"YES Bank Q1FY12 results Conference Call"

July 21, 2011

MODERATORS	**MR. RANA KAPOOR – FOUNDER MD & CEO, YES BANK.** **MR. RAJAT MONGA – GROUP PRESIDENT, FINANCIAL MARKETS, CFO, YES BANK** **MR. JAIDEEP IYER –SENIOR PRESIDENT, FINANCIAL MANAGEMENT** **MR. APARAJIT BHANDARKAR – SENIOR VP & HEAD, FINANCIAL & INVESTOR STRATEGY** **MR. VISHAL PUROHIT – ANALYST, IDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the YES Bank Q1 FY12 conference call hosted by IDFC Securities. As a reminder, for the duration of this conference, all participants' lines will be 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 pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Vishal Purohit from IDFC Securities. Thank you, and over to you, sir.

Vishal Purohit: On behalf of IDFC Securities, I welcome you all to the conference call of YES Bank Q1 fiscal '12 results and we thank the management for giving us this opportunity. We have with us Mr. Rana Kapoor – Founder, M.D. & CEO of the Bank. Also, with him is Mr. Rajat Monga – the Group President, Financial Markets and Mr. Jaideep Iyer – the Senior President, Financial Management and Mr. Aparajit Bhandarkar – Senior VP and Head, Financial & Investor Strategy.

I request to Mr. Kapoor, if you can just brief about the results taking into account all the macroeconomic factors which are playing in the economy, in terms of the interest rate environment, inflation and also quickly run down the last quarter of our Bank.

Rana Kapoor: Thank you very much. For the introduction and thanks very much for hosting this investor teleconference call. First and foremost, I want to mention to you that YES Bank in the first quarter of 2nd year of Version 2.0 has delivered a fairly impressive quarter against the backdrop of the increased interest rate environment with fairly stable margins. The bank has maintained strong asset quality with heightened event risk as well as macroeconomic risk being somewhat disproportionate at this juncture. We have during this period, also grown our branches to a level of around 255 with the net accretion of 41 branches in this particular quarter and we are very much on track in terms of diversity of our revenues and moving increasingly towards increasing the composition of our commercial banking, retail, SME businesses in the overall revenue and business pie of the bank. Equally this quarter, we have hired about 450 people to reach a headcount of 4,385 people and we continue to accrete people at the rate of 100-125. So I think the major point I really want to make is, that we are in investment mode both from a HR standpoint, as well as in terms of rolling out our infrastructure.

I also wanted to mention, that we have signed certain contracts where we will accelerate rollouts of our AGMs and we will also be able to garner more momentum as far as our other direct banking channels, particularly, internet banking as well as our call center and the mobility banking activities are concerned with the induction of three top management colleagues from Axis Bank and ICICI Bank more recently.

In terms of the numbers, I hope you have had a chance to glance through our financial summary. This quarter, we have made a profit of 216 crores, representing an overall increase of

38.2% compared to the corresponding quarter. Net interest income has grown by about 35.1%. Non-interest income has grown to 165 crores by 14.9%. And total net income as net interest income plus non-interest income has grown to almost 520 crores, representing an increase of 28% over the corresponding quarter. Total non-interest income to net income is at a level of 31.8%. We expect to improve on that in the future but this quarter it was just about under 32%. The cost to income ratio sequentially has gone up marginally, although it has improved from 38.6% in the June '10 quarter to 37.4% in this particular quarter. the margin sequential increase is due to salary revision, although our OpEx costs are fairly flat. Net interest margin was stable at 2.8% and this is the third quarter in a row, that we have been able to maintain NIMs despite the movement in interest rates at this level of 2.8%. The overall advances book has gone up to over 33,000 crores, which represents an increase of 26%. Customer assets which includes loans and credit substitutes have gone up by 34.7% to about 37,400 plus crores. Yield on advances have improved from 9.6 to 11.6%. The cost of funds have also gone up to 8.5% compared to 6.3% in the corresponding period last year. Total deposits have increased by 44% to 43,500 plus crores. CASA ratio is slightly better at 10.9%. Overall, CASA growth is at 49.8% year-on-year. Gross NPAs, this has been a period of heightened risk in both domestic as well as exogenous, we have spent a fair amount of time this quarter, making sure that we don't have any credit shocks. So preservation of asset quality continues to be a very predominant objective at YES Bank, and this has largely reflected in our gross NPAs at a level of 0.17, which is all of 56 crores in terms of absolute amount. Net NPA is at an all-time low of only 0.01%, the absolute amount being 2.7 crores. And overall, restructured assets are at 0.26%, the aggregate amount being about 87 crores. Total loan loss coverage has improved further to a level of 404% and the specific loan loss coverage is at a level of 95.2%, at least we like to believe this is distinctly the best coverage of any private sector bank and most definitely the lowest gross and net NPAs amongst the public and private banks in our country.

Moving on, CapAd is fairly stable at a level of 16.2%, of which core tier one is 9.6%. RoAs, now 12 quarters in a row has been at 1.5% around or better for the last three years. So during the crisis period, as well as in the post-crisis recovery period, we have been able to maintain RoAs at 1.5% or better. Our Return on Equity has improved further to a level of 22.1%. You may recall that in the June quarter last year, RoE was 19.6 which is the lowest we are seeing in the last 12 quarters. So almost on the other 11 quarters, we have seen RoEs in excess of 20%. So by and large this number has been fairly steady during the last three year period.

The book value of the share has improved by Rs. 20 over the last one year from Rs. 95.5 to a level of Rs. 115.5 and the basic EPS is at a level of 6.21 with a diluted EPS is 6.04 for the period ended June '11.

