



“YES Bank Limited Q1 FY19 Results Conference Call”

July 26, 2018



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Moderator: Ladies and Gentlemen, good day and welcome to the YES Bank Limited, Q1 FY19 Results Conference Call. We have with us on the call today Mr. Rajat Monga – Senior Group President (Financial Markets & Balance Sheet Management), Mr. Pralay Mondal – Senior Group President (Branch & Retail Banking), Mr. Ashish Agarwal – Senior Group President & CRO, Mr. Raj Ahuja – Group President and Group CFO, and other distinct leaders of the YES Bank.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and ‘0’ on your touch tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajat Monga. Thank you and over to you sir.

Rajat Monga: Thank you Karuna and good evening everyone. Welcome to the First Quarter Fiscal 2018-19 Analyst Call, discussing the financial performance of the bank. As you may have already received, we have issued exhaustive press release highlighting the performance of the bank and the quarter gone by as well as appendix which contains the financial information on the banks income and profitability trends. Since a fair amount of detail and information is there in the note, I would focus on the few highlights over the next 10 to 15 minutes and we will be open for question and answers after that.

So, we have had a reasonably satisfactory First Fiscal Quarter of 2018-19 and we have had a continued momentum on our earnings. We have seen decent income growth, resulting in a 30.5% increase in net profit after tax which would be Rs. 1,260 crores as compared to last year as I mentioned it is 30.5% growth on a Y-o-Y basis. The bank is reporting net interest margins at 3.3% for the first quarter, which is 10 basis point sequential decline. There have been some headwinds on the net interest margin that the bank has been experiencing. But we think the impact of almost all of the headwinds have already been expressed. In the current financial quarter. The benefit of repricing of loans is yet to accrue. From hereon we do expect on a, as is where is basis, a 30-basis point improvement in the loan yields over the next 12 months resulting in about 20 to 25 basis point improvement in margins as well. This is largely on account of the gap in repricing timing between loans and deposits which is resulting from the predominantly MCLR basis of the bank’s loan book which has up to a one-year repricing profile. So, as the interest rates had been moving up in the Indian banking environment, specially from the 3rd quarter of last fiscal to about including the 1st quarter of the current fiscal. The deposits have been facing faster repricing while the loans have been delayed according to the MCLR contract which predominantly has a 6 month to one-year repricing. So, we are expecting a fair amount of repricing to begin to aggregate over 2nd, 3rd and 4th quarters as I mentioned. It will help us reprice our loans by as much as 30 basis points on an as is where is basis.

On the other hand, we have seen the cost-to-income ratio improve. We have been trending close to about 40% to 41%. This quarter has over shot the improvement trend and we are reporting a cost-to-income ratio at about 37.3%. We do believe that this might be an over achievement which



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is otherwise a reducing cost-to-income trend that we are experiencing. We also saw improvement in ROE, and this quarter we have touched an annualized ROE of 19.4%.

I will now move to the outcomes on the Bank's Balance Sheet:

We have seen a sequential growth of 5.5% in our loan book. Essentially contributed by all the 3 segments; corporate book grew by 50% on a Y-o-Y basis, our retail book has more than doubled on a Y-o-Y basis and the retail book is now standing at about 14% of the asset mix. The MSME book also has grown 30% in this interim period. So, we continue to see traction on the lending businesses on a Y-o-Y basis, our total loan book growth stands at 53.4%. If you just look at this first quarter, we have also seen retail contributing to as much as 47% of the new book growth that we have seen for the trend of retail to acquire higher share on our asset mix is continuing. Some sectors that we saw growth in this current quarter would include iron and steel. We were involved in the financing of one of the buy outs resulting from NCLT, which was in the iron and steel space. We have seen retail growth which is also increasing our exposure to the vehicle sector as well as the equipment sector. We have had some opportunities in the telecom space given the consolidation that is taking place, and we also had some opportunities in the travel and tourism sector in this current quarter.

In the retail business, we saw a growth across the board. I would want to specifically mention auto loans, commercial vehicle loans, loans against property, construction equipment and some personal loans which were lead contributors to the current growth profile of the retail loan book were. Deposits also grew at 36%. That is the CASA deposits grew at 36% on a Y-o-Y basis. CASA is definitely facing some industry headwinds in terms of growth and there is some of that which is also reflecting in our numbers even though the first quarter is seasonally weaker in terms of CASA accretion. And we continue to expect 30% to 40% Y-o-Y growth in CASA book going forward as well. The bank's capital adequacy position is at 17.3% on a total capital basis. We have a tier 1 capital ratio of 12.8% and CET1 ratio of 9.5% as at June 30th 2018. Usually in the first quarter, there is an increased capital charge for operational risk. So, that's been the main reason that the core equity Tier-1 has reduced from 9.7 as at March 31st to 9.5 as at June 30th. Otherwise the risk weighted assets to Total Assets intensity continues to reduce. While we are reporting a flat number sequentially. But if we adjust for the increase on account of operational risk, the bank's risk weighted assets to Total Assets ratio has fallen to 80.2%. And this position was 81.6% as at March 31st, 2018, and it was 86.7% as at March 31st, 2017.

