is the reason I asked about 4,000 Crores, I mean...

Rajat Monga Absolutely. I appreciate that your direction in terms of the argument and therefore that is what I was trying to probably answer earlier in one of the questions that yes, the momentum I do not think has the same strength that has been exhibited in the last quarter. But there is yet an underlying pipeline which is strong, there is an underlying broad basing of credit opportunity which is taking place, we are intensifying our efforts in SME and retail as well, so we are also increasing our market scope in the meantime as well.

Amit Ganatra Second question is in terms of what is the absolute amount of total borrowings?

Rajat Monga We will look for that number. There would be a Tier 2 of about 2,200 Crores.

Amit Ganatra In addition to that, because total borrowings as on March, it was around 4,749 Crores or something?

Rajat Monga Yes. What is the number as on June 30. So we should be about 5,200 Crores to 5,300 Crores.

Amit Ganatra The third is that what is the absolute amount for the risk weighted assets?

Rajat Monga Approximately it will be about 25,000 Crores to 26,000 Crores, but we will get the number on the call before we close.

Amit Ganatra That is it.

Rajat Monga All right. Thanks Amit.

Moderator Thank you Mr. Ganatra. Our next question is from the line of Rohit Shimpi of SBI Mutual Fund. Please go ahead.

Rohit Shimpi Congratulations on good numbers. Just checking on the financial markets line, did you say that there were any provisions netted out in addition to the high base of treasury income in the Q1FY10?

Rajat Monga It is about 10 Crores of let us say provisions got realized during the quarter. I mean the provision has been made in earlier quarter has been realized in this quarter, so that lowers the headline. So our operating performance in financial markets actually is more like 32 Crores, 33 Crores, however, what we are reporting is more a 22 Crores to 23 Crores number..

Rohit Shimpi Okay, fine, thanks a lot.

Moderator Thank you Mr. Shimpi. Our next question is from the line of Jyothi Kumar Verma of Centrum Broking. Please go ahead.

Jyothi Kumar Verma

Hi, Congratulations on good set of numbers. Just a couple of questions. One is on your cost of funds, it has continued to remain at 6.3%, surprised positively, is it something to do with the rating upgrade that you got which has helped you in lowering your cost of funds and what is the trend you see out there, probably going in the next couple of quarters? That is the first question. The second question is are you seeing any early trends started your advertising campaign, are you seeing any early trends in terms of foot falls or anything that has happened in the past month and half that you can share with us?

Rajat Monga

Right, the former part of the question, the relationship between cost of funds and rating upgrades positive? Yes. Quantifiable? Difficult. Has there been a general benefit to the bank in terms of people building more deposit appetite? Very much. Does that result in an opportunity to improve cost of funds? It does. Not so easy to quantify that in terms of entirety. I would say have to assume that the benefit will even continue. It is not completely kind of been factored into our cost of funds yet. There is an I would say improvement of average CASA balances so that will feed into lower cost of funds in general. There has been no discerning I would say reason for why cost of funds are flat. We are reporting them the numbers. I know our deposit duration has fallen marginally because the growth in the last quarter has been heavy which could be one reason that the cost of funds are lower because we are also looking at a lower deposit duration. It has also been concurrent to I would say, lowering of maturity of loans. There is also part of the balance sheet which I know the bank is showing dramatic improvement which is the float part of the business which does not show up in CASA, which is more payment float. We are sitting on some five, six dozen dividend mandates, for example, this has been a dividend season as well which does not get CASA but it generates float income in terms of payment float but that yet is a source of funding. So there is I would say no clear ascribable reason in general. There would be more than a few factors at play.

Jyothi Kumar Verma

Okay. Fair enough. And with respect to any early trends in terms of your advertising?

Rajat Monga

Yes. Unfortunately, we still do not, if I may say, seek walk-in business with the clients. So the advertisement is not to ask to walk into branches but the advertisement is more for people whom we want to do banking with to be little open to talking to us, to be able to appreciate the ethos of the bank, the proposition of the bank to create that feel in that communication channel -- we do not want to create that feel for walk-in customers as they walk into a branch is not yet.

Jyothi Kumar Verma

Okay. And just one additional question. The financial advisory fees that you have put aside, how many clients would it have come around, would it be like two or three clients of very lumpy kind of a thing or is it fairly distributed?

Rajat Monga

I think there is a skew on both sides. There is deal flow. So there is deal based revenue. And therefore it is a function of let us say if we close an M&A for our client or if we close infrastructure financing for our client, it is incident-based revenue recognition. So to that extent, there would be some I would say lumpiness of revenue. I cannot take that away. But I would want to definitely mention that this business is for us is only going to grow. Obviously,

it has its cycle. We cannot keep building infrastructure for ever. We will also have competition come in sooner than later from more players, etc., So it has granularity but it also has lumpiness.

Jyothi Kumar Verma

Thanks a lot, sir. I will come back with my rest of the questions later in the queue.

Moderator

Thank you. Our next question is from the line of Tabassum Inamdar of Goldman Sachs. Please go ahead.

Tabassum Inamdar

In terms of net interest margin, given the kind of growth you have seen and as the CASA ratio clearly has not improved much, would you expect the margins to remain at 3.1% going forward or you will be moderating more the loan growth to achieve a better margin?

Rajat Monga

I think margins in general have, I mean, at least the visibility is that margin should continue to be where they are, unless we see the industry wide margins begin to compress. There is enough I would say build-up of expectations on rate hike, so I will not be surprised if banks do start moving on the push of rates to borrowers as well. I think the visibility of credit growth is beginning to build for some banks; it is not built for some banks, so it is still a mixed picture. I think as long as the demand/supply factors are not to imbalance I think there is a reason to believe that margin should maintain. And we still at least assuming and working towards an improving CASA mix and more so in the remaining nine months of this year is because the load of 18%, 19% growth has already been built in, in the first quarter itself. So not really worried about margins. I think pipelines are strong, therefore, the ability to pass rates as far as the bank is concerned it is also very imminent. It is that we cannot do it in a manner which is completely different from other what are the banks are thinking, so there is visibility in terms of even extracting margins if need be, but I think that balance is not yet tilted completely in that favor. So we are watching this part, I mean base rate has also been one variable, we are hoping that will stabilize before any, not that base rate is of any consequence yet because there is hardly any loans linked to base rate. So overall I believe medium-term, let us say, still believe that there is more upside then downside to margins, we are leveraging so mathematically margins go down, 18% growth means that we would have lost mathematical NIMs as well, not at the operating level but more at consequent to leverage. Overall, I would say unless the industry margins hurt I think we should hold.