As I mentioned, that we have had a fairly steady increase in advances, investments, deposits, I just wanted to highlight a couple of other things, that our overall capital funds has increased by 35.7% over the last one year and stand at a level of 7,090 crores, excluding the profit of 216 crores for the June quarter and excluding some other tier two capital raising which is underway during this quarter, about a 300 crores program that we expect to close at the end of day.

Apart from that, our overall non-funded income has basically been distributed across transaction banking, which has been at a level of 42 crores in this quarter, which is about 25.4% of the total non-interest income. financial markets income was 24.7 crores, which was about 15% of the total non-interest income, financial advisory, which is the combined number of our corporate finance, as well as our investment banking business was an aggregate of about 83 crores, representing 50% on non-interest income. This has been a very steady number and you will see that this number has only been growing over the last four quarters accreting almost 5-10 crores every quarter. And branch banking fees in this particular quarter was approximately 16 crores, representing 9.5% of the non-interest income.

Our operating profit this quarter went up 325 crores, representing an overall increase of 30.6%. One item we wanted to highlight, is that our provision in this quarter was extremely low and a overall level of only 1.5 crores and that is predominantly because we had a write-back in the provision of 15 crores on a single account, which had been fully provided earlier and it was fully recovered and settled in the June quarter. But for that, normalized provisions would have been around 15-16 crores. So we do have one element of an extraordinary income as in like provision write-back in this particular quarter.

Moving on, a couple of other things – I wanted to mention, is that overall we continue to be fairly well-diversified and focus on our knowledge banking sectors with infrastructure, food and IT business, engineering, TMT, life sciences, contributing almost 71% of our aggregated knowledge sector focused advances. The other thing that is in consonance with our Version 2.0 strategy well into the fifth quarter second year beginning, is the gradual shift in the overall composition of our businesses, corporate and institutional banking in this particular quarter constituted 63.2%, mid-market commercial banking increased further to 24.4% and SME and Retail banking improved further to 12.4%. You will recall that these numbers were quite different five quarters ago, when we launched our Version 2.0, in a sense that C&IB was more like 73%, we had all of 5% in SME and retail and the balance 22% was in commercial banking. So we are seeing more diversity in revenues, more diversity in the overall composition of our business book.

A couple of other important items – We were recently upgraded by the “Financial Times” in their “Global Top 1,000 Bank Index, we have made an entry into this top 1,000 banks of the world. last year we were at 890 position and we have moved 333 notches to 557, as an overall position in the global banking order of the top 1000 banks of the world. Equally, we have in this quarter won the “Rank One” Award as the “Best Sustainable Bank” in the Asia-Pacific region, in “Financial Times” and “IFC Washington” joint initiative which takes place every year in London after screening applications across the 1,000 banks every year. And this is the second time we have won this award in 2011 and the previous year, we won this award was in

2008. So in terms of sustainable banking, we are being considered to be one of the finest CSR-driven banks in our country.

Also, I wanted to mention that YES Bank in this quarter continues to grow its headcount; I did mention very briefly that we increased the headcount by 450 people. And we should be on target to take our headcount to at least 5,400 people by the end of the year. So these are some of the highlights. So we at YES Bank, believe that any further increases in interest rates may not necessarily bring about desirable results, as in any further control of inflation, given the fact that there are structural issues in the economy that need to be addressed. Albeit, it is not unlikely, that we will see probably a couple of more changes of another 0.5%, even though we believe further monetary actions are not going to help, otherwise it is moderating economy. Certainly, there is a moderation in growth and there is more risk in the economy right now, which has reflected in the fact that we have in the June quarter tried to consolidate, tried to take away some bulky low priced less attractive loans to make sure that margins are maintained and at the same time we have also tried to de-risk without compromising on the P&L outcome of the bank, which as you can see is at 38% versus a loan growth and credit substitute growth of around 34.7%. So the P&L technically has outperformed the balance sheet in this particular quarter and we have reason to believe, that we will be able to get more stretch on P&L as we move forward. So that is pretty much I have to say at the stage. I request Rajat and my colleagues, Jaideep, Vivek Bansal, Aparajit and many others who are in this room to add to it and to respond to your questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Umesh Matkar from Major Trend Financial. Please go ahead.

Umesh Matkar: Sir, the total number of branches in this quarter has increased by 41. However, in retail banking, we are seeing that it has increased by 3.03 quarter-on-quarter basis only. So can you please give me colour on this?

Rana Kapoor: What are you referring to, as the increase in retail?

Umesh Matkar: Yes, sir.

Rana Kapoor: What is that increase?

Umesh Matkar: In retail banking.

Rana Kapoor: Where have you got this number from?

Umesh Matkar: From the segment revenue.

Rana Kapoor: Let me just, see, 41 branches are not going to immediately produce quantum leap. Because if you see that 41 in June and 34 in March adding up to 75, so literally, 75 are brand new branches, in the last six months, I think the point really is that we are investing in building our retail franchise, we are rolling our branches much faster, but there is a gestation period which retail **represents**. The early stages of our branch strategy, if I can just highlight this, our focus is largely in building community savings and community current accounts and not necessarily a new lending activity because we are very careful about lending in the new branch, till we are established in the branch service area, before we embark on any form of consumer for small business lending or micro SME lending, still we get some feet on the ground, till our systems are stable, sources are stable as in our HR. Typically, a branch will contribute more from a deposit accretion standpoint. So I think the number I would like to highlight really is the fact, that despite some compression sequentially in our balance sheet deposits year-on-year have grown almost by 44%, so our focus through new branches, to put it in a nutshell is really to grow more granular deposits and to be able to scale our retail franchise.

Moderator: Thank you. The next question is from the line of Suresh Ganpati from Macquarie. Please go ahead.

