



“YES Bank Q4FY11 results Conference Call”

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MODERATORS

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Moderator: Ladies and gentlemen good day and welcome to the Q4FY11 results conference call of YES Bank hosted by IDFC Securities Limited. 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. If you should need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pathik Gandotra from IDFC Securities, thank you and over to you sir.

Pathik Gandotra: Good afternoon everyone and a warm welcome to the Q4 and Full Year Fiscal '11 results of YES Bank. We are very pleased to have Mr. Rajat Monga – Group President, Financial Markets and CFO from YES Bank along with his team. I request him to give a brief overview of the results and then we can take questions. Over to you, Rajat.

Rajat Monga: Thanks, Pathik and thank you, everyone for joining us on this call. I will basically take the first few minutes to give a little bit of a breakdown of our results for the fourth quarter for the fiscal '10-11 as well as the results for the full year fiscal '10-11 which is the first year of our Version 2.0 plan that we unveiled about same time last year. And we are quite satisfied with the first year performance under that plan on many variables we have outperformed and have had satisfactory performance on the remaining variables.

To begin the presentation on the numbers that we have summarized for the quarter, we have 203.4 crores that is Rs. 2.034 billion net profit after tax for the fourth quarter 2010-11. This compares to 140 crores or a Rs. 1.4 billion performance in the same quarter corresponding quarter last year, representing an increase of about 45%. The increase is broadly driven on the back of 43% increase in net interest income. Net interest income has grown from Rs. 2.44 billion to Rs. 3.49 billion, which is a 43% increase. I think we are quite satisfied with this performance of net interest income even though the interest rates have been more than volatile they have been on a consistent upward trend during the quarter as well as the quarter prior to that. We have seen a 17% increase in non-interest income in the fourth quarter of fiscal '10-11 as

compared to corresponding quarter of the previous year. We now earn non-interest income of 187 crores for the quarter, taking our total income to about Rs. 5.35 billion, which is 535 crores, representing a 32.5% increase over the same period last year. The share of non-interest income has been in therein about 35% range for the last few quarters and it maintains that mix even in this quarter at 34.9%. Our cost to income ratio has been on a marginal decline for the last few quarters and this quarter is another small decline to 34.8% which places us among one of the more efficient categories as far as banks in India is concerned. We have seen a gross yield on advances in the fourth quarter at 10.7% as compared to sequential quarter where it was 10%, so we have seen a repricing of loans to the extent of 70 basis points taking place on an average in Q4 as compared to the third quarter of the same fiscal. Same story on cost of funds. Cost of funds has gone higher to 7.8% in the fourth quarter as compared to 7.1% in the third quarter. So 70 basis points increase in cost of funds as well which has essentially led us to maintaining our NIMs at 2.8%, the second decimal position is better than the third quarter. However, the first decimal position is the same as the third quarter, so we are reasonably constant on a NIM number for the fourth quarter. So is the position on return on assets. Our annualized return on assets position for the fourth quarter is at 1.5% which is the same as in the third quarter as well. Our RoE is slightly higher in the fourth quarter at 21.7%. On EPS for the quarter is at Rs. 5.86 which is a short of Rs. 6.

I will take the next few minutes to also detail the results of the full financial fiscal year as well, '10-11. Our full year PAT stacks up to Rs. 7.27 billion, which is 727 crores, representing a 52.2% increase over the previous year. This is on the back of 58% increase in non-interest income which has gone up from about 790 crores to 1250 crores. It is on the back of a modest 8.3% increase in non-interest income which is still dealing with the strong base of fiscal '09-10 where we still had a period of low interest rates and therefore benefiting from our fixed income portfolios when we were able to realize cyclically extraordinary gains in fiscal 09-10 which was quite the contrary to what transpired in fiscal 10-11 and the rates were high and on the rise most of fiscal 10-11. As a result, the total income grew by 37% so did operating profit which grew at about 38% in fiscal 10-11 versus fiscal 09-10. Our share of non-interest

income in this year was at 33.3%. Our cost to income ratio during the year was a low 36.3%, so we were quite happy with our cost performance as well. Our yield on advances for the full year stacks up to 10% as compared to cost of funds which stacks up to 7.9%. Yields have come through a full cycle. They fell in most through calendar 2009 and have risen mostly through calendar 10 and we are now possibly in a fairly, sharply higher interest rate environment as we are experiencing, therefore NIMS, for the full year has been 2.9% performance for the fiscal 10-11. Return on asset performance at 1.5%. For the full year, return on equity at 21.1%. We are also quite satisfied with our RoE position though we had raised equity late fiscal 09-10, so we had the load of higher equity base throughout the fiscal 10-11, therefore a 21.1% performance is a very credible outcome, and we are quite satisfied with that. Our full year EPS stacks up to little over Rs. 21.

Few minutes on the balance sheet performance as well, mostly related to the position as at March 31, 2011. We are reporting our advance book of 343.6 billion which is 34,360 crores of loans and advances which is representing a 55% growth over the same period last year. We are reporting 459 billion or 45,900 deposit positions. In terms of crores of rupees, as at March 31, 2011 which represents a strong 71.4% growth year-on-year. CASA at Rs. 47.5 billion which is a 69% growth year-on-year but still representing 10.3% of the current deposit book. Fairly steady gross NPA performance during the year. We are closing our gross NPAs at 23 basis points on March 31, 2011 and net NPA at a modest 3 basis points position as at March 31, 2011. We are now 89% covered on a specific loan loss provisioning and about three times covered when we look at our total provisioning versus our loan losses. Our capital funds grew quite nicely in this year as well. We have increased our capital funds from about 5,250 crores to about 7,120 crores. That is a good 40% increase in capital funds as well which is improving our banking opportunity position in the markets. We still have a quite strong capital adequacy position overall at 16.5 with tier one comprising 9.7% of capital adequacy. Book value of Rs. 109.3 as at March 31, 2011. Our headcount position has also grown quite nicely. In the course of the year our headcount is little over 3,900 and we have hired 900 net additional staff in the course of the fiscal 10-11 which is a strong 25-30% increase in headcount as well. The Board has recommended 25% dividend for

this fiscal year, which hopefully the shareholders will approve in due course, which is an increase from 15% dividend that we distributed in the previous fiscal year.

Just wanted to share more highlights. On the other variables across the performance of the bank, we are still holding about 24 basis points of our book as restructured loans. This does not include the loans that are both restructured and non-performing. So those loans have been covered in the non-performing numbers. Outside non-performing loans we are still holding about 24 basis points of our loans which have been restructured.

The specific details among others microfinance are we reported our position last on December 31, 2011, where we had about 290-odd crores of loans to MFI. We have since recovered about 40-odd crores of that position. This has been a gradual reduction in those exposures. As on March 31, 2011, every loan into the microfinance borrower, MFI borrower is still current and more than just being current it is actually completely on time. So we have not had experienced any situation of delinquencies on our MFI portfolios.

Getting into some of the outcomes during the quarter we have seen increasing share of transaction banking and retail banking piece in the quarter. The share of transaction banking in the fourth quarter of the fiscal 10-11 has improved from 27% in the corresponding quarter; the previous year to 35% in this year, the share of retail has improved from 7% to 11% while the share of financial market business has come down from 30% to about 13%. This has also been on account of booking of certain realized losses during the quarter.