Tabassum Inamdar

Just one more question. You said you did hired 400 new employees this quarter and given that you are looking at 100 branches. What is the kind of number you are targeting for the balance part of the year?

Rajat Monga

I think we should be about 4500, another 1000 same time next year, broadly speaking.

Tabassum Inamdar

Okay. Thanks. That is it from me.

- Moderator** Thank you Ms. Inamdar. Our next question is from the line of Vikas Garg of Fidelity Mutual Fund. Please go ahead.
- Vikas Garg** Can you just give us some sense of deposit profile on incremental basis, how much of the deposit would be coming from the wholesale segment and how much would be coming from the retail sector?
- Rajat Monga** I do not think there has been any meaningful shift in the mix. So we are still looking at I would say 15% to 20% overall headline mix coming from retail. Retail as an individual. Retail definition is non-standard, I must put the disclaimer. A lot of banks do not even know whether the deposits are from individuals or not from individuals. Since we have fewer of them we know our data better. So 15% to 20% of our deposits come from individuals. The rest come from not individuals, that does not mean that that is all wholesale deposits, they are deposits from trusts and schools and colleges and SMEs and yes, we also have deposits from the institutions.
- Vikas Garg** In terms of the stickiness of those wholesale deposits, have you got any kind of a track record of these wholesale deposits?
- Rajat Monga** I think whichever cut we take I think normally we are seeing 90% to 95% of depositor recurrence. Let us say if I am looking at June 30, 2009 cut, and comparing that with June 30, 2010 cut and assuming that the new depositors were not there, if you remove them, we are finding 90% to 95% recurrence of depositors. I mean they are there, in fact, we have seen that over a reasonable I would say stress out period as well which was in October/December 2008. In fact, we did lose some deposits and that was to predominantly to mutual funds because in 2008 October/November period, they were very tight, but in the same period, we made up deposits from every other segment and as a result we grew our deposit base a bit more than what was given back to us by RBI in terms of reduced reserves. So I think it is a bit tested, I would not say it is not tested at all and in fact the credit rating upgrade, etc, will only help. We know of institutions today who have 1500 Crores deposit appetite individually on us. Yes, we take 200 Crores to 300 Crores from them but we know the appetite of that order. So there is I would say time testing of this has come through. In fact if you also note some of the disclosures that have come about now on March 31st balance sheets about concentration of depositors being disclosed by banks, for a 10%, 11%, CASA mix, and therefore on 89% to 90% FD mix, you will find us more concentrated only in HDFC Bank. There are many other banks which have more concentration in their FD base, I am assuming that there is no concentration in CASA. And their most of the concentration they are disclosing it from their fixed deposit kind of denominator. So it is not that we are overtly averse of them than other banks. We actually have better off than some banks. Same story on the loan side as well. In fact, many largest banks in India are more concentrated than we are on lending. So there is that I would say diversity in thought process which is quite integral to our management of the balance sheet of the bank.

- Vikas Garg** Rajat, the other question was on the SLR portfolio for the bank. Traditionally, the excess SLR has been quite low for the bank. Going forward, we see the same kind of a trend to continue or...
- Rajat Monga** Yes, I think we have no business particularly in keeping excess SLR in general unless we have a strong view I would say, because excess SLR anyway cannot be kept in HDM, therefore you are compulsorily taking market risk on that portfolio. Like I was mentioning unless we have a strong interest rate view or we have so much money that we are not able to lend it is where we should see excess SLR kind of building up. Otherwise, at least in my opinion we believe we have no business keeping excess SLR.
- Vikas Garg** Okay. Could you give me a number of the absolute amount of the excess SLR as on June end?
- Rajat Monga** Well, we do not even know that number. So it will not be too significant. Normally, it should be 3-4 hundred Crores, I mean we also need some safety cushion. We do not want to be 25.00. So we will keep some excess because that is the operational comfort that we need. Sometimes we keep excess SLR also for hedges as hedges for some of our interest rate swap products. So I do not want to call that excess SLR that is more a hedge and it is therefore price protected to that extent because it will move opposite to the swap in terms of price direction. So nothing of consequence as such.
- Vikas Garg** Rajat, just one last question. On the loan book, of your entire loan book, how much would be at a rate lower than your base rate as of now?
- Rajat Monga** Some high single-digit number. But that is obviously factored for the fact that if it has to be repriced now it will be repriced above the base rate. Though there are historical rates, and as we know rates six, nine months ago were lower. If we were to lend those same loans today they will be at higher than base rate. The base rate has been I would say brought about with that thought process in mind as well.
- Vikas Garg** Thanks so much. That is it from my side.
- Moderator** Thank you Mr. Garg. Our next question is from the line of Shibani Kurian of Kotak Mutual Fund. Please go ahead.
- Shibani Kurian** Rajat, just a question on your operating expenses side. Considering that we are going to continue to add employees and build branches What sort of cost to income ratios are we looking at for the year?
- Rajat Monga** Well, we are hoping that these guys will also earn
- Shibani Kurian** Would that number continue to trend up over the next two quarters?

- Rajat Monga** Let me say even if it is I do not think we are getting too perturbed. I think any low 40s number also is acceptable as far as management planning is concerned. But I think there is also enough consequence in income. For some reason, if income slows, and cost continues to grow, is not a situation that we will possibly live with for a very long time. Then we will have to keep adjusting costs to the income potential. So far visibility of income is good. That is the reason we are saying with some confidence that we need to grow, put branches, hire people, pipelines are looking I would say encouraging, revenue pipeline is looking strong, I would say that the banks opportunity in the space is growing. I think keeping all that in mind we are working with some confidence that cost/income ratio need not be jumping, they might be inching. For example, we have hired 400 people in this quarter. We are already affording their costs. And so henceforth two quarters later start showing some productivity.
- Shibani Kurian** Over the next maybe two quarters you will possibly see costs going up the way we have seen in this quarter, if you are looking at the kind of growth we have seen especially on the employee expenses side?
- Rajat Monga** This quarter obviously two factors. One is that the salaries have been increased as part of the annual composition review. So that is one-off, once a year change. And possibly I do not think we will hire 400 people in any single quarter later. If you are looking at the trend it should begin to moderate in terms of the absolute cost increase. So the increase should start to moderate. Because this quarter is also peculiar, campus hiring happens at this time, increments happen in this quarter, so the impact is obviously to that extent pronounced. But we should not be extrapolating that impact beyond a point.
- Shibani Kurian** Okay. So for the full year we could look at somewhere closer to 40% sort of cost to income ratios that will be fair number?
- Rajat Monga** Yes, I think so. Obviously, our endeavor is to grow income. What we are saying is that we are anyway going to deal with let us say a 40% increase in cost this year. If our income does not increase by 40% then we are depending upon the shortfall we are prepared to deal with even a 41%, 42% cost to income. We give the number to prognosis because it is a ratio. Two things which have some time delays, etc., between them. You were saying something?
- Shibani Kurian** Just another question on your loan book mix , would the composition between wholesale and business banking change over the – I mean how that mix looks like at the end of the year from what it is currently?
- Rajat Monga** End of the year I think let us say the corporate book let us say shedding about 7% to 8% mix in favor of let us say 4% in favor of branch banking and 3 to 4% in favor of commercial banking. I think maybe a 65%-25%-10% mix between corporate banking, commercial banking and branch banking, give or take couple of percentages.
- Shibani Kurian** Okay. Great, thanks and congrats on a great set of numbers.