Suresh Ganpati: One on the branch openings that you have done this quarter. I just wanted to get a clarity as to whether you have already started adhering to the 25% in the rural area that RBI is mandating, how does it really change the landscape of, whatever you have targeted in terms of number of branch openings in this Version 2, is there any issue with respect to OpEx or your overall business model because of this mandated branch openings and secondly, how does it gel with meeting the various priority sector requirement, things like weaker sections and all, generally becoming a issue even RBI is also coming down heavily upon banks, they do not need the supplements. So just wanted to get a general idea on your strategy on these two aspects.

Rana Kapoor: We are talking about the period that has gone by as in like June 2011. The branches that we have rolled out are really relating to a period of licensing, pre-dating the recent Reserve Bank of India initiative, encouraging banks to build 25% in tier five and six cities, which also means under bank and unbanked, which is really the highlight of the new RBI development. For our bank, this is part of our last year licensing quota. So, it is a fairly balanced mix of two-thirds metro and urban and one-third is semi-urban and rural, which has been the previous prescription by the Reserve Bank of India. And as you know, that we have met our priority sector requirements quite well in the last few years very consistently so, however, to address your same question in the context of going forward, yes, there will be implications on all banks including our bank, in terms of the composition of tier five and six increasing as a percentage of the overall rural and under banked and unbanked and I think we will at this stage need to firm up as part of our high density, West, North strategy to identify some incremental locations over and above what we have already done in tier three, four, five, six to ensure that there is compliance with the Reserve Bank of India requirements. If you look at a number of these branches in the five and six, because they are in the public domain, a lot of them because of the old fences, the fences on which these branches are benchmarked, rather the cities are benchmarked, I think it is a 2001 census. A lot of those cities are proliferated and I think the dividing line between urban and semi-urban and tier five and six is rapidly disappearing. So I think yes, we will also have to provide our quota of five and six branches, which means a little bit more, let us say smaller branches more deposit taking branches in these locations, but lower cost structures, but yes, there will be more of these going forward and not necessarily all very profitable, because there is definitely an impact on the branch banking model, but there will not be 50 lakhs, 60 lakhs CapEx in branches of 10, 15 lakhs OpEx branches but there will be probably somewhere in our judgment, branches that will entail CapEx of no more than on average 4-5 lakhs and monthly OpEx of anywhere between Rs. 50,000-60,000, sometimes even less. Our strategy, if you keep it confidential, will be to build these branches largely in the developed catchment areas of large agri business players and try and develop them in high density corridors with our corporate clients, our middle market, SME and commercial banking clients, so that we go into well fertilized geographies, rather than standalone locations. Yes, go-to market is going to be quick in some of these locations, that we get more eligibility result of this denominator for metro and urban spin off. So, we will have to seize the opportunity, go into some locations and get the benefit of metro and urban and definitely, PSL will become more and more granular going forward, because that is the other big change that is taking place and the writing has been on the wall in the last six months. Distinctly the regulator wants all banks to make the PSL requirements far more granular, this is for direct agri, indirect agri or into the larger other categories and not just piggyback on NBFCs to bundle these loans and buy portfolios. so there is a transformation in the PSL underweight. However, I also believe and this I hope will address questions from others as well, that there is a new PSL policy of Reserve Bank of India, on which there have been some sound bytes and we eagerly await the new policy, which I believe has to be more market realistic because the priority sector requirements in itself are changing. Today, for example, a warehouse or let us say agro logistic fleet of trucks for example or terminal markets as in modern mandies, so in a sense agri infrastructure, we believe is as important as priority sector as lending to the farmer or the rural entrepreneur. So these are a lot of changes, these are early days to do any serious hard wire planning but we are all on a course to see what is the outcome of the Reserve Bank of India's new definition of priority sector lending, which is one key development. I hope it happens sooner than later because there is uncertainty in the banking markets and I am sure with leading research analysts, who are present on this call as well.

Suresh Ganpati: Do we necessarily believe that can go up a bit more going ahead? I mean that there is some downward re-pricing of deposits.

Rana Kapoor: I do not think there is a scope for increasing priority sector in a way, because if you see priority sector at 40% and then you see 30% being blocked in SLR and non-earning CRR of 6%, 24 SLR, so as it is Rs. 70 of your Rs. 100 deposit is getting blocked in governmental initiatives and governmental financing, including fiscal deficit financing. So I do not think, there is going to be more going towards priority sector. I think there is going to be increased investments, banks will have to make for achieving granular priority sector and I think the positive spin-off is, that we will also land up getting better pricing. Because if you see most banks have been buying priority sector or doing wholesale priority sector going to cooperative, going to NBFCs, going to large fertilizer companies, plantation companies and looking at their supply chain. And in the process, sacrificing interest rates on buying bulk PSL. So, I think the increased cost structure to provide network and platform to some extent is going to be offset by higher interest rates or pricing realizations, just so that banks ensure that the last mile end use is being achieved. So it is not all that negative. There will be some balancing and eventually market principles will have to prevail.

Moderator: Thank you. The next question is from the line of Manish Oswal from KR Choksey. Please go ahead.

Manish Oswal: Question on the loan book, in this quarter the loan book contracted by 3.7% sequentially. So what is your outlook for the full year loan growth? And the second is what is your outlook on the NIM for the full year?

Rana Kapoor: We are very much on track to adhere to our short, medium and long-term vision and strategy, which has been encapsulated in what we call Version 2.0 at YES Bank. The key number in that strategy is a 35% CAGR. So, we have every reason to believe, that in this quarter which is generally a lean quarter and in this quarter there has been some de-risking at YES Bank, there has also been some de-bulking of assets of YES Bank and having achieved a 35% growth in advances and credit substitutes, which is a number of 34.7% we are very much on track, we have a reason to believe to achieve minimum growth in advances in credit substitutes of 35%. We also believe that our P&L will keep track with our advances growth and in this quarter while it has outperformed advances growth of 38% overall PAT growth, we believe it should be more or less in sync for the rest of the year. Beyond that I cannot forecast.