A few comments on the asset quality position of the bank as well. I think the quarter was reasonable satisfactory on asset quality outcomes. I think our book is performing respectably. We are seeing resilience on our existing book and we are also seeing resolutions coming out of the legacy problems that we are holding. There was our recovery of close to Rs. 3 billion. Or Rs. 300 crores on one account which went through a resolution under the NCLT and we have also recovered Rs. 1.7 billion or Rs. 170 crores on redemption of a security receipt that we were holding. So, as such this quarter had nearly I would say less than 100 crores of net slippage I must say on account of both adding the fresh NPAs as well as deducting the recoveries and

redemptions of the old NPAs and the ARC receipts that we have been holding. As such we have seen reduction in a reported stress book, which would comprise of net NPAs, net securities receipts as well as standard restructured exposures. This position has sequentially reduced from 1.73% to 1.52%. We have also had the opportunity to beef up our provisioning coverage ratio which has added to our credit cost as well as the credit provisioning for this quarter and we have increased our provisioning coverage ratio from 50% as at the end of the March quarter to 55.3% as at the end on the June quarter. As such the quarter has seen some increase in provisioning.

Our total provisioning for the quarter is at Rs. 6.26 billion. Main contributor here of Rs. 3.8 billion was on account of NPA provisions. As well as on account of increase in provisioning coverage ratio. So, about Rs. 1.5 billion came out of the Rs. 3.8 billion just from the increase on account of provisioning coverage. We have also had MTM losses to recognize in this current quarter. We are recognizing a Rs. 1.06 billion of the losses in current quarter and we have utilized the RBI dispensation to defer the remaining Rs. 2.7 billion of MTM losses to be recognized in the subsequent quarters. In the interim, the bond yields have been falling. So, we already have, theoretically if we have to revalue the position today, we have also got back about Rs. 80 crores to Rs. 100 crores of gains on the losses that we are deferring. There is a Rs. 569 million or Rs. 57 crore of general provisioning, an Rs. 36 crores or Rs 360 million of provisioning on account of foreign exchange revaluation results resulting from our foreign branch operations. There is a Rs. 21 crores or Rs. 213 million of provisioning on account of country risk, again originating from our overseas branch operations which is because we have now acquired some significant positions in countries like Singapore or UK which are now attracting country risk provisions of RBI. And there has been other provisions of Rs. 24 crores or Rs. 240 million. So, this stacks up to about Rs. 6.26 billion or Rs. 626 crores of total provisioning for this current quarter. We are reporting a gross slippage of Rs. 5.6 billion in the current quarter and a good 60% of that is also something that we are expecting that there would be an imminent recovery, or an imminent upgrade may be as soon as the second fiscal quarter as well and we continue to highlight that we are not expecting any material consequences on account on NCLT referrals as well as that laid out in the recent circular of RBI which was dated on the 12th of February 2018.

So, there are some other highlights on the banks performance which we have also given a fair bit of detail on the Bank's digital presence across the ecosystem in the press release; so please do take some time to go through that.

The bank was also adjudged as the "Best Bank in India for Payments" for its blockchain initiative, for its API Initiative, for its Financial Supply Chain Management Deal, Trade Finance Deal and Automation Application and overall Trade Finance at Asian Banker Transaction Banking Awards for the year 2018. We have also received a credit rating upgrade from one of our rating agencies which is CARE, and we now have an AAA label of rating for our senior debt, which is a welcome development. And very recently we have also received approvals from the securities regulator to commence the asset management business, as well as to begin acting as a custodian for securities of our clients, and these approvals have been received in the first quarter of this



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fiscal. So, this was the quick commentary that we wanted to present as we are discussing our first quarter financials and we will be happy to take questions on the same. Thank you.

Moderator: Thank you so much sir. Our first question is from the line of Kishan Gupta from C D Equisearch. Please go ahead

Kishan Gupta: Sir, what sort of advances is supporting your current corporate banking loan book

Rajat Monga: When you say type of advances you mean working capital vs term loans or?

Kishan Gupta: Yes sir, working capital vs term loans.

Rajat Monga: So, there would be typically a 30:40 vs 70:60 split between working capital and term loans. And the trend would be similar in the corporate loan book.

Kishan Gupta: And sir, out of the non-interest income, how much was from the bank guarantee?

Rajat Monga: We give a line in our non-interest income. If you will notice, there is a line for corporate trade and cash management services. That income line we have been publishing every quarter. That income line corresponds to trade related income which include LCs and bank guarantee commissions. Dominated more by letters of credit as opposed to bank guarantees. They would be more like 80% income coming from letters of credit and a 20% income coming from bank guarantees.

Kishan Gupta: And sir, how much is your bank guarantee's total underlying exposure.

Rajat Monga: I am not carrying that number, but it will be I would say a few thousand crores. My sense is that it should be between 5 and 10 thousand crores. If you don't mind I am not carrying the number but it is available in our annual report. It will be just 3 months old but there will be no material movement in this one quarter.

Rajat Monga: If we can retrieve the number while on the call I will announce it.

Moderator: Thank you. The next question is from the line of Monica Agarwal from Bernstein. Please go ahead.

Monica Agarwal: Hello, my question was, we have joined the inter creditor agreement. Can you just throw some light on the rationale behind joining that agreement?

Rajat Monga: I will ask my colleague – Ashish Agarwal to answer that question.

Ashish Agarwal: So, if you look at the background to the ICA and also if you could just go back to the February 12th circular, while the 12th February circular of the RBI very clearly laid down the principles with respect to what are the kind of companies and under what circumstances would they need



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to be referred to the NCLT, it had taken away the joint lenders forum as a platform which in our opinion was something which was firmly required for at least getting a consensus amongst lenders definitely which is spread to resolution of larger cases. And to that extend, the ICA which is being done under the framework of IBA is a welcome move, where definitely for resolving larger cases it is something which will actually add value.

Monica Agarwal:

Do we have such larger cases as of now?

Ashish Agarwal:

We, if you look at, you know, if you go back 1 quarter, we had actually made a mention on the call in the last earnings call, that as far as the potential systemic NCLT cases are concerned you know, we as a bank don't have any material stakes. In fact, we had quantified that number. So, on the large systemic side, I don't think we have anything which is of any meaningful number where we would have a situation but having said that I think as a banking constituent it was something which will be the right thing to do for us.