On the financial advisory side, we have led four M&A transactions closure in this quarter, advising United Phosphorus on their controlling stake in a Brazilian crop protection company. On M&M in their acquisition of micro irrigation company called EPC Industries, to APW President Systems Limited in their sale of a business to a French company called Schneider Electric, we have advised Jain irrigation in acquisition of a controlling stake in the foods company in the UK. So we have been diversifying our advisory portfolio in the M&A space as well.

We have also led a few transactions in the equity capital market space as well as BRLMS to see Mahindra Exports which was an IPO which concluded in the fourth quarter this fiscal, we were the book running lead manager, we have also lead managed the public issue of infrastructure bonds by IIFCL which is India Infrastructure Finance Company Limited. We have also had the opportunity to arrange a Rs. 5 billion debt from the domestic markets for a leading conglomerate in the country.

Our branches have grown at their best in our short life span of the bank. In the fourth quarter we have added 29 branches which takes our total to 214. Well on course to achieve our internal objectives of taking our branch total to 250 by June 2011.

We have been getting some significant recognition as well and some of them which have happened in the course of the quarter also include among others being ranked as the best new private sector bank by Financial Express and E&Y in what they hold in the form of best bank survey. This includes all private sector banks in this list, so we are quite privileged to have been considered as best in that category. We have also been recognized as "India's Fastest Growing Bank of the Year" by Bloomberg UTV in their financial leadership awards. Our CEO and Founder, Mr. Rana Kapoor has also received "The Entrepreneurial Banker of the Decade" award from the Bombay Management Association during the course of the quarter which happened at their 14th Annual Convention which was held in Mumbai. So the recognitions have also been very satisfactory on account of some benchmarking that we are able to achieve as an organization in this course.

We have entered into alliances with certain counterparts like the Queen Margaret University (QMU) where we have been appointed as the Country Manager for the development of a co-operative tourism project in rural India. We are partnering into Hindu Business Line on food security and agri supply chain initiatives. We have also taken separate initiatives to create mind space for the Northeast and we are partnering in the Northeast Business Summit for the fourth consecutive year in association with the Indian Chamber of

Commerce to bring the opportunity in Northeast to the stakeholder segments on a more organized platform.

Also, a look into our shareholding. We are now 45% held by FIIs. We are overall 50% held by foreign investors, which is out of which 4.8% holding is through FDI. Our Indian promoters' shareholding stacks at about 26.6%. Other domestic institutions have a 10% holding and retail is about a 12% shareholding in the bank overall.

I think that was the headline that I wanted to cover in the introduction. I think just before we take questions we would want to conclude at least by saying is the bank is quite happy with the growth which contain asset quality, in the current environment steady and likely now improving margins. The room to improve in CASA where the quantitative headline is very strong. The year-on-year growth numbers are about 70%. However, still getting little overwhelmed by the headline growth of the balance sheet as well as room for improvement in non-interest income which has been dealing with the high base of the previous fiscal year as well as looking into a very strong opportunity of conversion with the expanded client base that the bank is now dealing with which has been converted in the course of the last couple of years, particularly, after the crisis. So I think at this stage we are happy to take questions on our performance. Thank you.

Moderator: Thank you sir. Our first question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: A couple of questions. One on investments book I see a very sharp jump over there of about 3,000 crores. Are there one-time assets or...?

Rajat Monga: But there has been let me say conscious I would not say effort but conscious thought in our strategy that investment book is also something that has to be used for servicing clients. So it is basically an outcome of increased DCM business and it sometimes also gives better structured opportunity to do the same merit in the form of a bond, commercial paper. There will be some noise definitely because of year-end surpluses that could get deployed into short-term investment. My suggestion is not to dismiss it. You will see that we will

deploy our investment book lot more into our business outcomes. There is also a noise which is related to the liquidity position.

Kashyap Zaveri: Okay. Second question is in terms of cost and yield if I look at over last about three quarters period, our cost of fund has already moved up by about 150 basis points. And if I look at last about two quarters by roughly about 110 basis points over Q3 and Q4. So should one assume that one cycle of repricing is sort of already over?

Rajat Monga: No, I think there is still I would say there will be residual repricing which is still maybe June quarter. I would say for us at least we should be reasonably realigned to the new rate environment. By June, it will be almost a year since we saw the kind of rate movement which was sharp initially; it was up but not so sharply in the course of the remaining two quarters. Most bulk of the repricing should have transpired by June.

Kashyap Zaveri: Okay. And in this quarter did we increase any rates on deposit as well as the advances side?

Rajat Monga: We did. Both happened in the month of January. Basically, some adjustments which also took place on deposit rates in March. But the lending rate hikes only happened only in April.

Kashyap Zaveri: So that will see a full impact in probably this quarter?

Rajat Monga: Yes, we have had a base rate hike of 50 basis points in the first quarter of this fiscal.

Kashyap Zaveri: And in last quarterly call you also mentioned about some loans which are six months tenure and which is about let us say 40% of your book. So is this 70 bps expansion in yields because of that or is this only because of the change in the residual part of the book?

Rajat Monga: No, there will be three influences. One influence is that we raise our PLR and base rate. So if we raise our PLR and base rate by let us say on an average 50 basis points, so about 30 basis points should be on account of that in the 70 basis points. Then we also have repricing of loans which you rightly

mentioned which is happening which are those loans are not linked to PLR or base rate but maturity will be short-term. We will get a repricing event. There was loan repriced from 7.5% to 11.5% for one of our corporate banking loan. I think that was towards the end of December, not this quarter. But the repricing was happening in those loans of that order because the rates environment shifted by that extent and quickly. There is another 35 basis points on account of that. Maybe 30 basis points. And other 10, 15 basis points will be on account of new loans. New loans will come at the current prices. So they will also pull the average yield higher. There are three factors which are give or take similar. Third factor will be- I am putting at a lower rate because our growth was little bit rear ended. So it will be a dominant variable in the current quarter because this growth has happened at very respectable yields. But during the course of the quarter we did not have much growth in Jan and Feb. Growth happened in March.

Kashyap Zaveri: Okay. And the short-term loans which usually would get repriced once they are probably rolled over or repaid. Any amount is still left for 1Q?

Rajat Monga: There would be. Because we typically do not give fixed rate loans beyond one year. It is unusual.

Kashyap Zaveri: Okay. So let us say last time you mentioned that number was roughly about 55-odd per cent of the book. So how much of this would have already been done in this quarter?

Rajat Monga: I do not have an exact statistics of how much but if I can give you a little bit contextual answer, till Q1 last year rates were low. If we have done even let us say one year fixed rate loan even that will come due for repricing in Q1 this year. I am quite sure that bulk of repricing will be through by the end of this year and we can take a safe assumption that there would have been an equal spread in every quarter. So about 75% would be done, 25% would be pending.

Kashyap Zaveri: Okay. And if I look at your tier one over last about- we raised some money in March and that helped us increase our tier one about 3.9-odd per cent and in last four quarters we have already run it down by about 320 basis points. Obviously, this quarter also there was a run down of about 70 basis points

and if we continue it at least probably by next quarter we would have run down the whole thing which we raised in March 10. So any plans on that side. We read on Bloomberg something on equity raising also.