Manish Oswal: 30% CASA target by 2015, because right now the rising interest environment, so there will be pressure on the saving mobilization but going forward what is your outlook whether that number will again scale down or what is your key risk to that number?

Rana Kapoor: We are hard wired, as far as our long-term objectives are concerned. So, CASA definitely is a very serious management objective of 30%. Equally, branch banking deposits as part of our overall strategy to achieve 1,25,000 crores of deposits by 2015, 60% of which should come from branch banking, that is also hard wired. so the fact is, that we are not at this stage changing any guidance on our objectives. Because we have been accountable for our objectives in the past and we will remain accountable. The only thing I do want to mention is, that with a 10.9% CASA, YES Bank has 2.8% NIMs, as you have been able to see even in a interest rate environment, which has got heightened by 10 RBI actions and with the repo rate seeing as they are at 7.5% now. So my point is very simple. If 10.9% CASA can produce 2.8% NIM, then I think we are sufficiently smart in this room and on this call to estimate that what a

30% CASA can do. Literally, even a 25% CASA can take us to at least 3.5-4% NIMs and frankly that's the number one objective in this phase of our growth and we are working relentlessly despite the credit moderation, market moderation, increasing moderately high risk in the marketplace including event risk, domestic and overseas.we continue to invest even more rapidly so in our branches as evident in the last two quarters, run rate from 34 branches in March to 41 in June and most of all, so equally evidenced by more than commensurate hiring of people. Those are the two most important investment drivers in making sure that, our branches are able to mobilize more and more CA**.** We also believe that deregulation of SA, which at some point when decisions are made, will also be very beneficial to a bank like ours, which is architected on the back of strong technology, service orientation, good overall service technologies firmly in place. So any form of deregulation on saving should be a significant trigger in our model and the other point I also wanted to make is because this is a very, very important question, that there is a certain inflection point, whether it is between 300 and 400 branches, we believe not beyond 400 branches, where you see major galvanization of CASA has reflected in Axis's model, Axis Bank's model that we follow very closely their success and as I mentioned in the beginning of the meeting, we have mobilized three top leaders recently from Axis Bank who have driven their liability strategy particularly the CASA strategy, the direct banking strategy and the branch banking strategy. And so we are also building HR top management scale of people, who understand the dynamics of how to manage large branch networks and there is an uncompromising endeavor in the bank to outperform Version 2.0 at YES Bank. As we did in the first year, when we grew almost 60% against a planned a CAGR of 35%. So actually, if you see the new CAGR for the remaining four years, it is more like 30%. But we are still maintaining 35%.

Moderator: Thank you. The next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Vasudevan: You mentioned that you have been de-risking and de-bulking your loan book this quarter. I just wanted to know like to understand a little more about the de-risking part of that action, what is the nature of de-risking achieved, i.e., in what market or customer segment did you achieve this and also going forward, what are the segments that you would like to be more cautious on?

Rana Kapoor: Anand, distinctly, de-risking is in a couple of different modes. One is, definitely some bulky loans that were put up in the June 2010 quarter because you recall there was a fair amount of new licenses to the old 2G players and some 3G as well and we were part of that funding, although we had zero exposure to the new 2G and we have made that statement in the past. So there is definitely some de-bulking of the less attractively priced loans, which has happened in this particular quarter and where we are not getting enough cross-sell or we are not getting enough penetration, purely from NIM standpoint or from a trade finance or FX and salary account standpoint. We believe those are the kind of value destroyers, that we also need to prune. So this is more from a portfolio management and relationship, as in CRM management standpoint. From a credit standpoint, certainly, there are one or two sectors where we are exercising more caution, not necessarily running away from them but exercising more prudence. We have reasons to believe that we handle 2G quite well at YES Bank, having got it down to zero from one or two instances that we had at inception. Microfinance portfolio even though we have grown exposure to one of the bell-weather, let us say the only listed company that too in market instruments in the short-term exposures but we are de-risking one or two others. So while this is growing at the top end of the market, it is also in some respects de-risking some other parts. although we believe the Microfinance Development and Regulations Bill 2011 is a boon for the microfinance companies. They will be back in the market with new lending and most of all they become more eligible under the regulatory umbrella of the Reserve Bank of India, to be able to raise equity in the past, which was a single-biggest concern for their survival. So that is I think the second point. Apart from that, we are being little cautious on autos. We are not withdrawing because we believe there are long-term winners in this game and some that have been able to demonstrate resilience and good and effective management during the global crisis when they were hit, few years ago. We are moving slowly on SME. The more vintage clients with lower risk of companies, who has seen atleast couple of cycles but we are growing that business. We are also using this opportunity to selectively de-risk companies, where we may have added exposures like in textile, where there is a little bit of slow down as well. But apart from that there are no exceptive concerns, as such the market is speculating about the power sector, I think power with strong sponsors with deep pockets and well structured projects with good fuel, coal supplies, pitheads and with offtake agreements and with sponsor support are still bankable. We believe roads, not that there are too much such projects in the market, once the new HAI opportunity is cleared, there will be definitely some more business for us to go for, but right now we are being cautious even on infrastructure, unless it is very well structured and is coming from a known house with adequate equity and funding availability. So overall this has reflected. As you know very much in our gross NPA position at 17 basis points, net NPA at 1 basis point and of course, in the absolute numbers, which are fairly miniscule even for a bank of our size.

Moderator: Thank you. The next question is from the line of Rishi Arya from Canara HSBC Life. Please go ahead.