Moderator:

Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah:

With respect to the margins, would it be possible to share the break up between the margins of the IBU side and the domestic portfolio.

Rajat Monga:

Yes, so IBU margins will be, a little less than 2%, and the domestic margins will be 10 to 20 basis points or correspondingly higher than the average.

Kunal Shah:

Sir as we see this book also growing, would that further put some kind of a pressure may be in term so of headwind to the overall margin profile?

Rajat Monga:

I think we have had 2 very good years on the IBU book, because that was the book we were lacking, and we were just simply missing out on those opportunities. But I don't think that the IBU book will over shoot on growth anymore. So, the IBU growth will fall in line with the general corporate sectors growth that we are experiencing. Since IBU is not a retail book at all, there could be some ups and downs q-o-q, but otherwise the book would now be showing inline growth in general. Therefore, I am not factoring a margin pressure coming from the IBU book as such. But please also remember that the IBU margins are tax free. They are also very low on cost. Because this is largely a wholesale book. So, the margins are actually equal to ROA.

Kunal Shah:

yes, so, may be a ROA it will be at a similar rate or so.

Rajat Monga:

Actually, it is ROA positive for the last year or a year and a half. We have seen that the IBU put has been ROA accretive. It's also a young book. So, we will also have to see as the book matures. But it does give a mathematical burden to margins.



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- Kunal Shah:** And with respect to this fee income of Rs. 460-odd crores, what would be the major component of this. If you look at FOREX debt cap at DCM. So, would DCM be the significant part of it in this particular quarter?
- Rajat Monga:** There is a note to that. This quarter we were able to redeem one of our security receipts. Now the accounting for gain on sale of security receipts has to happen in the income line. So, about Rs. 70 crores of that is coming from the single gain on account of, so we will also be deducting that quantity from out of credit cost for example. So, you can reduce that, because that is the one off. After that there was also a billion-odd gain on account of the portfolio shuffle that we can do at the beginning of the year. And the rest is largely from forex and derivatives. DCM income has been far a few because there haven't been bond issuances in this current interest rate environment.
- Kunal Shah:** Okay. And in terms of this corporate book which we are growing in terms of large ticket size, are we planning to sell down over a period or this would be retained on the book and it could continue for a while, sir in terms of the nature of these loans, would it be relatively a medium-term loan, or we are planning to sell it off.
- Rajat Monga:** So, that is actually an option that we retain. If as long as the loan is well earning; see what happens is that the loan also goes through a life cycle. When the loan is relatively young you do end up getting lot more cross selling income. So, let us say, it is not uncommon that the loan will start with a facility which gets drawn first in the form of a letter of credit. So, letter of credit will give us commission income. The customer will also like to hedge his letter of credit. There used to be a buyer's credit product which was very popular. There the cross-sell income is usually higher at the initial cycle of lending. And as the requirements of the clients mature, his some of the cross-selling potential once the LC is paid off, it is not likely that he is going to be continuously importing. Let's say, if he was specially setting up a new capacity, at that time, we can take a call that we are no longer able to sweat our exposure and therefore we can look at the options of selling down or distributing the position. There are also events around refinancing that keep happening in the market. So, we can play all that into our strategy. So, it is an option which we will always keep open both for portfolio management, for exposure management, for cross sell optimization. So, there is no rule as such. This strategy will be a dynamic strategy.
- Moderator:** Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.
- Manish Karwa:** Hi Rajat, on the margin front, on your loan book, how much of the loan book on the corporate side is now MCLR linked vs base rate linked?
- Rajat Monga:** So, 85%.
- Manish Karwa:** And the repricing will only happen on the MCLR front right? Base rate will still reprice down?



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- Rajat Monga:** No. Base rate is neutral right now. Because base rate by design was less sensitive to interest benchmark, just because of the formulation and regulation. So, it did not go down. And let's say, before the interest rate cycle kicked in in terms of when the interest rates began to rise. The base rate was on the verge of falling. Now the base rate is neutral to may be positive. The next move on the base rate will be if at all it will be a rise.
- Manish Karwa:** And you are also saying that the average duration of your loan book is between 6 months to 1 year. And consequently, as we are moving along.
- Rajat Monga:** Pricing duration. See if you see, this is not the maturity duration, this is the repricing duration. If you go back a few months you will notice that we grew well in Q3 and Q4. These loans did not have the opportunity of repricing. So, as they come into their 6 month and anniversary sort of date, we will get the contractual repricing coming through. When you do the math, we are looking at from repricing of 4 basis points and 11 basis points, and a 16-basis points loan repricing over the next 3 quarters. I am assuming, today's MCLR prevails.
- Manish Karwa:** Only 4, 11 and 16. But your cost will also reprice that much right?
- Rajat Monga:** No, cost repricing is relatively front loaded. Because I will have 1-month deposits, 2-month deposits, 3-month deposits, so all that is the repricing they are already bearing. So, what you are saying is also right, so the NIM advantage about this 31, 32 basis point loan yield increase will translate to about 20 to 25 basis point improvement in NIMs. Because we will sacrifice about 10 basis points to the remaining repricing of deposits.
- Manish Karwa:** Okay. And also, your fast growth that you have done would have meant high PSL requirement, which would have led to you buying out some PSL, which will also have a reasonable negative impact on NIM. And typically, Q1 that impact is large. Is that also played out this quarter?
- Rajat Monga:** So, we are at 40% PSL requirement. So, let's say, unless we overshoot that. So, what's also happening Manish, is that our PSL is also becoming more and more naturalized. We are not buying portfolios at all.
- Manis Karwa:** So, the 100% odd retail growth which you are showing is largely organic growth!? There is not bought out portfolio there?
- Rajat Monga:** Incrementally no. There may be actually rundowns of the legacy portfolio. So, as far as I remember, in the last 15 months we have bought no portfolio.
- Manish Karwa:** Okay. On the asset qualities, specially the slippage, and the one account that you say that you will be able to recover in the second quarter, which sector is that account and why do you think you will be able to recover. Will you be able to sell down the security or?