Rajat Monga:

We have taken enabling resolution from the board. It is obviously subject to shareholders approval. So we are waiting for the AGM which is more recognizing that we will need capital. But this is fairly I would say routine outcome. We are not looking at any near-term capital base. But yes, we need capital. Like you said, our ratios are coming off because of growth. So we will be seeking growth capital, but I think we have the bulk of this year that we can take to plan our capital raising. Let us say we grew about 60-odd per cent. We have grown at a quite sharp intensity since we raised capital. I am definitely sensing that our growth rates will be not as sharp as they have been in the last three, four quarters. So we will not consume capital at the same rate as we have been consuming in the recent past because of natural high base, opportunity is not as strong, maybe this year that it will be last year. So if we grow at 35%, 40%, let us say for the full year, I will still end up with the 8.25% to 8.5% of tier one. We have room for maneuvering capital raise between 12 and 15 months and we obviously have to size it up. This is basically what we have sought board approval is for an overall \$0.5 billion capital raise, we will take that to shareholders. I think our AGM will happen in June or July. Shareholders will approve this resolution then we are technically in a position to issue shares. So the timelines and management thought process is 12-15 months.

Kashyap Zaveri:

Okay. And the last question is on CASA and branch network. We are about 214 now, so what is the FY12? I understand it is about 250 branches will be still there.

Rajat Monga:

FY12 target would be more like getting closer to 325. We need more licenses for that. Let me disclaim that at least whatever is worth. We have licenses to till we get to about 260 branches. 260 we have control which is within our means. Beyond that we will need sanctions from RBI.

Kashyap Zaveri:

Right sir. Sure. That is it from my side.

- Moderator:** Thank you. Our next question is from the line of Manish Oswal from KR Choksey Shares & Securities. Please go ahead.
- Manish Oswal:** Sir, my first question on a bit of macro. How do you see the pricing power of bank like you wholesale funded entity in an environment where the inflation on a higher side and second the upward buy in the policy rate also. So how do you see the margins panning out in the next couple of quarters?
- Rajat Monga:** You have to help me. According to me, we are not wholesale-funded.
- Manish Oswal:** Your CASA is only 10%. Major is your term deposit. You are funding mainly in a commercial paper and the CD market and wholesale funded market.
- Rajat Monga:** That is what I am saying. If we are wholesale funded, many other banks in India are also wholesale funded, including banks like Axis Bank sorry I am taking a name here. Yes, we have certificates of deposit. Even State Bank of India issue certificates of deposit. We have to look at that in the context of what wholesale funding is. So you have to help me define. According to me if we are wholesale, other than HDFC Bank, all banks are wholesale-funded. Sorry, I am using one more name. Why I am saying this is that how we define there is now a little bit of an objective way of- may not be the best way but it is an objective way of looking at how wholesaler bank funding is. You will notice in all banks annual reports they are required to disclose concentration of deposits. If you look at YES Bank number, we say that 18% of deposits come from top 20 depositors. So 20 depositors are large who give us 18% of our deposits. Axis Bank number is 16.5%. ICICI Bank number is 14.5-15%. As far as I do not know the numbers but IndusInd Bank is 25% plus, Kotak is 30% plus. So if that is any measure of being bulk funded or wholesale funded, whatever name you want to call it, we are the median bank and we are close to Axis Bank. But I do not want to stop my analysis there. We know Axis Bank has 40% CASA, maybe more. I am just taking 40% for easy mathematics. 60% as term deposits. If you look at any of the large depositors, they are top 20 depositors. They will not be in CASA. Because that is a 1500 crores depositor for Axis Bank. Now look at their concentration of term deposits, because all the concentration will be in term deposits. I do not know if I am able to present my analysis well enough. And if you look at us we have only 10%

CASA. So all our 18% is sitting in 90%. We look much better. Our term deposits are actually much better than many banks on one variable like I said early on may not be the best variable, but our term deposits are much less concentrated than many other banks.

Manish Oswal: Okay. And my question is because the banks who have high CASA have a benefit of better pricing of products and they can easily pass on, maintain the spread actually, whereas the bank who has low CASA, then that is the concern.....?

Rajat Monga: I have a little bit of basic understanding difference here. Banks which have high CASA, their NIMS should be increasing. Some of their loans will become more expensive. You have to look at the ALM position of the bank not necessarily the CASA position. Because like we were discussing on the previous question, a very large proportion of our loans are floating loans. If you see our loan yield in this fourth quarter over third quarter have improved by 70 basis points. Our costs have also gone up by 70 basis points. I am giving you hard numbers. Why because our loans are floating. You have to also bring in the ALM variable that consumer lending does not happen on a floating rate basis except mortgages. That consumer lending happens on a fixed rate contract. You cannot reprice it. Even if you have CASA you cannot reprice it. But most commercial lending happens on a floating rate principle. The size is involved.

Manish Oswal: Okay sir. And second in terms of your CASA strategy for next couple of years, because we have a very aggressive branch expansion plan. Is there any internal target for CASA per branch or number of branches of different category to achieve our 40% CASA target by FY15?

Rajat Monga: We do not have a per branch CASA target because not every branch will be the same. That is more of a statistic.

Manish Oswal: What is your categorization of branches in terms of area or region, urban market and the rural market.

- Rajat Monga:** You see, what I have to deliver is that my vintage branch. Old branch of YES Bank in a metro or a strong urban location should have 50-100 crores of CASA. But I cannot expect that from an old rural branch or a new metro branch. Because CASA is a vintage business. Unfortunately we will not be able to give you good answer on averages.
- Manish Oswal:** Okay. And what is your outlook on the cost to income ratio going forward? Because branch expansion will come up and how this 35% will move up?
- Rajat Monga:** We have to bring in two variables. Cost to income unfortunately is a relative ratio. It is cost relative to income. We are going to increase our branches from 200 to 750 in the four years. That is a little bit of let us say visibility. If I break this down into CAGR, it will be CAGR of about 40%. If my branches are growing at 40%, new branches are going to be smaller, cheaper because they will be not all necessarily be in Nariman Point, they will be in more low cost locations also. My cost may not grow at 40% because my current branches are; a lot of them are hub branches, large branches, downtown branches. So our cost let us assume will grow at 30-35%. So as long as our top line is growing at 30-35%, we will maintain our cost income.
- Manish Oswal:** Okay, sir. And last question on the finance advisory income stream. What is the deal pipeline, how will the income segment grow going forward? Because it is a quite volatile in terms of quarterly trend. So could you give some sense how this income will business...?
- Rajat Monga:** It is unfortunately deal-based business. So it is difficult for us also to predict. But do not look at quarter-on-quarter and we try and draw a line. We should look at the last 20 quarters and then try and draw the imprints. There will always be some volatility. We cannot be perfect about the outcome. It is not even that I can disclose more or disclose less. I have to tell you the truth. The truth is there is some volatility in this business. Hopefully, the volatility has much more often been favorable. If you look at our history, you will see that the volatility has been favorable volatility. We have done better than trend more often than not than done below trend. I would strongly urge you to look at the trend and not the quarter-on-quarter performance because this is not just deal driven it is also deal closure driven. Revenue recognition is when

deal close. It is not on- we do not do a percentage completion accrual method in this business. We do revenue recognition on the basis of the defined events. Most of them are closure of deals.