- Moderator** Thank you Ms. Kurian. Our next question is from the line of Anand Vasudevan of Franklin Templeton. Please go ahead.
- Anand Vasudevan** Hi, good afternoon, folks. I just like to get a better understanding of the infrastructure financing related business that is helping your advisory fees. What is the nature of the business, is it purely fee-based or how much of the activity supported by or contingent on putting in your balance sheet as well. Really would like to get an understanding of what you are doing in infrastructure space?
- Rajat Monga** Sure, I think it is not independent of balance sheet, but it is not only dependent on balance sheet either. In the sense that yes, we are underwriting some of these projects, but these underwritten projects are meant to be for syndication. So they will be our final take, final take will vary from anywhere between 10% and 30% of the project, depending upon how large the project was. So it requires balance sheet support nonetheless but it is not require 100% balance sheet support. It cannot be done without balance sheet. Yes, there are brokers who do it, there are arrangers who do loan syndications, but a balance sheet brought in always add credibility to a bank doing it always makes it that bridge, I would say acceptable. A PSU bank which is looking at YES Bank appraised project will give us that credibility that we deserve and desire and therefore, you want to put that into a business opportunity by putting financing for projects, for example, in front of the clients. So we will for example, we will be seeking underwriting fee for the project, we will be seeking a share of profits in terms of the targeted costs of financing between where we close the transaction in the client and where we are able to place it. So that is, I would say, the basically the business case in terms of the three examples of projects that we put together.
- Anand Vasudevan** Are you also getting any other fee-based businesses like treasury or potentially transaction based fees from this segment?
- Rajat Monga** I think the idea is of course, yes, when we do a project on either side of the project financing there is also let us say the opportunity, the company in the first place will have to get the project so there might be bid bond opportunity where the bank to intermediate between them and the government. Before the projects financing is completed, there is almost an import business opportunity, which is where we would want to keep LCs on the table. There is a working capital opportunity with the project, there is a collection opportunity with the project, there is an FX risk management if they are importing equipment which is there, yes, all of that is at play.
- Anand Vasudevan** Rajat, the opportunities are there, but what I like to understand is are these opportunities actually are you seeing them crystallize in your revenue?
- Rajat Monga** Yes and no. Yes in a sense that it is happening. No will be because we could do better. There is obviously issue of relationship and timing. Sometimes we are late in a transaction but the mandate is very clear in terms of cross sell is a mandate which is paramount, in fact, among the

few larger groups in the country that we target for business opportunities our cross sells intensity is actually quite high. So it is very, very rare that we are doing a project finance transaction with the company and that we are not doing LCs that we are not doing working capital. The core theme that we look at is that we do not want to be taking just only gestationary exposure. So we will not be very happy with sitting on a very large, our power sector, and 15 year loan. Because we have locking limits, we are not able to cross sell, we are not able to churn, and so we would rather underwrite and distribute the whole project loan. And yet, leave a space and room open for FX and LCs and cash management and working capital financing. It is happening but I would not say that it is happening to the extent that we believe that we are the benchmarks in doing that, not yet. I think infrastructure as a sector has just about begun to work for us. I think in couple of years time we will borrow that much time for us to be in the reckoning among the leading five, six infrastructure intermediaries in the country. But the ingredients are in place. We have hired a lot of people in that space in the last six months. We have projects under our belt which we are executing on the standpoint part of financing. So the prognosis in my view is quite satisfactory. But I think execution still needs to beef up, both on cross-sell as well as originating lot more I would say marquee projects.

Anand Vasudevan

Okay. The other question I have is on margins. I know you said that you have reasonable confidence that you will be maintaining the margins because of the strong pipeline in demand for credit?

Rajat Monga

Yes.

Anand Vasudevan

But I just try to understand from an ALM perspective. You also mentioned that your deposit durations have shortened. So from an ALM perspective where are you in terms of your ability to reprice your assets if we were to see a tightening of wholesale deposit rates?

Rajat Monga

Theoretically, we are quite well placed. Obviously, there will be a gap between theory and practice, but at least let me give the statistics. We will have a loan book duration depending upon how we characterize certain parts of the loan book which are not necessarily very determinable in terms of maturities. But let us say we keep that as a range. So we will have about 18 to 21 months loan book tenure. 95% of loans are either less than one year or linked to prime lending rate. If we go for a bit jump to the liabilities side, and I am deliberately leaving out investments, so I will come back to that. If we jump to liabilities, tenures are anywhere between 21 and 24 months. Again, we will need to give some variability to how we are behavioralizing or attributing the maturity to CAA balance or SAA balance or any other such liability which has uncertainty in terms of maturity. The liabilities are almost entire fixed rate in their characters. We look like let us say on a roughly speaking matched tenure book between loans and liabilities. However, a fairly significant repricing capability, theoretical contractual capability on loans. Let us say, if we raise our PLR tomorrow, if conditions permit, by let us say 50 basis points we will be able to reprice our loan book by 30-35 basis points tomorrow itself, while our liability book if I can generalize that will continue to reprice over the next couple of years. So it is therefore a little discontinuous margin management process in terms of

the fact that the loans will need some knocks and pushes for repricing. If I bring investments also into the argument we do not have any meaningful price risk open investments. We do have higher durations in our SLRs which would range between three years and five years depending upon the interest rate cycle assessment that we have for that part, but it is all price protected. It does not I would say bring that duration risk into prominence imminently. And the idea there is also to build duration when rates are high and cut duration like which was happening in the second half of fiscal 2008-09 and early part of fiscal 2009-10 is to cut duration when rates are low, which also serves as a countercyclical tool for the bank as a whole, as it comes good during bad times. So we run the SLR book as a countercyclical play, we are on a liquidity profile between loans and liabilities. We have quite squarish positions while loans on an interest rate profile have repricing flexibility.