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Rajat Monga: Yes. So, there is a security that is nearing its natural sell. The alternative that we have had in first quarter which we could have exercised but we did not to this affect, transfer the security in our name and forgo the loan. We have not done that because the security is nearing its natural sale. So, we have therefore taken the path of it first being non-performing and then it sorts of getting repaid from the sale of underlying security. We could have taken a presentation let's say short cut, but that was not the conclusion that we came to.

Manish Karwa: And which sector is this?

Rajat Monga: It is sector agnostic actually.

Moderator: Thank you. The next question is from the line of Anusha R from LKP Securities Limited. Please go ahead.

Anusha R: One question is with respect to advances. If I just look at the sequential growth in the corporate advances is closer to around 5%-odd. So, I just co-relate this with your, if I just look at the telecom exposure, that has increased from 2.2% to 3.6% now on sequential basis. So, is it right to assume that large part of growth has come from this sector itself? And You know this sector is already into a sensitive sector exposure, how comfortable are you growing exposure to this segment?

Rajat Monga: The telecom sector has contributed. Like I was mentioning in my earlier commentary, that there is consolidation which is taking place in this sector and it is throwing opportunities. So, if you are following some of the consolidation stories there are requirement for some of them to also let's say pay for the approvals to for some of their pending regulatory or statutory payments. So, it's resulting in a banking opportunity, and these are being done with, the exposure has gone up with very reputed companies, their ratings are AA and better. That's also reducing our risk weight so we on the telecom sector is that, the consolidation will be very good for this sector. And as the consolidation is taking place and it is throwing up banking opportunities so we are openly looking at those to participate in that. And the other example I also gave was, there was also an opportunity for us to participate in NCLT resolution which happened in the iron and steel sector. So, there also with another bank, we were the joint co leads of sorts of that sort of financing of that NCLT purchase opportunity. So, iron and steel sector also has been somewhat sensitive, but these sectors are reviving. And we have to look at those opportunities which we think are good to bank with. Again, even that opportunity was AA+ rated sort of opportunity. So, there will be a situation where banks will have to look at what the incremental growth windows are and take a choice of whether or not we want to participate on that role. Like about 7 to 8 years ago, incremental growth opportunity was coming from the thermal power sector. At that time our decision was to not participate in that. Because the structure of that participation for us was not conducive. We didn't have a good view. However, in these cases our view on these sectors are constructive going forward. They might have their own issues in the past, but the current view with solid promoter and with improvements that we are expecting in this sector, it was most stacking up behind our decisions.



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- Anusha R:** How do you see the growth panning out rest part of the fiscal in terms with advances?
- Rajat Monga:** We are looking at, let's say give or take, a 30% growth in the loan book. That may not translate to corresponding growth in risk weighted asset so the incremental opportunities that we are seeing the banking industry are generally lesser on risk weight. So, if we have to part take in that opportunity, we will also express somewhat lower risk weight.
- Anusha R:** Okay. And when I looked at your presentation, you know on page 10 in the pie chart, the retail advances are shown as 9.8% shift, also there is segmental exposure of advances, which shows the retail advances share of 14% odd. So, what is the difference there?
- Rajat Monga:** From the pie chart, is on bank exposure So, that includes our off-balance sheet. If, I have an LC which I have opened for our borrowers that does not come on my advances. Like the question earlier was also on bank guarantees. Bank guarantees don't get added up with advances. They are presented separately. They are off balance sheet items. But they do entail exposure. They entail risk. So, if advances cut is where retail appears at 14% and the exposure cut which will include the off-balance sheet exposures as well, in that it will include investments like bonds. In that cut retail is 9%. If you look at loan for loan and advances for advances, that is retail is 14%. But we don't open LCs for retail, so they will not appear in the LC category.
- Anusha R:** Okay got that. And this one last thing on the margin side, in your earlier conference calls it was mentioned that there is embedded value if you were to drop the saving deposit rates. Do you think that is going to be possible now, considering that we are headed for the rising interest rate scenario?
- Rajat Monga:** Absolutely ma'am, that possibility is very much available. I think our trade-off in exercising that choice is to weigh the incremental growth of CASA. So, if my balance sheet growth continuous to be strong, and I have to deliver a high growth from CASA, I will need the help of higher interest rates because the rates play predominantly a role in helping us bring customers. They don't play a role in helping us keep customers. In a savings account, Rs. 50,000 or Rs. 100,000 is not going to stay back because it is earning a 1% or 2% more. Those amounts are trivial. They stay back and grow, because the customers are enjoying the banking services. But to bring the customers over and make them experience the banking services the rate helps. So, the moment we weigh in our minds and our strategies that the incremental growth is not that much of a challenge because currently the market opportunity has turned in the last one year. The market share is shifting we grew 55% in one year. So, to be able to support that kind of growth, we will need to keep the CASA product pricing appropriate. If the growth was 20% we would have, let's say we expect the growth will here on be 15% or 20%. We would have dropped our rates already.
- Anusha R:** When you think that there could be possibility for you to drop the rates is that ...?
- Rajat Monga:** It's a difficult sort of call to take right now. At the moment the banking sector opportunities are just tremendous for us. You have been witnessing that there are many banks which are curtailed