Manish Oswal: And last data point, can I have a breakup of provision for FY11?

Rajat Monga: For the full year?

Manish Oswal: Yes, full year.

Rajat Monga: We have about 100 crores total provisioning for the year. Out of that 90 crores provisioning is on account of loan. Out of the 90, 50 crores provisioning is on account of standard loss provisioning which means because we have grown a loan book we need to take higher standards on loan loss provisioning. And 10 crores I just rounded the number, the number will be one or two here or there, 10 crores will be provisioning on account of investments.

Manish Oswal: Okay, thank you very much sir. All the best for the next quarter.

Moderator: Thank you. Our next question is from the line of Anand Vasudevan from FT. Please go ahead.

Anand Vasudevan: Just a question on how you are managing your priority sector, lending requirements specifically, there is direct and indirect agri and weaker section requirements. I am asking this in the context of RBI seeming to be putting more emphasis on banks meeting these norms through primary lending rather than portfolio buyouts. What are the implications for your growth targets as well as what are the implications on cost?

Rajat Monga: I think Anand, you are right; this is a little bit of an evolving position. I do not necessarily have the learning that RBI is saying no to portfolio buyouts. I think they are definitely little bit vary of the process which has been potentially misused in the portfolio buyout. I think somewhere yes, they might have a philosophy that let us discourage portfolio buyouts. But they have to open up the other channels in that case. They cannot have a situation which does not have an answer. There have been for example that the development which happened around gold loan companies where lending to gold loan companies

was being classified as agri lending by banks. I still believe that lending will still be classified as weaker section lending. If you are lending to weaker section against gold it still is a weaker section lending. That part has not been denied formally by RBI. So as far as the situation is concerned, yes, I think there is some developing situation. Some of that we are aware. RBI has come down a little bit sharply on some structures as well as some interpretations that banks were following on RBI guidelines. They have clarified those interpretations and have recommended that some structures not be deployed for fulfilling priority sector lending. So I think there is a role of both primary and secondary let us say acquisition of exposure with priority sector. So our primary role is largely fulfilled through supply chain intermediation wherein we basically talk to our stakeholders like corporate who have a supply chain relationship with farmers of either sale or procurement. We bank that supply chain. We provide the credit to the farmer in the process in a supply chain. That is predominantly the way that we are fulfilling our direct agriculture lending requirements. To be a little bit I would say direct about I think remaining have room to maneuver except weaker section. Weaker section we are not able to comply. And I doubt if any single bank in India is able to comply on weaker section requirements of RBI. So the outcome is still for us is- end outcome is still reasonable. We had 8,000 crores PSL target for March '11. We were able to deliver 9,000, maybe little more than 9,000 and we have also sold down about 750 crores of the PSL that we originated to other banks. In this case, there was one bank which was the public sector bank.

Anand Vasudevan: Okay. So you do not need to invest in RIDF or any...?

Rajat Monga: We still need to. Because our weaker section, shortfall will be there. RBI two years later might come and say, sorry, we do not agree, even though our guidelines might have said that you can do this kind of lending but that was not the idea. So they also disqualify some of our fulfillment in hindsight. So we have to live with that and those also have an RIDF consequence or cumulative RIDF position in the bank since inception because none of our RIDF has matured. Because RIDF is a seven-year deposit that we have to make or more not less. Our cumulative RIDF position across NABARD, SIDBI, NHB is 500 crores. That is the aggregate challenge of our five years of shortfall

if any that we are contending with. On a 35,000-odd crores loan book, I think there is not too much drama there.

Anand Vasudevan: Okay, thank you.

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

Rishi Arya: I was wondering if you could share your assessment of credit demand in the economy given the interest rate situation does not look very exciting from a 12-month perspective. Do you think that bank can continue to grow with maintaining margin or there will be some sacrifice on growth? And what is the outlook on NIMs going forward?

Rajat Monga: I think a few things go hand in hand thankfully. If credit growth comes off, rates will come off. I do not see a situation where rates are high and because the reason we are raising rates is actually to reduce credit growth. There might be some dichotomy which might exist for a period, but I sense that period will not be a prolonged period. Unless you are talking about stagflation type of environment where you have high inflation, therefore high interest rates and no growth. India has been through that in the past where we have had periods of high inflation but growth has not been commensurate. I think what we are looking at is still a fairly momentum driven consumption economy. We have been definitely seeing for the last few quarters that the investment part of the economy has not been strong at all. Now, we are seeing that the consumption economy has begun to moderate. But the moderation is not yet in a manner that it is turned the tide dramatically. We are also expecting let us say commercial rate, the rate at which the monies are lent to corporate at least in our business are coming down. Because the liquidity has eased what we are seeing is we will see a period which was overshooting of rates which happened towards December to March of the fiscal 10-11. That overshooting will correct and it will come more on trend and it will grow along with our RBI's guiding rates with the economy. So we should not naturally compare the near-term future with the recent past because the rates will correct. In June credit growth is usually slow-to-negative at the aggregate industry level. So it will be too early to call rates I do not think are doing

much unlikely even if RBI raises rates in its first week May policy, I do not think there will be a need for banks to increase their lending rates at all. There will be some catch up of base rate which is happening but that is on account of the past not on account of what is in store from the standpoint of RBI raising rates in the future. So aggregate expectation is let us say mid-teens loan growth, maybe 16-17% loan growth is something that I would hazard a guess for the next year as opposed to 23-24% that we experienced in the last year.

Rishi Arya:

And correct my understanding if I am wrong, the current liquidity has eased of from March level, probably, one of the reasons could be that this is a bit lean period and people have just finished the 31st March credit growth targets and so this liquidity is just mirage and probably when the growth picks up you probably see the rates which were sustaining in March. Would you think that?

Rajat Monga:

Okay, my take is a little bit different. Lending does not influence liquidity. We can discuss that in detail but if I can begin with the premise that lending does not influence liquidity. Because every loan that any bank is giving is creating deposits somewhere.

Rishi Arya:

Sure. It comes back to the system?

Rajat Monga:

Yes, it does not go out of the banking system. What has been the sole influencer of liquidity in the last 12 months has been Government of India. And the reason liquidity has come back is also Government of India because they have spent Rs. 100,000 crores in two weeks that is the kind of spending which has happened from the government kitty. That money comes out of the RBI to banks, which creates deposits in the banking system. So money movement from RBI to banks is tricky. But money movement between banks is not that tricky. Because you have the interbank market which at least clear the money immediately. So the liquidity position today is square zero. There is no deficit. I mean not today, 15th April, the last data which RBI has published. If you look at the liquidity position it is zero. What used to be 70,000 crores deficit, 100,000 crores deficit is zero deficit. That is the kind of money which government has spent in the first week of April and last week of March. Is the situation going to last, I think we are again at the best position of

liquidity. Because government henceforth will start repeating except for the phenomenon of 3G licensing that happened in May and June last year. Take that out, government will repeat its performance. In fact, last data is saying, government is borrowing from RBI. So government which was surplus actually has become deficit. And they have overdrawn their ways and means of advances limit from RBI which means that RBI has expanded balance sheet. It has created a loan to the government. And the government has put that money into banks by spending and banks have put that money back to RBI in the form of reverse repo that happened momentarily. In fact, RBI has expanded balance sheet. What government is doing is actually creating monetary easing, such as the contrast in our fiscal and monetary position in the country. I am hoping that it is not permanent. So government for example has already started issuing cash management bills which is postponing the liquidity today to June which will reduce the deficit in June, therefore, because government will redeem the cash management bills then. So I think we are back to normal range so to say and we will not see the extremes of liquidity that we saw last year because there is no driver, unlike those auctions which happened last year. We would see range-bound activity so the banking sector rates will be reasonably linked in with the policy rates unlike most of the last year where banking sector rates were all over the place. That will correct. When I am saying that the rates will come correct to trend, is basically that will not happen overnight. That will take a period of sustained liquidity or a period of sustained lesser illiquidity so that some rates have to be adjusted down. That takes time because this is a little bit of sticky market in all respects.