Anand Vasudevan

So overall does it sound like....

Rajat Monga

I just also want to bring the contextual comparison with maybe couple of other benchmark banks is that where we miss CASA, we compensate by not having fixed rate lending. Let us say a bank which has 30% CASA may also have 30% consumer lending. And outside mortgages, consumer lending is predominantly fixed rate lending. So they have a higher share of fixed rate lending than us and a higher share of CASA which is also fixed rate indifferent to interest rate liability besides having a higher or a lower cost. So from the repricing standpoint, these are two situations which are not terribly different but for the fact that we need to reprice 90% of our book as against another banks which has to reprice only 60% to 70% of its book. but the motivation is still the same.

Anand Vasudevan

Sounds like rising interest rates would be positive to margins?

Rajat Monga

Only when we will pass it on. In still that time it will be pass it on next they will be of compressing. So margins will compress if cost are rising of course unless we are also repricing on the loan book either bilaterally or through maturity equivalently else we have to raise our rates. And when we raise our rates may we'll overcompensate typically and then margins will correct again. So this compensation and correction will be a little more pronounced in our case because we have a lot more floating rate profile of both assets and if I may say also liabilities.

Anand Vasudevan

Thank you.

Moderator

Thank you Mr. Vasudevan. Our next question is from the line of Darshana Joshi of Sahara Mutual Funds. Please go ahead.

Darshana Joshi

Good afternoon sir, almost all of my questions have been answered just a small clarification. We opened how many franchises in quarter 4 total for?

Rajat Monga

Yes very small number.

Darshana Joshi	Okay and we hire 400 employees that is the reason why our employee cost has increased.
Rajat Monga	Also if because we pay little bit more to our employees as well. Our increments kick in from June quarter.
Darshana Joshi	So expect this employee cost to income ratio to be around what, how much?
Rajat Monga	We were at 36-37% whole of last year, we are now at 38% and this 38% has already taken a fair bit of load of very rapid hiring as well as an increment to the past employees. There is more cost momentum but not whole lot.
Darshana Joshi	Another 1000 employees that we plan to hire will be spread over the year?
Rajat Monga	Absolutely.
Darshana Joshi	Okay and how much would be our exposure to large corporates?
Rajat Monga	About 70% plus.
Darshana Joshi	SME?
Rajat Monga	About 3-4%. That's how we define the SME, the definition might vary.
Darshana Joshi	Okay, that's it from my side.
Moderator	Thank you Ms. Joshi, our next question is from the line of Kashyap Zaveri of Emkay Global Financial Services. Please go ahead.
Kashyap Zaveri	Hi Rajat congratulations on good set of numbers and also it might be probably of interest to you that in this quarter if I look at your advances growth, probably we have done as much business as Axis Bank has also done during the quarter one. My question is on the advances you mentioned somewhere in the call that we might be looking at the year-end number which could be closed to let say about in 40s, is that the write thing which I heard?
Rajat Monga	Yes the growth number prognosis possibly is 40-45% year-on-year growth yes.
Kashyap Zaveri	So if I apply that 45% growth over last year we are looking at a book size somewhere in the range of about 31,000 to 32,000 odd crores which means about 1500 odd crores of business probably on quarterly basis for next three quarters. What makes us feel that probably the momentum will slow down substantially from about 4000 odd crores in this quarter to something less than about 1500 odd crores over the next three quarters?
Rajat Monga	Basically yes I am sure your maths is right.

Kashyap Zaveri

Are we underestimating or...

Rajat Monga

Possibly what we are saying are we overestimating our liabilities so the opportunities have to be sought. I think we also need to be balanced in terms of the assets and liabilities businesses of course. There is opportunity; we're not saying that there is no opportunity but I think our Version-2 is also something that we are working with liabilities as a dominant anchor for our growth expectations. So while we are working on that but that does not work like wholesale banking.

Kashyap Zaveri

And when you say liabilities side would that mean CASA or retail deposits, is that something that we are referring to?

Rajat Monga

Both. It's not just retail and CASA, it is all types of liabilities. We need liability engagement with our customers as well. There could be just an interest rate variable in terms of deposit. It has to have a cross sell element there. It has to have engagement on that part of the balance sheet as well. I am not saying that we cannot grow faster than that but what we are saying is that we need to be building equally strong visibility on liabilities, we are building our assets therefore we are anchoring ourselves between 40% and 45% growth such that we are able to improve, both our loan quality and our liability quality.

Kashyap Zaveri

And second question is on liability side, if I look at last about 12 months deposit profile change roughly about 50% of our deposits would have come either from corporate side or CD side and we have been seen that there is an upward movement to shorter end of the yield curve so could that mean that going forward the cost probably one should build in a bit of rising cost, interest costs from here on?

Rajat Monga

Yes costs are going up in general, RBI has been raising rates. I think the reference of 12 years ago on CDs may not be the best because mutual funds are the biggest surprise subscriber of CDs and they did not have the maximum balance sheet at that point in time. They were quite reeling under their own industry issues and that point in time. And mutual funds intermediate between savers and banks. If they have money they will put money in banks. Half their assets are banking assets and if they don't have money the money goes back to the depositors they have no choice but to keep their money with banks anyway. So that is essentially intermediary which will have its own cycle. I think we need to look at that from the stand point in terms of what we believe is a reasonable share for us from that segment from the standpoint of cost-effectiveness and distribution in between various players there. So like I said it is also a cyclical change that happened more in the mutual fund industry than at our bank. But yes the profile has been progressively improving in favor of retail. When I say retail it is more individual depositors that share is again not dramatically but it is growing. And the other way to look at that is like I was mentioning in one of the earlier question is that one other measure that we have now capability and ability to benchmark across the concentration of deposits. I don't believe we are more concentrated than many banks are. So if we are not concentrated

than many other banks are, nor are we as granular as those banks are must be much better spread in the middle than they are.

Kashyap Zaveri

And last question is on LDR, we have still improved on 82% which we had in preceding quarter we are about 400 basis points in this quarter also, one portion of it could be that we had an equity raising about one or two quarters back. So going forward what should one probably deduce from that?