Rishi Arya: Sir, my question is more on the macro. Sir, we had given where interest rates are and as you also said the economy is moderating. where do you think the interest rates are, are they close to peak and if they are, how long do you think they will sustain here and how do the bank look to manage its margins and credit growth during this period. I mean especially how extended the interest rate cycle do you can think can be this time?

Rana Kapoor: I think interest rates obviously are not a single variable, there are multitudes of variables that represent interest rates in the economy. We do believe that the long rates have peaked or at their peak already. We do believe that the medium term deposit rates have peaked. We should not see much activity on the medium, long-term deposit rates. We do believe there is some last mile to go with the RBI action, I think it is close to the end, difficult to say when it will end but hike or two is at best what RBI possibly should be looking to do because the monetary policy has possibly expended its pores already. While there will still be a lagged effect of rate hikes that have taken place but the purpose, I think the monetary policy has, been served. The rates we still believe will not do a whole lot for the next six months because the inflation headline will stay high. There would be a strong base effect, which will help the inflation moderate in the beginning next calendar year, will give RBI room to maneuver around their interest rate policy. More than interest rates what will take over the discussions during the second half actually will be liquidity because that's not a very smooth sail that we are looking at going forward from here. So it will also depend what actions RBI will be compelled to take to ease liquidity in the banking system. So it is I would say, if I have to summarize ,either we have already seen the peak of commercial rates if I say not regulatory rates, we have seen the peak or we are close to the peak. I mean it is difficult to call the peak, we are somewhere there.

Rishi Arya: I agree with you that we are close to peak and my doubt is on if this slightly get extended, will it be possible to maintain the 2.8% margin and the credit growth. How should we read this?

Rana Kapoor: Well, you should read this as that on a normalized basis there is life, in all shapes and forms of interest rates. Because if you look at our quarterly numbers also, I mean though that is difficult test to undergo every now and then, our loan spreads are fine. In fact in this quarter our loan spreads have improved. So it is not like if the rates go up, then margins go down. There is no necessary compulsion in that, unless you do only fixed rate and long term fixed rate lending. We are able to re-price our loans. We have been raising base rates. The good news is that all banks are raising base rates. So there is more acceptance of the rate environment in the market. We are not being singled out by customers in that sense. So the rates have to be passed on and they are being passed on.

Rishi Arya: And even if the base rates remain high for say six to nine months, we should be in a position to manage the margin as well as credit growth?

Rajat Monga: Credit growth will suffer, of course it will suffer. Because the customers cannot afford to grow at those rates, the customer is today paying 12, 13%. he will think of growth definitely, whether he should be taking the risk of growth at the cost of almost like equity. There would obviously be doubts in customers mind. So credit growth is not going to be of the 25% order that we were witnessing 12-18 months ago. Credit growth will moderate but we are building a very bleak scenario. If credit growth is not happening, inflation will not stay high for that long, inflation will correct and we have to always read inflation and not as the headline but as the trend because inflation what we are seeing today, is what happened in the last 12 months and much, much of that might have happened 11 months ago and is history. What we have to see is how is the inflation moving. How is the index moving, more than how the year-on-year percentage is moving.

Rana Kapoor: One specific context in Yes Bank is that, 65% of our loan book is on floating rate. 30 odd percent of our book is literally on one year reset. So most of our historical book has been already re-priced, that is the 30% has been reset and floating resets overnight. So we are not running any pricing mismatch on our loan book. I think its very important for us to share this with this financial community, that is one point. There is credit moderation in the short term but if you see the long term rates are fairly steady at levels of between 8.25 and 8.50. So ten year benchmark rate is well within the 8.25 to 8.50 and we are seeing a fair amount of corporate bond activity. So the market is not choking, just because short term rates have gone up because the yield curve is flattening more and more. 5 to 10 year rates are fairly stable and the signal there is that this is a short term cycle. There were for example a bond issue without being client specific, that we were sole bankers to, just two weeks ago, 2,500 crores 10 year bond door to door bullet and we underwrote a part of it and we sold down at a very attractive coupon and the market lapped it up. In fact there was a queue. It was oversold. So my point is that yes credit moderation in the short term but there is opportunity for growth in the medium-long term because I don't think the serious Indian investors, as in like the sponsors promoters companies are going to let this aberration of rates, specific to India and maybe one or two other emerging countries impact the medium-longer term investment cycle of the country. So we are in a phase of capital formation. It is just from the fourth gear, we have come into the third gear.

Moderator: Thank you, the next question is from the line of Vikesh Gandhi from Merrill Lynch, please go ahead.

Vikesh Gandhi: Just a couple of questions, your Tier-1 is at 9.6. I know you have taken resolution to raise money but any specific timeframe on that is it going to be?

Rana Kapoor: See, we have an objective as part of our financial management strategy to raise core Tier-1 in the course of 2012. I can't predict at this stage whether its first half or the second half because at the current rates even at 9.6% we have enough headroom to grow easily at 35% because with an ROE at 22% levels, there is a fairly modest dividend payout policy because last year as you know we have paid 25% but retained 86% ,wherein we paid 15% and retained 88% in year before that. So we have a virtual cycle purely funded by equity retention of about 20 odd percent growth and we have headroom for about roughly 1200 to 1300 crores, as in like Tier-2 upper and lower as well as perpetual bonds, which we can comfortably place. In fact as we speak, we are closing a 325 crores lower Tier-2 bond issue. And we have another 1000 crores to go. So the point I am trying to make is that, 35% give or take itself is funded in our bank, 30% is more or less self funded. So if we have to grow at 40-45 it was advisable with the increased denominator at Yes Bank, as now the fourth largest standalone private sector bank. We also now want to grow at 60%, its not necessarily a positive signal. So the point being 35% is self-funded but we will nevertheless, plan our next issuance in a favorable condition if you see them some time next year. We are well experienced on the back of a successful QIP in January 2010 $225 million that we did last year. So we are fairly well-equipped in capital. So if you see a good pocket, our lawyers will be ready, the bankers will be appointed, 15 to 30 days, we should be ready to do a deal. But if you see all our deals, we have done deals at minimum four times price the book. It is our intent to maintain that track record and hopefully we will come back to you on something in similar lines, although I cannot guarantee that.