Rishi Arya: Thanks, sir. That answers my question.

Moderator: Thank you. Our next question is from the line of Vikas Rungta from Reliance MF. Please go ahead.

Vikas Rungta: Just wanted to understand in terms of micro finance, there are two kinds of facilities which have been earlier extended by banks. One was in form of on balance sheet lending; one was in form of direct assignment. So the numbers you told was on account of from 250 to 210, gradually touching 40 crores.

- Rajat Monga:** Sorry, that is 290 to 250. The last disclosure we made was in December where we had 293 crores if I am correct of the exposure to MFIs, out of which 15 crores was pools. That pool is still around, but it was a 20 crores pool then which had a 6 crores cash collateral. So it was a net 14 crores position. Today, that pool has run down to I think 7-8 crores pool position but we still have 6 crores cash. So it is kind of as good as absent.
- Vikas Rungta:** Okay. Sir, just wanted to understand in terms of how the banks generally, I am saying generally, the banks are treating this bilateral assignment as far as MFI is concerned, since the RBI has given the restructuring window for on balance sheet lending, so will this bilateral be considered as restructured in case or like will this has to be classified as NPA?
- Rajat Monga:** Assignment will be then a function of- basically you have a pool. The pool has cash collateral. If you have non-performance in the obligors in the pool, cash collateral will start getting utilized. Once you use up the cash collateral, then you will have to deal with the consequences. These are your loans.
- Vikas Rungta:** So these cannot be restructured?
- Rajat Monga:** They are your loans. You have to restructure them with those borrowers. If you are the legal lender to those borrowers, the loan gets assigned which means that from the MFI being the lender, the bank has become the lender.
- Vikas Rungta:** So theoretically yes, practically no?
- Rajat Monga:** Exactly. Who will do that? That is why some banks are saying how the hell this can happen? Please include this in the overall restructuring. There is anyway an argument which is going on in the sector is that if banks are restructuring their loans to MFIs, are MFIs restructuring their loans to the constituent borrowers? If not, then what is the point? Similarly, the situation on the pool, some banks are saying is that you please treat these as on balance sheet only. This is a little of I would say an extreme interpretation. The situation has not resolved. There is still some bullying, some push and pull which is happening in the CDR, but there are not too many, there are only two, three companies which are being subject to that treatment.

- Vikas Rungta:** Okay, sir, thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Amit Ganatra from Religare AMC. Please go ahead.
- Amit Ganatra:** Can you provide the breakup of your NPAs for the full year what was the gross addition, what was the reduction, I mean how much was upgrade and how much was write-off?
- Rajat Monga:** I do not have that number ready. We would have had a 50-60 crores addition to gross NPAs.
- Amit Ganatra:** For the full year?
- Rajat Monga:** For the full year. I do not think write-off is a significant variable. There might have been some recovery. We might have recovered 10, 15 crores in the course of the year.
- Amit Ganatra:** And for the quarter what was the addition?
- Rajat Monga:** 15-20 crores is the addition for the quarter.
- Amit Ganatra:** Also, we just received your invitation for this Version 2.0 analyst meet. Basically, the target is still basically 150,000 crores of assets by 2015. Now, since you have already achieved 54,000 crores of asset size by 2011, the earlier CAGR used to work at around 33% but now if I look from a four-year CAGR perspective the requirement is around 29% to achieve this target. So does that mean that the growth will slow down?
- Rajat Monga:** Let me again maybe give a different answer. We are not calling that a target. We are actually calling that an opportunity. We just wanted to ballpark the outcome that the bank can visualize, let us say five years ahead, in terms of growth, because we were at a stage one year ago where a period of 30-35% growth can actually transform us quite significantly and meaningfully, which is what we wanted to kind of present that give us this five years and this is what we can deliver. I do not think we can be perfect about that plan. If you will see most of the numbers are very round numbers. Yes, they are ballpark

but they have been analyzed for deliverability, but it is too difficult to say whether we will increase our growth rate, it is also a function of opportunity. There will be some years of high growth. There will be some years of low growth. But I do not think we are at a stage where we can say we will deliver 29% every year.

Amit Ganatra: Yeah, but there is a big difference between 55% growth and 35% growth rate. This year you achieved 55% growth for example, but then what does that mean in terms of what is the outcome....

Rajat Monga: Quite sure, that last year might be 20-25% growth. Because when we are 1-2% of the market share in the system we cannot be terribly outperforming the system growth either.

Amit Ganatra: Okay. So initially years basically once you have a significant base then maybe the growth will be a challenge?

Rajat Monga: It will be a challenge. Secondly, opportunity will become a challenge. Because I cannot be growing 55% at 1 lakh crore balance sheet size. That will be too much of a stretch by any means and with the granularity objectives that we are seeking, and with the spread of business into various segments that we are seeking. So yes, the growth rates will fall. Let me not say that I will be able to prove and deliver that quarter-on-quarter, year-on-year, but as a trend, yes, you should see that our growth rates will reduce as our base becomes heavier.

Amit Ganatra: And also have you been able to decide on some sort of growth outlook for FY12 in terms of advance...?

Rajat Monga: It is an industry growth outlook. I think that is what we are broadly kind of at least contending with, because it is an opportunity-based growth. If the opportunity is reducing we are going to reduce our deliverable as well because otherwise we might have to contend with high risks, which is not necessarily the idea that we are pursuing growth for.

- Amit Ganatra:** But do you think that with the kind of branch addition that you have had for the full year, the CASA movement that you already have, 69% kind of CASA deposit growth on now expanded base is still possible?
- Rajat Monga:** Yes, the recent trends are still of that order. Let me not say year-on-year, I am saying if you are looking at a quarter-on-quarter numbers as well. And since we also know a little bit of breakdown in terms of how much of the CASA was noisy, volatile, I think if I remove that and all of that and see the underlying growth yes very much.
- Amit Ganatra:** So then in that case next year obviously if you were to slow down your advances, then the deposits will also be slowed down. So to the extent the CASA percentage should definitely improve next year?
- Rajat Monga:** Yes absolutely I think if the problem what we can't deliver is suddenly high CASA outcome with a very high denominator. CASA will not grow because we are growing our numbers. It is very organic in its outcomes. It is very accumulative in its outcome. So that will have its own trajectory. In fact the noise is the deposit number. CASA trajectory growing at 60-80% per annum is still visible. If this year for whatever reason we have some exciting year, we also grow 60-80%, unfortunately CASA headline will stall. But if we grow 30% and CASA grows 80%. You will see CASA going from 10% to 15%.
- Amit Ganatra:** So basically CASA growth in that case is not dependant anyways to the system opportunity that relates in the credit department right?
- Rajat Monga:** Not really, CASA is predominantly there is one SA part which is Salary Accounts. Does that rest with the credit department? There is a share of credit department because we need to have a salary account on lending products also. We need to have a credit card product also which goes well with the salary account offering. So it is not critically dependent but it co-exists.
- Amit Ganatra:** And right now what would be the break up of your 4750 crores of CASA in terms of current and saving.