in their expansions. There are technology changes that are taking place and I think we will do well on that front. So, if we see, opportunities for us to capitalize on we will have to reflect that in our strategy. When will these opportunities go away, so I was reading one ICRA report, and they are saying that by FY2021 is when the banks which are under PCA will begin to fully revive. So, they will bring competition, which is currently not as pronounced as it can be. May be at that time, we should be able to say that okay, 3.5% is also good enough. And naturally we will not drop it in one shot. We will have to take it gradually. We would have done a cut already had this opportunity not been there. Now the question is, do we take the opportunity or market share gain that are available, or we say, no we don't want those gains, let us drop our pricing. So, another question is, when do I maximize my potential on the scale which is currently 2% of market share on scale which can be 4% of market share in the next 3 year to 4 years. So, that is a trade-off we will have to run. At the moment the trade-off is comfortable saying that we will keep the rates where they are with a negative bias which is the bias is still to lower them.

Moderator:

Thank you. We move to the next question from the line of Adarsh Parasrampurua from Nomura. Please go ahead.

Adarsh Parasrampurua:

Question on the funding side. When I tried and looked at the CASA mix and the retail TD as a percentage of the balance sheet, which is you know the total borrowing plus this that ratio is now down to like 41% to 42%, right which means borrowings plus wholesale TD is more than 50% of the balance sheet. So, I just wanted to understand, getting into the current liquidity environment and now we are trying to do a lot of well-rated corporates and in the kind of liquidity situation where we are. Is that not a risk on the margin? It can be very volatile because you have become more wholesale-funded that where you where, say 6 to 9 months' back?

Rajat Monga:

Adarsh, you have to interpret it slightly differently. So, one, I would recommend you don't put borrowing in the mix. Because borrowings are more a compulsion than a design because IBU I don't have deposit funding. So, I have to take only borrowings. So, if I am raising more borrowing in IBU, actually it is a different balance sheet only. It has its own share of management issues. Thankfully the IBU book is fully matched. It is matched for currency, it is matched for LIBOR, it is matched for tenure, but it is borrowing funded. You should also see that the borrowings are very long-term. So, borrowings, if you include in the denominator, we were not able to take deposits because borrowings were a compulsion of sorts. I am not saying that it is like we did not have to definitely take the borrowing, but they were coming from a different tactic or strategy. So, we had to reduce the intake of deposits because what will I do with the extra deposit, because there is only so much deployment opportunity that is available. The second thing was that, our growth came very quickly. So, the growth was Q3 and Q4. Both CASA and Retail deposits do not respond that quickly. So, they will catch up because the averaging will be happening every quarter. Let's say this quarter they would have moved up somewhat. Next quarter, they will move more. Pralay is telling me that Q3 and Q4 will be very good for his business for example. So, it's not a concern. So, its not a concern is what I was

suggesting because you have to look at that in the box that it fits. So, don't please average it with some of the other noises.

Adarsh Parasrampur: Even in the borrowings if I exclude say like the book is fully overseas funded on the IBU side, even if I exclude that IBU loan book from the borrowing its still a pretty large growth. So, what's the compulsion to be borrowing funded?

Rajat Monga: We had AT1 and Tier-2 raises last year. So, that again is a more capital strategy. It is not a funding strategy. But it interferes with the funding strategy because it brings its own share or own rights to have a place on the funding book and these are long-term. So, if you look at the nature of borrowings it is mindless, it is very good in terms of tenure, though some of them are expensive and that is showing in a margin.

Adarsh Parasrampur: So, Rajat if you can just walk me through Rs. 38,000 crores of borrowings are now Rs. 79,000. Out of this Rs. 40,000 crores could please walk me through the break up of incrementally how that has moved?

Rajat Monga: About Rs. 12,000 crores are capital, about 20,000 crores is IBU, I did not mention that there is another type of borrowing we take which is refinancing. NABARD, EXIM and SIDBI, they all run concessional refinancing schemes. Some of them actually come at 4% cost to us and they are 3,5, and 7-year tenure. Since, I am on record I cannot mention some other things, but they also come with some compulsion. So, if you have to take that concessional financing I have to show that as a borrowing. On a good day, I can say net it off against my loan because its like a refinancing structure.

Adarsh Parasrampur: How large is that book which is low cost?

Rajat Monga: Total size of the book will be about Rs.7000 crores to Rs. 8000 crores.

Adarsh Parasrampur: So, the way I am looking at it 3, 4 of these refinancing may have increased, there is capital which obviously comes at a higher cost.

Rajat Monga: There is nothing more. This is the increase in borrowings. There might be some numbers here and there it will not be zero. We don't borrow money from call, some customers who are smaller banks which have been long-standing customer, we do offer them liquidity facilities and some of them will result in taking their liquidity as our borrowings. I mean that is like put together, 500,000 crores.

Adarsh Parasrampur: And the 12000 crores of capital, right obviously, it cost money so in terms of the compulsion of why not 6000 in stead of 12 right, because you are CET1 and your overall capital levels are very divergent. So, I just wanted to understand why take that cost?