Rajat Monga

There is also sometimes let us say bunching up of lending opportunities which we were discussing earlier in the call that June was obviously heavy lending quarter and unfortunately the LDR is only for 88. The average LDR obviously will be much lower. I think an average LDR for us will be sub-80s already. That both deposits and loans don't always go hand-in-hand everyday. There are lags and gaps if we have grown in a hurry in June I am sure there will be a lag in July because our clients also kind of fall off because they are converting. And there is therefore period where deposits will catch up. So it is more the average LDR I would be more sensitive to and in our case that should be still high 70s, it is not low 70 that is where the industry is. This is also because we are investment light. We don't access SLR. We do a lot of non-SLR investments. Yes we have raised equities so we are also less leveraged mathematically less leverage means higher LDR. We have some peculiarities which are not very significant peculiarities but of course which basically lead us to show generally higher LDRs than our peer groups. But as you all know marginal LDR for everybody can only be 69%. Because we have to keep reserves sooner than later and we are not raising equity on the margin to the extent we increase our borrowings, yes LDRs can increase.

Kashyap Zaveri

That's it from my side thanks.

Moderator:

Thank you Mr. Zaveri, Our next question is from the line of Shrey Loonker of Reliance mutual Fund. Please go ahead.

Shrey Loonker

Rajat I just wanted to get some sense, if you could just share how is our saving bank account acquisitions been moving around a quarter-on-quarter basis, if you could just give some color on that, individuals?

Rajat Monga

Sorry I'm not carrying the numbers.

Shrey Loonker

Okay not a problem with that. Secondly Rajat, are we seeing enough pressure in retaining talent also in terms of salary costs, now given that markets have somewhat again picked up in terms of hiring. Are you sensing those pressures internally?

Rajat Monga

I think more yes than no in general but when I say yes there are pockets where there is intensity of retention consequences but not to an extent that it is concerning but in fact when we look at our bank in terms of seniority we look at top management followed, by senior management, followed by middle management, and then we have junior and general. I think

other than junior management we have actually had very satisfactory last 2-3 years. There has been lot of continuity of people in management. Yes we have had a performance appraisal cycle so that has some consequences, not everybody gets what they believe they deserve. And yes, what you are right is that opportunities are opening up. But in our wholesale business for example we lose people mostly to foreign banks. Now in the wholesale side of the business or wholesale and commercial banking side of the business there are not many foreign banks are hiring. So in general, the conditions are not yet in aversive in that in that sense. As we get into the retail end or junior management part, it is still quite hard. So people's motivations are like that. They change for very easy reasons, etc., so we will need 3-4 years to muscle that part yet. But otherwise I think there is enough I would say at least believe that we have been giving people increments and bonuses even over the crisis. So I think that has helped our HR brand is building well now. We have hired topmost recruiter from B-School campuses this year neck to neck with ICICI Bank for example. So there are both I would say more good less bad happening in that part.

Shrey Loonker

Okay, if you could give us a sense if we are talking about recruiting another 1000 people and including 400 that you already done. 1400 people what will the mix between the wholesale and retail?

Rajat Monga

I think predominantly retail, I will say 80-90% will be retail because the 100 branches that we're going to put 10 people of branch itself is 1000. So it's predominantly going to be not that all branches will take 10 people, depending upon whether they are large branches or small branches or hub branches or spoke branches so it is predominantly going to be retail hiring.

Shrey Loonker

Right and these are coming with little bit of difficulties in a sense, a little bit of higher escalated elevated cost?

Rajat Monga

No I don't think costs there are seriously elevated in that. Not in the retail space because if we look at competing industry is none of them are particularly very strongly positioned to hire. If you look at insurance or mutual fund or other private-sector banks or Telecom I don't think there is a very I would say the mutual fund and insurance industry are all have their own issues at this point in time in terms of putting money into their own distribution, etc. Other private banks we know have issues and peculiarities. So talent is available. Mostly availability of talent and YES Bank as being a reasonable option for that talent I think we have never been in a better position in terms of our ability to hire talent..

Shrey Loonker

And could you just give us some sense on the attrition rate as well?

Rajat Monga

Well in the first two parts of the business minimal small single digit number.

Shrey Loonker

Lastly Rajat just wanted to get some sense, are you may be is the base rate regimes so you know the normalcy of events wouldn't have been there but still are you sensing that cooperates

is there a broad out base recovery in credit that we are still seeing in the coming quarters in the coming months? Are you getting a sense that cooperates are willing to put the money out now?

Rajat Monga Money out in terms of investments?

Shrey Loonker Yes.

Rajat Monga I think there is a general sense that the lead indicators at least are very-very much in place. If you look at capital good imports or capital good production that has to be put to use, it can only be put to use with that business which is like capital formation. This is capacity is getting added finally and our economy is a very credit depended economy. I can't imagine economy growing at 8% and credit not growing at 19%-20%, very difficult. So it is pretty much I would say concurrent indicator if economy is growing credit has to grow and one sees into each other. So the sentiment comes from the economy and credit support it, etc. So whether we're seeing any reasonable broad-based indicators we are still not in the 2007 kind of a sentiment but yes the credit is broader and broader based progressively. I think sentiment is improving; credit appetite is coming back across banks, and most banks have resurrected themselves from their own individual problems, post crisis. The lead indicators are very good according to me. The June quarter is obviously not the best quarter barring Telecom this time to draw trend lines on that part. The festival season will set the tone. At least my view is that we will have very shopping heavy festive season this time. And that's what sets the tone for both economy as well as the credit opportunity so reasonably optimistic if I can summarize myself but I'm not of the view that we will see 25% credit growth either.

Shrey Loonker Got it. Fair. Thanks Rajat.

Moderator Thank you Mr. Loonker. Our next question is from the line of Hatim Broachwala of Khandwala Securities. Please go ahead

Hatim Broachwala My question relates to feeds from transaction banking, our credit has grown at a very high rate but our transaction banking fees has kind of moderated so if you can explain a on this part and what will be the trend going forward?

Rajat Monga Yes I think there is not a very direct connection but there is a general connection in the sense that transaction banking is about LCs, guarantees, cash management, trade, buyers credit, suppliers credit, escrows, and electronic banking all of that. And most of that is a lag business it is not a lead business. We never get into a relationship with LCs or cash management in fact if we have cash management going with the client is only when we mark a success in terms of the entry strategy with our relationship. So many of them are somewhat or very gestationary products to work with the clients because this involves an element of customization, it involves an element of the client getting used to, your reports, your MIFS, your technologies it is not just like a loan and you're cutting a check and you agree on an interest rate. So it is a lot more complex in terms of delivery and execution so it usually comes with the lag. Therefore the

platform is very good now so with a 107% credit growth lot of new clients getting added brought basing of our reach in terms of both sectors and geographies and segments, all that is a very exciting platform for us to build these businesses on.