- Rajat Monga:** Current is about 3900 and savings is about 800.
- Amit Ganatra:** And what has been the growth year-on-year?
- Rajat Monga:** Savings is full 100% and current will be 50%
- Amit Ganatra:** Will be rest. Okay thanks.
- Moderator:** Thank you. The next question is from the line of Hatim Broachwala from Fortune Financial, please go ahead.
- Hatim Broachwala:** Can you give me the breakup of SME and your retail advances and your outlook on this?
- Rajat Monga:** We don't do much retail, so it is predominantly SME. What you see under disperse for branch banking it will be predominantly 95% SME, 5% consumer.
- Hatim Broachwala:** Okay and what are your plans on the retail front in the next two years?
- Rajat Monga:** Next two years you will see retail happening possibly two-three years hence meaning next two years, we will see more SME. SME and micro SME. Some of them can be called retail but it is not classical consumer lending. It is business lending, is what I am trying to draw the line between. We are building the proposition, so there are various products and offerings that we need to line up like credit cards, car loans, educational loans, and personal loans for salaried account customers or property loans, so all of those are lining up. They will be rolled out in due course but I don't think I am suggesting that we will build them into a meaningful portfolio in a hurry. We will grow them at the pace at which we want to go there. So four years, five years later you will see a 10-15% share of retail.
- Hatim Broachwala:** I believe you have targeted branch banking at the proportion to be 30% by 2015.
- Rajat Monga:** That is right.

- Hatim Broachwala:** So that means most of it will come from SME?
- Rajat Monga:** Yeah about 60% would be SME within that yes.
- Hatim Broachwala:** Okay, that is it from my side.
- Moderator:** Thank you. The next question is from the line of Manoj Jethva from Modern Shares, please go ahead.
- Manoj Jethva:** Actually if you see your margins, like your PAT margins quarter-on-quarter, year-on-year, it has been on the declining curve whereas the interest on your top line is increased on year-on-year basis by around 84%. How do you see these two counter reviews, normally if your top-line increase your bottom-line also has to increase, how do you explain this?
- Rajat Monga:** No NIM is linked into growth.
- Manoj Jethva:** No I am talking about the PAT margin. I am not talking about the NIM sir.
- Rajat Monga:** So you are saying our top line has grown, you are including what in the top line?
- Manoj Jethva:** Sir, your interest on and all that everything etc.
- Rajat Monga:** Net interest income?
- Manoj Jethva:** Yeah.
- Rajat Monga:** Gross interest income?
- Manoj Jethva:** Yeah.
- Rajat Monga:** No you are including net or gross?
- Manoj Jethva:** I am talking about interest earned.
- Rajat Monga:** Interest earned is very difficult comparison because if interest rates go up interest earned goes up so we can't make sense of interest earned. We can

make sense of net interest earned not gross interest. Net interest is because our cost also goes up. One year ago, we were on a 6% interest rate environment. Today, we are on a 12% interest rate environment. So without doing anything, interest income will double.

Manoj Jethva: And one significant question which I want to ask you that you are targeting a growth rate of around 40 plus and seeing the current environment not more FDIs are coming, not more green investments are coming, so what conservative estimates for your credit growth you are expecting for the next few quarters or for the whole year FY11-FY12.

Rajat Monga: We will be looking at- if you have to ask a number 35%.

Manoj Jethva: But how are you going to achieve it when there are not many green investments coming. Corporates have become very hesitant to take new ventures because the inflation is a biggest culprit. RBI is trying very hard to control the inflation it is global phenomena, so how do you see the growth of the 35% plus is justified.

Rajat Monga: No I am assuming that industry is going grow at 16-17%. If you are questioning the assumption whether industry can grow at 16-17% then I will also correct my numbers because our target is to try and deliver twice the industry growth rate on to our books because we are a smaller denominators of still validity.

Manoj Jethva: But how do you see? Do you see some of IIP numbers from September onwards my manufacturing sectors is not growing well, my capital good sector is not growing well and IMF also has reduced the target from 8.4% to 8.2% and they have increased the growth rate for the China despite all the problems with them and despite all the problems of old balance sheet transactions with the Chinese banking system of \$1.5 trillion because I have made this question at the international conference also. So how do you see the scenario in the Indian era, why do you see that IMF has reduced growth target of India to 8.2 and they have increased for the China when there are many problems with the China vis-à-vis India. How to explain this particular anomaly sir?

Rajat Monga:

I think China and India are obviously different. I think China has a different business model. India has a different economic model. I don't understand China that well so I will have to put the disclaimer that if I give you incomplete answer, so please forgive me. I think just to comment on various points you have raised. You raised the point of inflation. What happens when loan growth is it gets helped by inflation. The inventory is now more expensive but a client was drawing a working capital of 100 crores he now needs a working capital of 110 crores. Banking sector actually directly benefits from inflation which is the dominant I would say driver for banking sector growth. The second dominant driver is growth. Broader growth in the economy, the money supply in the economy has to increase, we need to support more projects and therefore more risk what you are saying absolutely correctly is that the risk investment in India has reduced. FII is not happening. Corporates are not necessarily taking up projects at the same intensity they were taking up two years ago. I think it is a known fact for the last 1-1.5 years post-crisis particularly, India the investment demand has not revived. This is the reason some of the stake holders and people who are watching India like IMF are being compelled to reduce India's growth rate is because how will growth happen without investments. How much can we grow on the back of consumption especially when the interest rates are rising? There are two types of demands both of them are banking sector loan growth is the derivative of that underlying demand. Like I said first is investment demand which is weak and that strong investment demand also creates a medium term consumption demand imperative.

Manoj Jethva:

Sir, do you see your bank has to be somewhat like a foreign banks like where there is a paradigm shift from the only just lending and borrowing business rather than to other businesses like M&A activities or broking businesses or other allied businesses, like Citibank is there or like other MNC banks are there where they get a lot of money on their specialized services which they are providing to the corporate sectors. This is one question and the second question is how do you plan to increase your non-fund base activities.