Vikesh Gandhi: So the quarterly numbers of 9.6% ,do they include the profit of this quarter or its excluding that?

Rana Kapoor: It doesn't. as you know RBI doesn't allow unaudited or limited audit numbers to be included. So this quarter is not included. It is our plan as Rajat has mentioned this in our previous meeting, that we will get a semi-annual audit as well. So we do expect based on run rates to add on whatever is our forecast, a very healthy number this year as well and with very high retention, which should allow us 20-25% minimum growth with Tier-2 capital raising. so as I mentioned 30-35% growth can become without raising capital. So this number June end doesn't include the quarterly profit of 216 crores.

Rajat Monga: You can count is as 10.1, if you want to include that.

Vikesh Gandhi: You just mentioned that your 65% of the loans are floating rate. If I recall that correctly Rajat has in his past conversations mentioned that, your floating rate loans are around 90% so where is the disconnect?

Rajat Monga: When we say floating Vikesh, we expect the other loans that might be not linked to the base rate of PLR but are less than one year in tenor. That is included as effectively floating because they will come sooner or later for re-pricing, that is 90 plus percent

Vikesh Gandhi: And that stands even now?

Rajat Monga: Yeah more or less.

Moderator: Thank you the next question is from the line of Ashish Sharma from Enam Asset Management, please go ahead.

Ashish Sharma: Just to clarify on one point, I guess there were some media reports, which actually clearly stated that the bank is not looking to raise capital in FY12. So just want to corroborate, I think you mentioned something in the previous question but again it is based on market conditions, there is no fixed time line we have?

Rana Kapoor: You know as I tried to mention in the response to the last question, that we have a financial strategy but the timing is critical and we will raise some funding next year. But right now at 16.2% capital adequacy and lots of headroom of Tier-2 capital as I mentioned about 1000 crores plus. We believe we will maintain a CapAd of aggregate 15, 16% for quite sometime to come and core Tier-1 is going anywhere because as Rajat just mentioned if you add the June profit and I am not saying add to that the September profit but literally every quarter you will be adding 60 bps. So that 60 plus is good enough to grow at 30%.

Rana Kapoor: To the multiplier on that is good enough.

Ashish Sharma: Just one more question on the branch performance and you mentioned that around 75 branches are the new ones. The older ones how productivity is it shaping up, I mean, we use to evaluate branches on the cost of our branches and deposit per branch metrics. How things are shaping up on the branches, which are quite old now sir?

Rana Kapoor: It is very difficult to give a branch by branch but generally we are finding that as metro and urban branches require two odd years of vintage. As they also in a way post a number of our businesses and not just pure retail. So we find that between 19 to 24 months, they start making money. So they are hosting corporate businesses and SME businesses and multitude retail banking businesses, they generally become more profitable. If the issue is the semi-urban and rural, which you know take much longer ,the spoke branches and there again spoke branches are within a hub cluster, they breakeven between two to three years and standalone hubs and standalone spokes, we have literally negligible as and like the small branches, unless they are supported by a hub branch. So give or take, two to two and a half years is the average it takes for a branch to breakeven and be in the black. But I think, what I want to really report to you in this meeting is that despite the rapid pace by our standards of now literally 30 to 40 and we will at least maintain 35 to 40 a quarter and most important number for all investors, stakeholders to look at, is the cost-to-income. if we can maintain a very efficient cost-to-income ratio in totality which reflects all our office costs, HR, etc., all our costs are fully factored in at a 37% level, we will like to believe a very, very efficient bank. Two of the three market leaders in the private banking peer group are almost at 49% and one other is at almost 45%. So you know at 37%, our bank has a large headroom for further investment to build a lot more branches because even if we go to 40% which I don’t think is going to happen or even if we go to 42% and we are in full investment mode, the point being that we have the headroom for growth as reflected in the overall productivity and efficiency ratio that we have spend.

Ashish Sharma: Okay, and you mentioned that the 30 to 40 run rate we can expect, I thought this June quarter we wanted to bunch up all the branches that we had. so this 30 to 40 branch run rate will expect to continue for the next two, three quarters?

Rana Kapoor: We will maintain somewhere at least a minimum 30 to 40 branches a quarter now going forward. We have to get to750 , otherwise you will not come for our investor meeting.

Moderator: Thank you the next question is from the line of Amit Ganatra from Religare, please go ahead..

Amit Ganatra: Yeah, two basic questions, one is that can I have the borrowing numbers, total borrowing numbers?

Rana Kapoor: 6000 crores.

Amit Ganatra: It includes Tier-2?

Rana Kapoor: Yeah.

Amit Ganatra: Now you have opened almost 75 odd branches in last two quarters itself. In terms your own benchmarking, I mean according to you when it should start contributing to the deposits significantly in terms of CASA deposits because that's what we are targeting?

Rana Kapoor: Significance will come only with time. It will only improve in time. Because as the branches spend more time on the ground there CASA balance will increase.

Amit Ganatra: Right, but I mean what will be like minimum benchmark that you would have set for yourself is it one year, one and a half year. I mean the result should be visible at least it should start contributing to the overall CASA ratio as well?