Hatim Broachwala

You mean to say fees comes from that?

Rajat Monga

Yes, when we open LCs we bill commission to our clients.

Hatim Broachwala

So that means coming quarters could be better off?

Rajat Monga

It should be. Yet these are transactional charges. Lending to a company will not give me these by default. The company has to imports, company has to export, the company has to finally be transacting. He has to move money from one center to the other. The higher the velocity of the money in the economy the more the banks are transacting, the more the risks are getting interchanged in economy the more we are intermediating. So the transactional velocity in the economy will determine at some level the revenues that we will generate from international banking. Secondly we need to have access to those clients, so how are way creating access is basically also by putting some balance sheet out to them. So, both have to come together for this to work out meaningfully.

Hatim Broachwala

Okay, thank you.

Moderator

Thank you, our next question is from the line of Jyoti Khatri of Dolat Capital. Please go ahead.

Jyoti Khatri

Most of the questions have been answered just few more. You said that the bank would be adding nearly 100 more branches in this fiscal. If you look at the past strength the number seems to be slightly on a higher side but then if we look at the growth opportunities in this fiscal and the coming fiscal are better so adding to the cause will make sense, is that a fair assumption or will that be one of the important drivers to add a high number of branches?

Rajat Monga

Yes absolutely, I think the last two years also have been little bogged down by uncertainties in the global in the global environment, in the local economy so we have no choice but also respond to the sentiment. We don't want to be doing wild things when everybody is trying to be conservative, so yes definitely and now that the sentiment is better and that we have licenses to sort of execute. Last year was particularly bogged down also by the fact that licensing, licenses were getting delayed because RBI was reworking their branch licensing mechanisms. Yet branches are also getting now smaller increasingly and I have mentioned earlier in the call we're getting more residential which makes the real estate part easier. It makes the cost lower per branch, so there are also factors which are in favor of branches. I was also mentioning our branches are now becoming more and more spokes so they are opening up in areas where there are already hubs, so time to market will come down because we already have support in terms of presence of people and supervision already in those locations. So branches for both intend, opportunity, and also the context reason are now going to get

numerically easier to put than in the past. Because in the past we were setting-up more of the hub branches where the HR was more complex, where the product handling was more complex, there were more downtown branches, real estate was a challenge. It took us four years to get a branch in Connaught Place in Delhi. There was no real estate available, so those things are getting easier. Well if we can't do 100 for whatever reason I mean even 80 is good enough. But the point I'm saying is that the opportunity is there, we want to do that, we have affordability like you said absolutely.

Jyoti Khatri Okay. Can you share with us how much is the quantum of PSL lending for the quarter and the same number for as on March 2010?

Rajat Monga We do and 40% PSL lending, maybe with a 1% cushion here and there. And it is just that the lending is index to one year ago loan book. So if you have a loan book numbers, I don't have the exact numbers as I'm not carrying but I know our performance in priority sector will be between 40% and 41% for both the years. So for fiscal ending March 2010 our priority sector number will be 40% of our loan book as on March 10, 2009.

Jyoti Khatri Okay. Will it be possible for you to share that average yields in the segments like commercial banking and business banking and the retail banking, how much are your average asset yields in each of these segments?

Rajat Monga It is something like 9-10-11 roughly speaking, in the large corporate segment we will be earning about let us say 875-9, in the commercial banking segment our average will be close to 975-10, in the SME segment our average will be close to more like 1075-11 and in the retail segment which is not very consequential, the range is obviously not very wide. If you are doing mortgages it comes to 9, if you are doing micro-lending it comes to 30. So depending upon your mix, for us it is not significant so it doesn't matter.

Jyoti Khatri And how is the composition of the retail book, is it more of home loans?

Rajat Monga It is just a 30-40 crore loan book and its predominantly I would say more like secured business loan or property loans.

Jyoti Khatri Although you have discussed much in detail on the margins so just one question more on that, advances yield have shown sequential decline and more so if I look at last 7-8 quarters it is at one of the lowest levels. Do you think that the reversal in the advances yield would begin from the next quarter onwards?

Rajat Monga Yes any time now in my view. I think obviously the rate trajectory in the economy has changed from declining to rising so we will sooner than later start reflecting that. It is also a function of what the balance between demand and supply of money is finally. If RBI raises rates and there is no demand for credit I think we will have a problem in general but those two

are not consistent in terms of consequences. So yes difficult to say whether we are at the bottom of yields but we're not very far or already passed the bottom.

Jyoti Khatri

Okay. That's it from my side thanks.

Moderator

Thank you Ms. Khatri, our next question is from the line of Vivek Verma of Edelweiss. Please go ahead.

Nilesh

Hi, just wanted to check on the fee income specifically on the financial advisory, how much would you attribute to lending, basically the balance sheet that you put to use during quarter?

Rajat Monga

I will also attribute LCs fees to lending, international banking fees to lending. It is very difficult to isolate because if I lend to company. Let us say when I open a CAPEX LC, CAPEX LC by default devolves into term loan. We will not open CAPEX LC without a term loan so I will also have a LC commission so there is strong interdependence in various parts of non-interest income as well. FX for example if I open an LC client will take a hedge from me. So there is a strong interdependence. DCM, we to underwrite, we take bonds on our books but we distribute them. Similarly on some of the examples where we put out in this discussion was also on project finance indications. We do put out balance sheet but we also release that balance sheet because of our distribution and syndication practice which is there so there is balance sheet use so I can't say that the fees is independent of balance sheet but there is also distribution which is entailed. So it is not let us say gestationary balance sheet deployment, it is transient balance sheet deployment but some part will retail.

Nilesh

In terms of specifically this quarter we have seen a good performance on the financial advisory side and to some extent we have seen a strong pickup on the loan book also so, I'm just trying to correlate if there is a....

Rajat Monga

Correction telecom companies don't give us that much fees unfortunately.

Nilesh

Sure, you mentioned the road projects and are we actually holding kind of making a significant income from there?