Rajat Monga:

On the first part of your question, I think yes we would love to do activities which foreign banks do but unfortunately they have some very strong

advantages over Indian banks like custody, we would love to bank foreign shipping investors with banking requirements in India. But foreign shipping investors require cash management and services in their home country locations not country of their investment location which a cross-border bank fulfils lot better than a domestic-only bank can do. We would love to do it otherwise. In custody because there is so much foreign exchange flow you get on the back of that, you have chargers on the basis how much assets under the management in your custody you have with the FIIs. It is good fee opportunity. We already are M&A advisors but we don't compete with foreign banks again because they have a strong global print, we don't have a global footprint, yet we are advising mid size companies on cross-border M&A. For example I was making that comment in my statements on the bank on the results we have advised United Phosphorus acquisition of Brazilian company, and we have sold one company's subsidiary to a French company, so we have been strongly involved in cross-border M&A advisory. We will do such businesses which are close to banking. We don't want to suddenly go into insurance. There is not much complementary outcomes that we see at this point in time.

Manoj Jethva:

So as your businesses is there in the banking businesses is in the business of money, can you afford to lose the opportunity of lending it to the real estate sector. Do you think that the concepts of the real estate sector or the infrastructure sector is not being encapsulated in the mind of the Indian banking system because there is a huge opportunity lying out in the real estate sector and being yourself in the business of lending can you afford to lose that opportunity in the real estate sector?

Rajat Monga:

No I think real estate sector has to be tackled in a balanced manner. I am not saying is that we are shut to real estate sectors, we are open to good developers, we are open to good structured form of lending but we are not in favor of lending which is end use is unspecific. As long as the lending is happening with a strong control end use we will look at it and obviously we have to be satisfied with the credentials of the sponsor as well as the credentials of the project. So we are not shutting ourselves out from that, we have- not a big; we have a small position to the real estate sector. It is 2-3% of

our overall loan book. So it is there but I think there is a primary job in that project space of getting equity more than loans. I think where we need to see the project developers get little bit more liberal is to bring in more equity into their project. If they are bringing more equity into their project, they will get more loans.

Manoj Jethva:

So what are the plans of the Yes Bank as far the agri business is concern because there is a huge opportunity at the agri business infrastructure because there are foreign banks Rabobank which is very active in India as far as their agriculture practices is concern. How do you see the Yes Bank because you are already having a stated desk on the agri business?

Rajat Monga:

Absolutely Rabobank, I don't know where you have seen they being active in India because we are already by 4-5 times active than Rabobank in India. I have just taken a branch banking license. I have not seen Rabobank in any of our client meetings or discussions or opportunities which I have with agri business clients in India. Agri business is one of the larger focus sector in Yes Bank, we don't just lend to companies their we also work with policy sector, we work with government, work on agri infrastructure, we work on concepts like communal market in agriculture, we are advising state governments on what can be done to improve the agricultural supply chain. Problem in India is, it is not a banker who can change the agricultural position in India we need policy, we need infrastructure, we need disintermediation. As a banker we can't lend and do that, we can have a little bit of role in pooling resources, in ideating, in creating platforms, and putting ideas into policy makers heads that is what we do.

Moderator:

Thank you. The next question is from Ms. Tabassum Inamdar from Goldman Sachs, please go ahead.

Tabassum Inamdar:

Hi Rajat just two questions, the investment breakup, can you give what is the corporate bond portfolio within that?

Rajat Monga:

It should be about 300 crores.

Tabassum Inamdar:

Okay and I guess CPs and all will be....

- Rajat Monga:** Yes there would be CPs and CDs.
- Tabassum Inamdar:** This is included in the 3000?
- Rajat Monga:** No.
- Tabassum Inamdar:** Okay I am just trying to get what is the corporate exposure in that investment book because it has gone up quite significantly quarter-on-quarter.
- Rajat Monga:** Actually quarter-on-quarter there has not been much increase in the corporate exposure in the investment books. There would be increase in the CPs and CDs, quarter-on-quarter sequentially at least. On year-on-year yes, there would be an increase.
- Tabassum Inamdar:** Can we get a breakup of investments so that gives us an idea?
- Rajat Monga:** See we have an 18-19,000 crores investment book, I don't have the exact numbers but I will give you some handy numbers. Out of that 11,000 should be SLR, about 3000 crores would be corporate bonds, about 2000 crores would be CPs and CDs. I think that should be it, we might have RIDF another 500 crores, all those PSL, penal investments that should be adding up.
- Tabassum Inamdar:** Yeah that's fine. Another thing is looking at your exposure advances the TMT segment has come off quite a bit, is that because of the 3G license loan rundown or?
- Rajat Monga:** Yes and broadband. I think one year ago most of these loans were given for 6-1 year period except in one case where it was a longer term loan. So exposure has come down, I know at least 4-5 names where we have cut exposure, that's right, also because lot of people were not liking that sector.
- Tabassum Inamdar:** Okay even the infra segment it seems your exposure has come off overall.
- Rajat Monga:** I think the recent growth last couple of quarters has been little bit broader based particularly. May have been more a relative outcome because in infra. See infra, there are two type of financing that happens one is long term financing that can't come off in a hurry. Yes we syndicate and also sell down

our exposures but I don't remember any outstanding kind of amounts in this quarter where we have syndicated and sold down.

Tabassum Inamdar: For the year what would be the sell down?

Rajat Monga: 2000 crores. 10,000 crores might be the throughput where we have originated under written and sold down and/or syndicated also. Sometimes in syndication the loan doesn't come on our book. It goes directly, so this is put together, sell down will be 20-25% of that.

Tabassum Inamdar: Just one last thing number employees how do you see that moving, given that you will be 325 branches by the end of the year?

Rajat Monga: Yeah proportionately higher but cost will be cheaper, the averages will obviously move accordingly but we will be proportionately higher.

Tabassum Inamdar: So similar proportion to whatever we have added this year.

Rajat Monga: Yes little lower than that I think we also had a lot of non branch hiring this year. Off branch as in more corporate office hiring, we have also expanded teams in commercial banking and corporate banking etc. That may not continue at the same pace. So my sense is that on nominal numbers you might see similar increases. Say about a 1200 odd people we might be hiring in fiscal 11-12.

Tabassum Inamdar: Okay great thank you so much.

Moderator: Thank you ma'am. The next question is from the line of Gaurav Grover from Moore Capital, please go ahead.

Gaurav Grover: Look I know the call is going on for a while so I will try to keep it brief, just one quick question on NIMs. It seems like NIMs went flat this quarter consistent with what you guided to last time. I guess, it seems like last time you talked about NIMs has start to rebound from here adding Q4 on to cut it Q1 and Q2. Is that still something you guys believe is possible? NIM expansion from this point onward?