Rana Kapoor: I think there are two important milestones, 2015 milestone is to get to a 30% CASA and there will be annual milestones .so the next big milestone for us is 2012, so give or take 2012 we should get to at least 12.5% CASA and then 2013-2014 there are other milestones but as Rajat was saying that there are certain inflection points, where you start getting more than proportionate growth as the branches start maturing. now out of the 255 operating branches there are 135, which are hardcore hub branches and there are almost 175 of those branches which are metro and urban. So as they stabilize ,we have a reason to believe with the Yes Bank branch also becoming somewhat more familiar in local communities and at a national state regional level, our people being better trained to go and fresh these deposits. so sort of restrict these funds. We have reason to believe that, we are roughly about a year away from really stepping up rapidly, as we saw in the case of Axis Bank in the period 2003-04, as we saw in the case of HDFC Bank in the year of 2001-02 because there is an inflection point at which branches start reciting deposits very rapidly. so we think we are somewhere between 300 and 400 will happen and between the next 12 to 18 months, we should start accreting CASA far more rapidly.

Rana Kapoor: As I mentioned to others as well we have some great leadership, new leadership, existing and proven leadership with a track record which is spending day and night to come out with more products because we need a lot more product throughput. We have state-of-the-art payments architecture. Every corporate relationship has a CA objective, has a SA objective. So its not like corporate businesses are only doing lending. We have made sure that, there are hard wire bones for every relationship manager to sell the products. We did not have them so much in place in the first phase because they were new to the bank customers. So even corporate customers, there is a season and as we widen our cross-sell. one major aspect of seasoning of relationships is getting into their cash management system, getting into their salary system, as a result our ATMs increasingly are going to be installed in corporate salary location. Going forward, we have signed contracts with Prism and AGS for 3000 ATMs to be developed by 2015. so 80-90% of our investment going forward is going into CASA, including our advertising investments.

Moderator: The next question is from the line of Mahrukh Adajania from Standard Chartered, please go ahead.

Mahrukh Adajania: What would have been the sequential growth in savings deposits?

Rajat Monga: No growth, flat.

Mahrukh Adajania: When you were discussing the new branch authorization policy, there was a mention about market rates moving up and being able to compensate. I didn't catch that point properly. So could we go back to that discussion, as in talking about these branches taking a bit longer to breakeven but there was also a mention that, there would be other compensatory factors, so I didn't catch that properly?

Rana Kapoor: I think Maruk your question is, if we get deeper into some of these Tier-5 and 6 cities. There will be literally branches, the size of large ATMs. They will be like 2-3% branches to really help in deposit taking, partake with communities with business correspondents and they are not going to be full blown, full fledged branches with very minimal CapEx as I mentioned 4, 5 lakhs of CapEx but a lot of body count as far as branches are concerned. The breakeven on these will be much longer but the impact of the cost of these branches is very minimal because there will be a lower cost. people in these branches are part of our inclusive and social banking strategy and the overall OpEx on these branches will be much lower. They are not going to be like Standard Chartered or Yes Bank branches in Fort area. They will be really very-very modest hole in the walls, three or four seaters. And usually as I mentioned, that they will be in the catchment areas, in the depots, in the warehouses or some of our larger corporate agribusiness customers, infrastructure as in agriculture infrastructure customers. so that we are not going into new territory but proven geographies.

Moderator: Thank you, the next question is from the line of Prashant Shah from Vantage Securities, please go ahead.

Prashant Shah: Your transaction banking income declined on a sequential basis, while on year-on-year increased by 22%. Now the percentage of non-interest income also declined from 35% to 25% in this quarter. so any particular reason for this decline because I think you experienced a similar thing in Q1 of FY11 also?

Rajat Monga: Well, there is obviously an underlined transactional momentum which drives this income. I will just take a couple of examples, when we earned from guarantees. Now guarantees are largely linked to new project bids. If our clients are bidding for lesser new projects their requirement for guarantees comes down, so does our revenue. So it is linked to the underlined transaction momentum, which has been slower in this quarter and June is known to be a slow quarter.

Prashant Shah: Okay, so we can expect it to pick up again in the next couple of quarters?

Rajat Monga: Yes.

Prashant Shah: Your investment income increased by 12% but your book declined by 7%, how do you manage that sir?

Rana Kapoor: Actually that will be difficult one because the book will be a function of averages. Now there is lot of activity which happens towards the financial year end and some of that, we cannot assume that that it happens throughout the quarter. So the March number would have been little bit higher. for example, we were holding about couple of million dollars worth of CDs, certificate of deposits of other banks. We had excess liquidity but we were holding almost negligible of that in June but that was sold in the first week of April itself.

Prashant Shah: So basically it could be possible that whatever you are holding throughout the quarter fell off at the end of the quarter?

Rana Kapoor: Early, I mean what we were holding at the end of March fell very quickly. So you are looking at the average, so this will be proportionate.

Moderator: Thank you the next question is from the line of Manish Shukla from Deutsche Bank, please go ahead.

Manish Shukla: My question is on the credit substitute. First if you could give the number for that credit substitute for this quarter, as well as previous quarter, when we report advances and credit substitutes?

Rana Kapoor: Yes we are reporting both actually, so you should have both the numbers.

Manish Shukla: No, I am saying I need numbers just for the credit substitute portion when you consider. What we consider on the credit substitute because I think I have advances and investments number?

Rana Kapoor: We have also given something called customer assets, that will include advances and credit substitutes, we have also given the advances number.

Manish Shukla: Can you throw some color on the nature of this credit substitutes. I am saying what are the kind of instruments, their duration, the rating, etc.?

Rana Kapoor: These are CPs bond debentures. Ratings will range from A+ to AAA and in case of CPs there will be B1+, A1+ or BR1+. So generally speaking you can assume that their ratings will be a few notches better than or generally better than the loan book equivalents. You cannot get credit substitutes coming in from low rated customers. It does not work.

Manish Shukla: Okay, so given that where we are in terms of the interest rates cycle, etc., the rough mix between advances and credit substitutes, is it likely to remain where we is it today or do you see that changing for the rest of the year?