Rajat Monga

Income is significant but it is not like dominant part of 70 in terms of a transaction. You're asking me is there one client which is like half of that? No. I think there will be the couple of clients where we make good revenues but they will always be those clients and there are opportunities which are there in pipeline as well. So let me say whether there will be concentration of revenues in this part, yes there is but is that very one-off out of the blue transaction? No, when we will do such transactions with other clients, our capabilities are falling in place, they are only growing. In fact some of our infrastructure kind of deliverables that we have taken up once we complete them we will get the opportunity to do more. So it is coming together, there is difficult segment for example in realty which also has an element of lot of corporate finance work that goes in there. So therefore depending amount the effort that

goes also in terms of the putting the finances together for complex situations. There are earnings to be built to clients. Let me say will we make 76 crores or more next quarter? Can't say with surety but is this year in terms of as a phenomenon, yes.

Nilesh And in terms of if I strip that off, the advisory part, you have the financial markets even if you adjust the 7 crores loss on the transfer you decline. Means if you strip off the exceptional trading HTM gains that you saw.

Rajat Monga From last year, yes.

Nilesh And this I, you know actually I was under the impression this is more of a stable source of revenue because you started seeing good traction on the DCM side. So what would you attribute this decline to in the international markets?

Rajat Monga I think obviously there were lot more volumes of client throughput in DCM in same time last year because a rate action was, I mean there was a series of issuance which was happening same time last year. So there would be let us say a DCM I would say come down at least for three months, over three months period. But our DCM stature has grown.

Nilesh Sorry to interrupt. Are you talking about CDs or what kind of issuances are you talking about?

Rajat Monga Bond issuances by our clients. So I mean if REC wants to issue a 15-year bond, we will be able to....

Nilesh So you are saying that volume has come off?

Rajat Monga That volume has come off but value proposition has improved. Yet even DCM is a deal flow based business, I mean we have to close the deal. We do not make some money everyday. We make money only once we consummate the transaction, if the client is nice enough to give us some fees on that. So there is that underwriting term cum whole strategy also. See sometimes what happens is that you originate a deal which has value, right so you do not want to distribute the value to your buyers by opening and closing the issue. You buy out the issue and then you sell the issue later out in the market. So depending upon the opportunity it is difficult to some of these DCM, we do not have ECM, iBanking, Project Finance Syndication will always an element of closure intensity. So quarter-on-quarter I would say moving average is a better representation.

Nilesh That is also been you know quite- because the run-rate has been 45-50 crores from the last three-four quarters. Even if you add the 8-odd to 7-8 crores you are looking at a 30 crores number in this quarter, so. Is it possible to just get a split between these?

Rajat Monga Financial market number has, let me also say it has lot of noises. If I am let us say holding HTM security, sorry I am holding a security in AFS or let us say as a high coupon security it is

a balance sheet investment, lower duration one year or two year, this is an example to make a SLR requirements. It has mark-to-market sometimes. That has to be expressed in their mark-to-market in financial markets. So it is quite full of noise, in fact if you ask me on FX and derivatives business we had a very good June quarter. DCM, I think incidence of closure has been low in June quarter but my feeling at least in the near term pipeline opportunity DCM in September quarter is quite strong. So it is difficult to always pin down yes there has been less revenue earned but is that a trend which is changing, I do not think so.

Nilesh So just taking that along with the transaction banking, we have seen sequential drop but 37% growth on YoY basis, still lower than our overall balance sheet growth. Would you attribute a similar kind of a number for the FX and derivative because these are more close...

Rajat Monga Easily, I mean because see the last year base is double, I mean FX and derivatives would possibly have 60-70% increase in their base. But it is I mean DCM obviously has corrected in this quarter and I maybe wrong in saying that that correction is a for-good correction.

Nilesh Okay, we have seen like our balance sheet is growing pretty fast and the fees to some extent I believe is not keeping pace, so is there something to....

Rajat Monga Yes, I think there is always a lag because I mean like I was saying you do not earn fees by lending loans. You earn the fees by using loan sometimes on entry strategy and therefore we begin to broad-base in that company by also selling T products. T is transactional. It is not, I mean once you lend you will learn as long as loan is outstanding but you will earn something everyday it is not like that, fees is always transactional. You need to seek out transactions from clients and execute them. So I mean what I was saying earlier in the call is that the 107% growth obviously means a much wide broad-based platform which is available. But yet we need to convert it. Yet, the fees in transaction banking as well as many other parts of non-interest income are cyclical in their broad patterns, in terms of more the economy grows, the more clients will transact because that is the basis of economic growth. The more they will produce the more goods and services will get exchanged, the more we will intermediate in that. So our ability to produce non-interest income will grow. But the platform is what has been built in the last one year. Yes I mean if you do not convert that it is our execution failure but I do not believe that the opportunity has come down. Opportunity in my view has only grown.

Nilesh No but, basically what I am trying to get at is we have seen growth now at least a substantial growth for the last three to four quarters.

Rajat Monga We should also add I mean June quarter is not the quarter we should reckon a lot of consequences. It is traditionally a weak quarter.

Nilesh Well that could to some extent explain the sequential drops, but on a YoY 37% where we have seen like 3-4 quarters of growth above 70%. I am trying to get some sense is it lag means what probably you are looking five to six quarters where after that we should see a ramp up?

Rajat Monga The drop you are saying only in financial markets?

Nilesh No, this is the transaction banking.

Rajat Monga Transaction banking is a growth, right. Now, let us look at like this. Loan book is a period on day on day number, right. It is not the average number.

Nilesh Yeah.

Rajat Monga Right, so we may have 18% is the sequential growth and let us say if I get an isolated guess let us say that happened all in second half of June and it obviously has an intensity in June because 3G and BWA funding happened predominantly in June. So a lot of that opportunity will not immediately convert and this BWA guys will need to set up their businesses before they give us the business, right.

Nilesh Actually just not talking about the last quarter.

Rajat Monga I am just saying this is how the phenomenon takes place. So they will set up their businesses, will they give us their business on preference, of course, including the non-interest income business. It is our failure if we do not get, not theirs.

Nilesh So you think there is nothing to worry on that, right?

Rajat Monga Well, am I saying is that there is nothing to worry in a cycle? There is, I mean if economy does not grow that will not keep pace. Because the clients have to run like this. The BWA still has to sell and if it sells which will do well in a good economy we will earn even more.

Nilesh Is it possible to get the number of the DCM fees in the first quarter of last year?

Rajat Monga Not carrying them but yes, let me see if I can talk to you on that when...