- Rajat Monga:** Sure, so that cost is coming from the assumption that RBI will follow through on its proposed guidelines of reducing exposure limits from total capital to Tier-1 capital. So, there is a proposed RBI guideline which will be effect from 2019-20, where how much exposure a bank can take on any single entity and many other such limits will stop being driven by total capital, they will start being driven by Tier-1 capital. Hence, the need for us to keep our business enablers intact. And actually, some of this happened before the opportunity of growth sort of materialized, but we can construct larger deals, we can sell them down and it improves my ability to do business with the larger Indian companies, and you will see, I wish I could share that, our exposures in the last 12 to 15 months with the larger companies have increased dramatically. Again, my capital is a constraint and I want to unblock that constraint. It comes at a cost and it also takes the quota or its share of borrowings. It also interferes with funding and it also reduces margin but it helps me generate far larger earning out of this.
- Adarsh Parasrampur:** My last question is, PSL you said you complied with 40% PSL. There are lot of sublimit in PSL right, so I guess it's still the larger growth. How did you stack up there? You bought over you had PSL certificates that you need to buy, if you can give the quantum of that?
- Rajat Monga:** Yes, so we would have engaged in priority sector lending certificated purchase, I don't think we have any in Q1. There is about 3800 crores worth of PSLC in Q1 and that stacks up to us able to meet our PSL requirements.
- Adarsh Parasrampur:** So, this 3800 is this the static pool or you have some carry forward or it doesn't carry forward into March so 38 will be the only PSLC Certificate?
- Rajat Monga:** Carry forward stops at March 31st. Everything expires end of day March 31st. But you can take the credit from March 31st.
- Adarsh Parasrampur:** I was saying the PSLC certificate on 31st March, was that a much larger that you were carrying?
- Rajat Monga:** May be 5,000 or 6,000 crores in total.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** Couple of questions, so first one was on fee income. So, clearly, the growth here is very strong and I just wanted to understand what really is the key driver to the corporate fee income growth overall per se because it is still pretty strong and given that we have been reducing our RWA intensity, just wanted to understand what are the key drivers for this fee income on the corporate side?
- Rajat Monga:** It continues to be loans.
- Rahul Jain:** When you say loans you mean loan processing charges, etc.?

- Rajat Monga:** So, in the life cycle of a loan there would be facility fees which will dominate this number. We could also be working in some bespoke design with some clients where we are less so off late more so earlier on structuring the exposures. There could be syndication related income which is now increasing because the year or two ago, the banking sector was more frozen from syndication standpoint. It is lot more open right now. There are non-bank lenders also which are actively participating in the syndication market. So, the corporate banking fee will be almost entirely related to loans in some nomenclature or the other.
- Rahul Jain:** So, is it fair to say that while in a spate to have engagements with the larger corporates while we have seen, on one hand, somewhat of moderation and margin or spreads, so to say that has been recouped by maybe more volumes and more activity or more connection with those guys with those guidance on one form or the other. Because when I look at the corporate fee to total corporate book, it has still like around 180-200 basis points your corporate banking fee plus the corporate trade and cash management. So, is it kind of fair to say that bit of yields are getting compensated by higher fee income opportunity from these corporates?
- Rajat Monga:** So, if I can in this argument exclude the corporate trade and cash management because that does not interfere with loans as much. Because I could be doing that business with the client who is not my borrower, like I mean AAA companies do not take money from banks, but they have requirements of opening and fees, moving their money. So, there would be a good part of our, I would say substantial part of our business there which will be including from non-borrowers. So, my exposures on risk weights are far lower on my corporate trade related sort of exposures also for that reason. So, the corporate banking fees, will also have to be looked at not by just the net loan book growth but the gross loan book growth. And gross of not just repayment but gross of churn, gross of sell-down. And not all loans will be drawn fully on the first day, but the fee will be payable on underwriting or syndication.
- Rahul Jain:** And what would be the commission rates on those?
- Rajat Monga:** Half percent, 1% could be a syndication fee. I have syndicated the loan which means that I have got other banks to come in sign up on the dotted line, my task is over. I can earn my fee. So, the facility agreement has been signed but the drawls into loan books can happen over months. So, that is not necessary, so there will be, there would be a situation where there is no drawls also because the client says I need, first need an LC, because I am going to import my underlying equipment. So, the life start by the facility agreement has been signed, it has been syndicated, fee has been earned, then the LC will get opened. It will not even translate on the loan book for months. So, loan book will come with the lag. It is the natural progression.
- Rahul Jain:** And you think this can be sustained because you feel the competition is still in a disarray, so at least for the foreseeable future this is predictable source of fee income for us?
- Rajat Monga:** Very much.

Rahul Jain: The other question Rajat was on the strategy around deposits and branches of course in that context. So, and of course if I would add one more variable that is cost-to-income ratio. So, do you think it is too early for us to kind of start thinking about cost-to-income ratio given that a branch footprint is still like 1,100, I know you guys are focusing more on digital but deposits the branches still play a critical role unless you guys think otherwise. So, would love to hear you guys view on that.

Rajat Monga: I cannot comment on the cost-to-income part by the way. I do not know what is better. I am answering questions why it is high? When it is low I am answering questions why it is low? And it is not as low as we are showing in this quarter because this quarter has had some seasonality which is more than usual. So, the trend is not 37, it will be more like 39 in my opinion. And on the branches side I do believe, we do believe we have fairly I would say decently optimal size of a branch network. So, our burst of branch growth is behind us. It is not that we will not add branches, but we do not have to add branches rampantly. So, in our opinion our branch additions will fall back to may be a 10% to 15% annual growth for the foreseeable future again. So, our cost intensity is reducing in the physical branch infrastructure, no doubt. And the gains are coming more from productivity. Productivity will express itself in deposits in both CASA and non-CASA deposits in services, in cross-sell, in new customer additions, in the quality of customer additions just quantity does not help our business, we need quality of the right origination as well. So, I mean it will only get better.

Moderator: The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: Two small questions, first is what sort of growth are we looking at in retail assets and there is a current momentum sustainable and secondly like, we have reported a 5% drop in medium enterprises. So, are we seeing any signs of stress in this segment and what is the growth outlook here?