Rana Kapoor: Well momentum is little bit in favor of credit substitutes. I think it should become more or less balance as the year progresses. So we have fixed up the credit substitutes momentum in the last couple of quarters. So in the second half I believe the loan momentum will be better in general. So I don't think there is a cash to assume that…..

Manish Shukla: The average tenor of this would be one year or less?

Rana Kapoor: No, no, this tenor would be two years, two and a half years.

Manish Shukla: No, no average blended for the entire credit substitute book.

Rana Kapoor: Yes.

Moderator: Thank you the next question is from the line of Ritwik Bhattacharjee from Khambata Securities, please go ahead.

Satish Jaswani: Hi, this is Satish Jaswani. I just wanted to ask that you have just mentioned 65 % of the loans have linked down floating rate. Just wanted to know how comfortable the bank will be to pass on increase in the cost to borrower, if there will be any increase in the interest rate hike?

Rana Kapoor: We are quite fine in doing that.

Ritwik Bhattacharjee: One more question, what will be the bank's strategy to get the good asset quality business on its books going ahead, maintaining the 35% of the CAGR in loan growth?

Rana Kapoor: I think the choices for the banks are quite wide open as far as business is concerned because we are at the moment about 80 basis points of market share. As you will very well know our industry is slated to grow at about 18-20%. So if 100 is going to grow at 20%, that gives us an opportunity of 20 and we have to grow at 30% ,which gives us a plenty of universe to be able to make a balance between growth and risk. It is not like we are the market leader and we are therefore compelled to grow at the same quality at which the market is growing. We have that choice that we can exercise. We cannot grow when we believe that the quality of growth is poor and we will grow when we believe that the quality of growth is good. And we can be selective. Even when the overall quality of growth is poor, we can be smart about making sure that our growth is of better quality.

Satish Jawani: Going ahead what will be the focus on your product mix, if you could just highlight on your bank's strategy?

Rana Kapoor: We have all the products. So what we have to do is begin to sell the granular products more and more as we build scale in our outreach and in distribution, as well as critical mass in terms of the customer approach. As we get there with more branches with more people on the ground and having spent more time on the ground, we will be able to sell lot more of the granular products. So you should see our business mix move from the liability side in favor of retail deposits, in favor of CASA. You should see on the loan side our loan mix move in favor of SME and not just yet but in couple of years' time, also in favor of consumer loans and you should see on the non-interest income side, that our fee mix should also move towards more transactional income. It should also move towards more distribution led income. As we build that end of the network and infrastructure, we will also put more products into that channel. So you should see us become more granular in our product outcomes.

Moderator: Thank you the next question is from the line of Rudy Gopalakrishnan from Fidelity, please go ahead.

Rudy Gopalakrishnan: I had one question on CASA. I think you spent a lot of time in the last two three years focused on this and obviously you are redoubling your efforts to improve this. But could you share a little bit on what the key learning's have been or what the key assumptions you have gone with, that haven't quite panned out. Just to give us an understanding, how tough it is to build this side of the business and what you think incrementally it will take?

Rana Kapoor: it is a challenge of predominantly quantity which makes execution in that very onerous. It is a very people dependant business. A lot of this business is remote management because you are not there in all those locations at all the time. So it's a fairly brand sensitive business as well. In general, it is accumulating business on top of that, so the outcomes will not be upfront. The outcomes will be in course of time. So it is a scale led business, which basically tells us that, we have to come to a critical scale before which it will not reckon for success and which is exactly what we are doing, is to build critical mass in our business. I think it is also a business where we have to deal with strong incumbents, which means that we need to create product penetration, we need to create products which have better features than what the current offerings are available in the market. It has to be intertwined with the customers growing new requirements, as well as the technology that is being fed into banking. It's a complex answer to a question that we have been addressing, readdressing. We have been also been amending our strategies as and when we have the learnings that come our way. So the learnings, that we are improvising now is for example the hub and spoke model, is the way we want to see it happen. We cannot handle too many of standalone branches. We have to have management bandwidth that is getting channelized in a manner which is hub and spoke outcome. We have restricted the sales area of branches because we have realized that we are not able to service customers, who are too far out from branches. So we have severe restrictions on branches in terms where we can sell, in what locations around them. So we map out the branch serving area of the branches and do not allow sales to be made beyond that. We have taken the strategy of segmented marketing. We are not going carpet bombing in our non-serving areas. Branches are allowed to sell to a segment, where we have meaningful product differentiation. Other than for who are the affluent customers, where branches are now reasonably free to originate where we have stable products and also we have coverage in terms of servicing those customers. Otherwise the braches have restricted ability to sell, and otherwise we get very-very average and uncontrollable quality of customers. There are also elements of misuse that we deal with, in terms of that this is a very intensive business from the process and control standpoint. We are exposed to fraudulent behavior by customers. Thankfully we rank among the lowest in that order in the Indian banking, I would say tables. So it all of this and more in terms of that has happened and it is still happening. The learning has not stopped, learnings is still happening and as we were mentioning earlier, we have hired top management and leadership from other banks well very-very recently. Hopefully we will have a more and a different dimension of learning also that will come into our scheme of things. So I am not sure we have even possibly begun to answer your question but that's the direction where we are heading.

Moderator: Thank you. We would now like to hand the conference over to Mr. Vishal Purohit from IDFC, please go ahead sir for closing comments.

Vishal Purohit: Yes, on behalf of IDFC Securities, I thank for the opportunity to host the call and thank all investors and brokers who are there on the call for making themselves available.

Rana Kapoor: Yeah, and thanks to all of you for sparing the time and hearing us patiently and from Yes Bank behalf as well.

Moderator: Thank you. On behalf of IDFC Securities that concludes this conference.