- Rajat Monga:** Yes I think if I look at just in indicated comparison between Q4 beginning and Q1 beginning, we raised our prime rate and base rate in Q4 early. We have done that in Q1 as well. The short term costs of funds were rising in Q4. The visibility was that the cost will increase. The visibility in Q1 is that the cost will decrease. I am actually of the opinion that I would rather not hazard my guess on NIMs, I would possibly focus on spreads if I may, I do expect spreads to widen in Q1 particularly. I am not so confident that if that will keep happening through Q2 but, the Q1 seems to be the correction phase because the rates have come down quite sharply from the peaks at least at the short end of the deposit taking curve. So that should go through into NIMs as well though NIMs is little bit function of your business mix average CASA and few other variables in terms of leverage etc. We have grown quite well in the fourth quarter. So that will hurt NIMs in the first quarter, mathematically speaking. But overall if I have to just individually give an answer I still will bear towards the fact that NIMs should be higher in Q1 and take it there on into Q2.
- Gaurav Grover:** Perfect, thank you and just to clarify one another thing. The equity issuance comment, you got enabling resolution but the timing to raise capital continues to what it was before which is some time in around 2012?
- Rajat Monga:** Yes, I mean this is only board approval we need a shareholder approval we need to talk to bankers we haven't even begin to talk to any bankers. Unfortunately, this got just more than a share of attention and I am sure bankers will also trouble us a little bit over the course of the next few weeks. But yes the time lines are still-, I mean we will burn out our current capital sufficiently before we take new capital. So time line according to me looks like in a 12-15 month window from now.
- Gaurav Grover:** Perfect. Thanks and good quarter guys.
- Moderator:** Thank you. The next question is from the line of Subramanyam from Sundaram Mutual Fund, please go ahead.
- Subramanyam:** Sir, my question was also on capital raising. On the quantum 2000 crores seems to be a big amount, so we were just wondering as to whether this is an

amount that you are looking to raise and are you also looking at something by way of inorganic opportunities as well?

Rajat Monga: The quantum is the maximum. So whatever we will end up raising will be lower than that and not higher than that at least that is for sure. 15 months ago we raised 1040 crores. In an earlier conversation somebody was saying that seems to have been used up already. So 1000 crores of capital got exhausted in 15 months. So 2000 crores of capital at a higher base.

Subramanyam: It has not got exhausted actually; it got another 9-12 months.

Rajat Monga: Yeah, it has to go. So we are any way talking about, so let me put it all together 1000 crores capital got used up at a current base in two years. So 2000 crores capital is, even if we end up in raising that kind of amount though I mean, I am finding it little premature to be commenting on that because we haven't even discussed it internally in terms of what is our target offering because it is still time away. So we are just getting enabled, which means that we can't do it any more than half a billion. If we have to take our loan book to a 100,000 cr. by 2015, we need 3 times more capital, to maintain our ratio. We are today at 4000 crores of capital. 2015 we should be at 12,000 crores of capital, so that is the plan we want to go by. We need to triple our capital so 2000 crores will in 4-5 years time is not going to be a unreasonable sum, may be today it is unreasonable. One year later when we have one more year of work behind us in terms of earnings and retention of earnings, we will be dealing with may be different scenario.

Subramanyam: Anything on inorganic opportunity which you are willing to look at sir?

Rajat Monga: But I have a little bit boring answer to this, we are open but we are not pursuing anything.

Subramanyam: Okay. Thanks sir that is it from my side.

Moderator: Thank you sir. The next question is from the line of Kalpesh Mehta form MOSL, please go ahead sir.

Kalpesh Mehta: Just most of the questions have been answered just wanted the breakup of your interest expenses and the movement of NPLs.

Rajat Monga: For what period?

Kalpesh Mehta: For FY11 not for the quarter.

Rajat Monga: Break up of interest expenses?

Kalpesh Mehta: Just wanted to check your cost of deposits nothing else.

Rajat Monga: Can I give you cost of the deposit for the year?

Kalpesh Mehta: Yeah please.

Rajat Monga: Cost of deposit only. For the year it is 6.98.

Kalpesh Mehta: And which was last year?

Rajat Monga: 6.86.

Kalpesh Mehta: 6.86 versus 6.98 right now?

Rajat Monga: Yeah.

Kalpesh Mehta: So it has not moved so much.

Rajat Monga: I think the interest rates have been such, it will move. This is the average. It is already, for the quarter it is 7.8.

Kalpesh Mehta: For the quarter it is 7.8 right now.

Rajat Monga: For the quarter it is 7.8. It has already moved up but the averaging is still...

Kalpesh Mehta: And how has been the movement in cost of deposits over a period of last 2 or 3 quarters, if I have to?

Rajat Monga: Yeah, it has been up.

- Kalpesh Mehta:** Obviously the trend is up but what kind of movement have you seen? Around 20-30 basis points?
- Rajat Monga:** No we have seen, the highest has been 70 basis point in the fourth quarter, prior to that it was 40-45 basis points and prior to that it was 20-30 basis points.
- Kalpesh Mehta:** Okay. Then I have to take it offline in that case. Okay and just the movements of your NPLs if you have that?
- Rajat Monga:** You wanted it for the full year?
- Kalpesh Mehta:** For the full year yeah.
- Rajat Monga:** We have 50 crores fresh NPL, we have about 18 crores recovery and 12 crores write off.
- Kalpesh Mehta:** Okay, 12 crores of write off and lastly based on your definition of link to PLR, link to base rate reprising within a year, what percentage of a loan book is that now, 90-95?
- Rajat Monga:** Yeah similar.
- Kalpesh Mehta:** It is 90-95% right?
- Rajat Monga:** Yeah. I mean bulk of it is of that order.
- Kalpesh Mehta:** Okay. Thanks a lot Rajat.
- Moderator:** Thank you. Due to time constraints this would be the final question, question is from the line of Pawan Sachdev of Sansar Capital, please go ahead.
- Pawan Sachdev:** How do we model like your non interest incomes? Should it be in proportion to your Balance Sheet growth, how does one look at it actually?
- Rajat Monga:** Good question Pawan. I think very unfortunately it has components and some components will have some I would say relationships with Balance Sheet. Some concurrent relationships and some lag relationships. I will

pickup for example some transactional products like trade, where we open LCs or foreign exchange, where we are undertaking remittances and we are helping clients hedge, their trade business that they are conducting through us. Such business is a lagged opportunity because typically we are growing through an entry into a new customer let's say, by giving out a loan. So the NII meter, high or low, but that starts immediately. But there is a progression that happens from a lender bank to a trade bank to a cash management bank over the course of time, some very quickly, some never. So the fee items are also just stationary in that order. If you have a structure financing opportunity, which is fee embedded or loan syndication opportunity which is fee embedded or a debt capital market opportunity which is fee embedded, that is concurrent to a franchise growth. But a good part of our fee is with the lag and there is also an element of improving share of wallet with existing customers as well. So it is a mix. The last thing that we should modulate it with is net interest income, because there is no on the ground connection beyond contextual connection between net interest income and non-interest income. So we are also let's say in that space where the last couple of years we have seen a fairly, I would say sizable balance sheet growth. Lot of our non-interest income products are also maturing, in terms of their acceptability, the clients having been let through some of the features and having experience at least briefly, the kind of cash management offering we have how do we embed, technology in payments etc. So there is my sense of a 40% concurrent and 60% lagged, I am just trying to convert an intuition into a number, a 40% concurrent and 60% lagged opportunity versus balance sheet on non-interest income. I don't know that was in any way.

Pawan Sachdev: No that was helpful. Thanks.

Moderator: Thank you sir. I would now like to hand the floor over to Mr. Pathik Gandotra for closing comments.

Kavita: Hi this is Kavita here. On behalf of IDFC Securities I would like to thank Mr. Rajat Monga and the other members for participating in the call. Thank you so much.



Yes Bank
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Rajat Monga: Thanks Kavita and thanks you all for listening in and your patience from Yes Bank as well. Thank you.

Kavita: Thanks Rajat.

Moderator: Thank you. On behalf of IDFC security that concludes this conference. Thank you for joining us. You may now disconnect your lines.