Nilesh Okay. And the other thing on the telecom disbursements during the quarter, you mentioned that it is for couple of quarters will be on the books or what is the contractive tenure?

Rajat Monga The contractual tenures would be, mostly it will be one year. There is some which are even 5 years but that is not the majority. And there was I think hardly any which are short term maybe nine months, maybe one tranche with one company so it is pretty much of that order.

Nilesh So is it possible that they could remain for the year as on 31st March, 2011 you could see that thing, depending on the balance sheet.

Rajat Monga We could remain beyond that as well because what guys going to do when this matures. They will not suddenly get that money. They will have to convert that into a long term form of financing, either locally or through ECBs. You will lose it only if it is through ECB. If we are

in the project, we hopefully will get the opportunity of doing the long term financing structuring for these businesses.

Nilesh Sure, so we retain some part of it then?

Rajat Monga We should retain, I mean we are not the sole lender already so we will retain a decent part of it if the financing structuring is to our satisfaction. If they go to ECBs then they will lose it because we do not have that balance sheet capability.

Nilesh So just coming back to this, if we are talking about intent of 40% loan growth, so which is roughly like 31000 at period end 2011 so that is an incremental 4800 crores of lending, three quarters and if is possibly these remain on the asset. Then for three quarter roughly 1500 crores so that is kind of still lower than what we saw I mean to strip of these out of the 4000, 2000 on...

Rajat Monga I think it is not less than 2000. I do not have the exact numbers but you can assume it is 2500. It is not because it makes my answer to your question easier but I think it is more than 2000.

Nilesh So basically out of the 4000 if you are saying 2500 is for telecom, 1500 is for the others. So we are expecting a similar run-rate?

Rajat Monga We are expecting a similar run-rate. You may also say that we are assuming that some of the telecom might fall off and therefore we have to replenish it. And these numbers are not as I would say clinically thought through. It is also a little bit of I would say where we are planning to grow.

Nilesh If we remain on board, then the number could be much higher, right in terms of the overall loan growth?

Rajat Monga It can yet be higher. Even if they do not remain on the book it will still be higher. I mean it is not that we do not have the capacity. We also have a lot more conscious strategy and effort going on in the liability side as well to see that it is a bit in play. We do not want to be growing in excess of where our liabilities are affording the growth in terms of both profitability and broad basing of liabilities.

Nilesh And just one last thing, on the Tier-1 you mentioned 70 bps will add because of the profits rate?

Rajat Monga Because of at the moment unaudited profits.

Nilesh Unaudited yeah, so roughly you are looking at 11%, right?

- Rajat Monga** Well, there is more room there because lot of our new growth is unrated. It will get rated and these are good ratings plus it will release more capital, so there is according to me easily 1.5-2% of Tier-1 capital somewhere which is available with some management action.
- Nilesh** So basically if I do a simple calculation- from 1285 to 11% you are looking at a dilution of 185 bps in one quarter. But you said that....?
- Rajat Monga** According to me even 1285 had management action based unlocking capability of Tier-1. You see basically when you do a loan you rarely get a rating when you do a new loan but it is usually a covenant, not a condition precedent. So when we do the loan, I mean on June 30th we may not have all the ratings, but by September 30th we may get many of the ratings and ratings are definitely going to be good in many of these NIMs. So we will get capital release. So there is I am saying is that basis management action there is easily 1.5% plus capital to be released and in this particular quarter there is a peculiarity of 70 basis points which was not there in March. So there is more capital to be released than or possibility of capital release is more than it was there in March.
- Nilesh** Okay. Thanks. Great then, great.
- Rajat Monga** Alright Nilesh.
- Nilesh** Thanks a lot, yeah.
- Moderator** Thank you Mr. Verma. Our next question is from the line of Praful Kumar of Principal Mutual Fund, please go ahead.
- Praful Kumar** Hi Rajat, just wanted to know is there any RBI mandate for you to open a specific percentage of branches in say semi-urban areas or our total plants?
- Rajat Monga** Okay, what I was saying was that the mandate of semi-urban and rural branches is common across all private sector banks in state. It is at 25% of total branches.
- Praful Kumar** And what would be the RWA number you had to just....
- Rajat Monga** 31,000 crores.
- Praful Kumar** And lastly if you can spend few minutes on you know how has your Version-2 progress been , and what you should look forward in terms of you know new product focuses or any new technology platform you are talking about in that presentation that you know RFIDs and different various things coming into branches?
- Rajat Monga** Well I mean Version-2 is a five-year plan so I mean and execution is also being worked upon such that it converts and converges over a period.

- Praful Kumar** Correct, so I was just asking in terms of what we should look forward in terms of next say one year, two years in terms of new product launches you will focus on or what would be the key thing that one should look forward to?
- Rajat Monga** You should look forward to I would say our growth in terms of branches. You should look forward to us creating more propositions. Banking is not a radical business since we are looking at more enablement of product and services on technology whether it is more transactions on mobile, or whether it is just more transaction on internet or on the phone or use of service or choice of channels, more ATMs. It is I would say innovation in terms of how we are rendering the products and services, customer experience, technologies so all of that is there. It is difficult I mean I do not have a list to share with you in terms of this is what.....
- Praful Kumar** I take your point on that. Lastly if you can throw some color you know on we are seeing that RW, your return on assets have been on a declining trend because of pressure on the spreads and your fee income is not going as per your assets. So just want to get a sense what would be a sustainable return on assets we should look forward to from you?
- Rajat Monga** We have a return on assets of 1.6 in current quarter so I think we have a whole lot of complaints about that.
- Praful Kumar** No, not that but we have seen that from quarter one last year, we have seen a declining trend so is there anything we should read into the trend or....
- Rajat Monga** I am not sure if there is a general I would say return the business is not showing us a lowered return if I can say, if I can answer it differently. What is showing us lower return, costs for example, we are hiring people. So these people will not return in the top line and therefore bottom line immediately. So a 1000 people is what we have hired in the last one year. But these are money good people, in the sense that sooner than later they will bring in revenues. So I actually am tempted to say that we might actually may be a quarter more but we should begin to improve on our return on assets.
- Praful Kumar** Thank you and all the best.
- Rajat Monga** Oh yes, thank you very much.
- Moderator** I now hand the conference over to Ms. Chinmay, please go ahead.
- Chinmaya** Hi Rajat. Thank you for taking time to give us details of the results. Thanks to all the participants as well.
- Rajat Monga** Thank you Chinmaya and thank you all for spending the time on this long conversation, thank you.



Yes Bank
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Moderator

Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.