Rajat Monga: So, I will ask Pralay to take question on growth on retail assets as well as on medium enterprises

Pralay Mondal: First on the medium enterprises, I think we generally have seen over the years that second half of the year is another growth comes, the first half is little slow, relatively this year I think on a sequential basis at best to a flattish which generally does not happen. We actually start negative and then start picking up positive during the last 6 months. So, from that perspective I think we are looking at a slightly better traction this year across the entire small, medium all of that part of that business. Coming to your second question on retail assets, the advantage we have now is that we are growing across all the 13-14 products almost equally and the opportunities also there to grow in spite of the fact that we take very little risk in that business because as we said till 2020 we will take extremely low risk in this business. But still and we had, which you did not ask but let me answer that we had a recent review with CIBIL and Transunion to understand what is happening in the market, the leverage, etc., and one thing they told us that our quality of the book is by far one of the best in the industry both in terms of the credit and rating standards as well as in terms of the performance and that is true for SME as well. So, from that perspective

I think the growth will continue to happen over the years and you would see the trajectory similar, the only thing which you have to factor in is the base is becoming slightly larger, so vis-à-vis 120%-130% it will come down to 70%-80% but it will continue to happen. I will also take this opportunity to answer briefly what Rahul had asked just before this on the liability side on branch banking if I may. On that, one thing which is one has to understand 2 things here. One is that the balance sheet growth is very fast and hence please look at the deposit growth of the whole bank last year vis-à-vis this financial year because we have to look at 3-4 numbers jointly. Number 2 is that this is for the first time in the last 5-6 years us being here I am seeing that the growth is so fast and there is an incremental interest rate which means the differential between the SA rate and the FD rates are actually going up and which means that balance sheet is growing and able it and some even retail customers at times we will look at FD also as an option and that is not necessarily bad because of same customer will come back in CASA in the next cycle. So, to that extent and I was looking at my book on the retail side I was seeing that our granular growth in FD has actually improve significantly and in spite of the fact that CASA growth has also has been reasonably good. So, when I combine them both together because we cannot change the customer behavior in an increasing interest rate cycle and this has seen over the last 15 years in banking. That is playing out and not only in our bank I think it is pretty much playing out in all the banks right now. So, I would request to combine the overall growth in balance sheet, overall growth in deposit and then look at the CASA ratio and hence what Rajat was answering in one of the questions before that third quarter, fourth quarter because our growth really is sequentially while there is a growth, but the year-on-year growth is primarily also because of the third and fourth quarter significant growth. So, when you go to the third and fourth quarter this year I am hoping that our CASA ratio will start normalizing lot more. And coming to cost-to-income and I will not answer the financial question on cost-to-income, but I will answer the business question which is, I can tell you that our leverage on the branches and the operating leverage on the branches is significantly higher. The branches have at least metro and urban branches has started turning mostly profitable. We are selling multiple products to the branches, the digitization which is happening through which we are taking all the products to the customer because only when you have all the products you can take it to the customer and today we have all the products in retail. So, from that perspective the operating leverage is significantly higher and focus for us in retail is how to get better quality customers. So, we are still not focusing on the numbers. So, I can tell you that in terms of value that quality of customers which have coming is even better than what we had had last year. And that is done because if we have all the products, now credit products. How do you ensure that you get a better quality customer so that we can penetrate those customers more and it is important to have a better customer on the day one. So, this is broadly I thought that I will combine all the questions and answers at one go in terms of whether retailing is going, thank you.

Moderator:

Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa:

Question is kind of follow up to Pralay's, when we look at few other of your peers at least on the savings account, I mean they have been growing quite robustly. I understand you mention

that in the 3rd and 4th quarter we might see uptick in that number. But do you believe that we are yet to catch up on may be on scale or penetration of products and which is probably quite a few years away to reach that kind of growth level?

Pralay Mondal:

So, when you talk about peers I only consider HDFC Bank as peers but coming back to this in case you are probably understand what you are talking about all I can answer is that our savings account interest rate is all published and what it means even the big tickets are very granular in nature. So, that is the first one. So, you have to interpret it whichever way you want to. The second answer to that is that I still do not know the science that when the book is growing at 20% and when the book is growing at 50% how do you have the same CASA ratio? If you have the same CASA ratio, you have to actually question that either we are not performing before or we are doing something so different right now. None of this is happening right. So, we are pretty consistent what you are doing on our savings. I cannot answer for the competitors but what I can tell you is what is happening in our bank is more normal and our thing is absolutely completely published rates. Our CASA is becoming more granular and for us the CASA is just not the ratio CASA is the ability to build a retail franchisee on which we sell and cross-sell our other products that is the objective. Objective is not only to show CASA ratio. So, to that extent I can tell you that another factor one must see is how our profitability per customer, productivity per employee, CASA per branch how these things are going up and let me tell you each of these sectors are looking lot more positive than one year back. And that is the reason the net scorecard of this is our profitability in the branches are lot more than what it was before. So, I think, I cannot answer everything what you ask for, only the one I can explain a little better.

Nilanjan Karfa:

Two short questions. Could you specify in terms of the incremental corporate versus retail, I mean Rajat you spoke about the margins on the on the IBU versus domestic. But equally my guess is when I look at the incremental retail or consumer book to the corporate book, it looks like the consumer is growing slightly faster. How are we doing on the yield side at least?

Rajat Monga:

So, we are currently neutral on yields between the 2 segments.

Pralay Mondal:

So, we are currently neutral on yields between the 2 segments. So, strategically I can tell you that consumers yield will go up post 2020 right now we are building a robust book where we want the lowest risk on that book because through my experience in retail I have seen that if we build a good quality book then taking the incremental risk on that with the incremental yield is a much more prudent strategy than starting to take those risks. So, give you exact examples we do not do used car, used CV and within FTU segment, we are a little more careful on the new CV, etc. So, and it is much more prudent to start doing those when the market has gone through a cycle. So, let me put it this way we will not play the yield game till the industry goes through a cycle and that is why we are doing all these presentations with Transunion, CIBIL. So, we are doing all these to figure out when to time the yield-oriented strategy right now I am against yield-oriented strategy on retail at this point of time.



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Nilanjan Karfa: The short question was on contingent provision, other than standard asset provision are we still carrying contingent provision and the amount please?

Rajat Monga: No, we are not carrying any contingent, there are other forms of provisions. So, it could be on account of country risk like I was mentioning earlier it could be on account of unhedged foreign currency because RBI has also been adding 2-3 variety of provisioning rather than standard provisioning. So, we are not carrying any discretionary provisioning if I may say then.

Nilanjan Karfa: Do you have the write-off number for this quarter?

Rajat Monga: Write-off number is 131 crores which was part of the NCLT settlement.

Moderator: Thank you, sir. Ladies and gentlemen due to time constraints we take the last question from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: My question is just on this divergence number. So, last quarter we got an update on that 63.5 billion in terms of sale to ARC repaid and upgraded to standard. Can you give us the updated number there?

Rajat Monga: Are you looking for any particular number?

Abhishek Murarka: Yes, that breakup basically, the sale to ARC repaid in full, repaid partly or in full and what is still upgraded to standard. So, that number was you used to give that breakup. 24.3 billion which was repaid until FY18 and 26.3 billion which was upgraded to standard. So, has there been any movement in that?

Rajat Monga: So, there is the no movement in NPA, no movement in sold to ARC. There has been a 100-odd crores movement from upgraded to recovery.

Abhishek Murarka: So, the amount has come down from 26.32 let us say 25.3.

Rajat Monga: That is correct. So, no change in the stressed portion of that book then the non-stressed portion of the book has reduced by another 100 crores.

Abhishek Murarka: And since this is a recovery your repaid would have gone up from 24.32 to 25.3.

Rajat Monga: That is correct. I mean, I might be wrong by 10 crores but yes, that is the right number.

Abhishek Murarka: So, whatever you have recovered is now around 33.3 and the rest is ...

Rajat Monga: My number is 40.

Abhishek Murarka: It is 40, out of 63.5?



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Rajat Monga: That is right.

Abhishek Murarka: So, just to get this ARC sale was around Rs. 8 billion that stays as it is. You are taking about percentage or you are talking about absolute?

Rajat Monga: Sorry, I went to percentage is in the middle, go ahead please.

Abhishek Murarka: So, sale to ARC was Rs. 8 billion that remains as it is. Repaid was 24.34 billion that goes to 25.34 billion.

Rajat Monga: Yes.

Abhishek Murarka: So, the total that you have recovered through sale or repayment would be 33.37, is that correct?

Rajat Monga: 33.37 is what?

Abhishek Murarka: If you can just add and then from 26.3 you recovered 100 crores that is 25.3 that stands upgraded to standard and slip to NPL is still 4.85. And any outlook I think you had shared that you would be able to recover reasonable portion out of this 26.3 in the next 6 months or 9 months. So, any outlook for recoverability you see in this path?

Rajat Monga: I think we should be in a position to recover another 20% to 25% of this over next 6 months the remaining of the upgraded portion.

Abhishek Murarka: So, that is around 500 odd crores.

Rajat Monga: That is correct.

Abhishek Murarka: And just a second question very quickly on CASA. So, we had a lot of discussion. I just wanted some metrics on SA, average ticket size and maybe greater than 100,000 less than 100,000 what is the distribution. So, just something on SA and how it has moved let us say between in the last 12 months.

Rajat Monga: So, our average SA is about 1.6 to 1.7 lakh. So, movement may have been slightly favorable in the sense that it may have been last year same time 1.5 to 1.6, it is now 1.6 to 1.7 that kind of movement is there.

Abhishek Murarka: Despite the spread between the SA and FD rates going up.

Rajat Monga: See, I do not think it matter at a micro level in my opinion because people who are leaving money in their savings accounts is they are leaving it for convenience because that money will be used to pay bills, to do the month shopping and all of that. It is usually not there because it is earning higher rate. Yes, it may be yes there could be some inertia, but it is not the predominant reason, never has been. I can promise you if customer does not like our service the balance will



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be zero. Not 50,000 not 20,000 it will be zero. Who wants to keep an account open, file the details at the income tax and when there is no benefit of running a bank account. So, the balances are there and in fact this is the average, right. There will be still many at zero. So, for the once who are engaged are the ones who even have Rs. 400,000-Rs. 500,000 balances in their accounts.

Abhishek Murarka:

Yes, because if the average is 1.7 there will be higher ...

Rajat Monga:

Of course, there will be a spread around it and we also are not necessarily trying to chase numbers, we also read out accounts very quickly. Because if you have too many dormant accounts that is also becomes the risk on a bad day.

Moderator:

Thank you. Ladies and gentlemen, with this I now hand the conference over to Mr. Rajat Monga for his closing comments, over to you sir.

Rajat Monga:

I just want to thank the participants and it is been a long 1.5 hours call. So, thank you for your patience and we will look forward to speaking with you again at the end of the next quarter, thanks very much.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of Yes Bank Limited that concluded this conference call. Thank you for joining us and you may now disconnect your lines.