



“YES Bank Q4FY16 & Full Year FY16 Results Conference Call”

April 27, 2016



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the YES Bank Q4 FY16 and Full Year FY16 Results Conference Call. 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 then '0' on your touchtone telephone. Please note that this conference is being recorded.

We have with us today members from YES Bank top management team, Mr. Rajat Monga – Senior Group President, Financial Markets & CFO, Mr. Pralay Mondal – Senior Group President, Branch and Retail Banking, Mr. Jaideep Iyer – Group President, Financial Management and Mr. Niranjana Banodkar – President and Country Head, Financial and Investor Strategy.

I now hand the conference over to Mr. Rajat Monga of YES Bank. Thank you and over to you, Mr. Monga.

Rajat Monga: Thank you very much and welcome everyone to this analyst call discussing the financial results for YES Bank for the fourth quarter fiscal 2016-17 as well as the full financial year 2016 to 2017.

We are pleased to report that YES Bank has posted another satisfactory quarter of financial results during the financial year 2016, even though this has been a relatively challenging year for banking industry in terms of asset quality in particular. The Bank has in this backdrop continued to deliver a healthy profitability growth as well as has been able to maintain its asset quality. The operating environment of banking sector has been showing some modest improvements, on the global front we have seen the global commodity prices have bottomed out, some commodity prices have also bounced from their lows, there is some semblance of sense of stability in the Chinese economy which is also reflecting in the broader interest rates and commodity backdrops. We are also seeing some moderation in the US Fed interest rate hike outlook and which has also brought some balance into the economic backdrop as well as some of the operating environments that the Indian banking sector operates in.

On the domestic front we saw and heard the Government present the Budget for this financial year, I think the fiscal deficit target was very credibly maintained at 3.5% of GDP which is a reduction from the previous financial year. There has been increased focus on revival of rural demand as well as public sector CAPEX in this Budget, both auger well for the needs of the economy. The Reserve Bank has also responded and has cut interest rates, we saw a 25 basis points rate cut in the previous monetary policy in the backdrop of expectation of relatively normal monsoon this year which also augers well for inflation and expectation of further rate cuts continue to be in the offing. We are also seeing some relative green shoots in the economy on the recovery front, there has been some revival in growth appetite across industries.



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However, the competitive dynamics continue to be benign and we expect that the situation will remain in this vicinity for some more time to come.

I will highlight some of the results metrics of this particular quarter for the Bank which is starting with our balance sheet. We are happy to report that the retail and CASA deposit mix of the Bank continues to improve, the Bank is reporting a 28.1% CASA mix position for the period ended March 31st, 2016, this is a 500 basis points improvement over the position same time last year and we continue to expect that CASA will accrete at a rate of 300 to 500 basis points per annum for the next couple of years as well. The retail deposits continue to be nicely growing as well with the increasing branch presence helping that cost in addition. The total deposits that the Bank reports now between CASA and retail time deposits is almost 55% of the total deposit book of the Bank, this has also been an improvement from a 48% position same time last year and we expect that both CASA improvement and the share of retail time deposits will continue to increase in a hand in hand fashion for the next two to three years as well.

On the lending side, the Bank continues to see far higher growth rates being delivered from both consumer banking and SME banking businesses. This last year saw a 55% plus growth rate coming from consumer banking with some pockets reporting as much as 100% growth and about 40% growth in lending coming from the SME segments. We continue to expect that the share of branch banking which includes retail and SME will improve to about 45 from the current 35% loan mix, but this will take over the next two to three years for the Bank to achieve.

The Bank continues to invest in its retail infrastructure, we have added 110 branches in the last quarter, our total branch network strength is now 860 branches. We also hired 1500 new colleagues in the last quarter, our total people strength is now around about 15,000. A lot of the recent hiring has been also focused on building the Bank's retail lending teams as well as staffing the new branches that the Bank has been opening.

So we are seeing a clear and visible efficiency improvements that are helping the Bank from particularly increasing the CASA deposit base as well as from improving the retail SME loan book which is also resulting as a combination in increasing the fee that the Bank is generating from both the retail and SME businesses. And these numbers are also visible in our results where the share of business coming from retail, SME in both interest line and the fee line been continuously improving.

The Bank is also ready to launch its credit card business in this current quarter, some of the cards in a pilot phase are already out in the market and we are hoping to do a more full launch sometime during the later part of this particular quarter. The credit card should also serve as a very important customer acquisition tool for the Bank particularly on the retail side going forward.



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Few headlines on the asset quality side. The Bank has substantially preserved its asset quality position through the last year and this quarter as well. For the full year the Bank's credit cost have been contained at 50 basis points, this is despite all the challenges including some suggestions from the regulator has all been taken care of in this particular financial year itself. So as far as the asset quality review done by the Reserve Bank of India is concerned the Bank has complied with all recommendations that came from the Central Bank.

The Bank's position in NPAs continues to be reasonably modest, we are reporting a 76 basis points gross NPA position and 29 basis points net NPA position, there are some small increases from the sequentially previous reporting date. On the other hand, the Bank is reporting a reduction in both its standard restructure advances as well as its security receipts. The Bank's standard restructuring advances have reduced from 67 basis points as reported in the previous reporting quarter down to now 53 basis points, this is also on account of one particular borrower which migrated from being restructured to NPA for it to be facilitated into a sale for an eventual debt aggregation and monetization of the underlying asset and the sale has been made by the Bank to an Asset Reconstruction Company which is aggregating debt for that particular borrower which resulted in reduction of the restructured advances position and it also increased correspondingly the NPA formation for the current quarter.

Security receipts have also reduced from last reported position of 25 basis points to 20, that has again been a net result of one increase on account of the sale that I was just highlighting as well as netted by a larger recovery that has happened from a prior sale of NPA which was consummated in this current quarter resulting in a net reduction in absolute rupee terms as well on both the restructured advances book as well as the security receipts book. The Bank did not restructure under the 5:25 scheme any new loan this current quarter, nor was there any strategic debt restructuring undertaken in the current quarter that we are reporting about.

Flipping a little bit over to the other opportunities, the Bank has been witnessing particularly around payments and digitization, I think digital banking continues to be a strong focus for the Bank, there are several programs that the Bank has launched recently and will launch also into the future. Some of them have come to some very strong outcomes in terms of some numbers that we would like to share include among others the fact that the Bank has now handled about 12,000 crores, that is roughly about \$2 billion worth of domestic remittances on its YES Money platform that essentially looks on a pan-India basis the domestic remittance opportunity where walk-in customers deposit cash and the Bank along with its banking correspondent partners renders that cash into a bank account anywhere in the country. So this particular service has as I mentioned done about \$2 billion of cumulative small value payments, it has touched about 4.6 million unique customers in the process for whom the Bank has done the domestic remittance.

The Bank on a separate note had recently tied up with Freecharge to power their wallet in the month of September 2015, we are happy to report that in the last six months the Bank along



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with Freecharge has added 27 million wallets on to this platform. Out of the 27 million wallets 1.6 million have also been carded with a virtual card. This 1.6 million virtual card program is now the largest in the world in terms of the virtual card program that is confirmed by MasterCard on which the Bank has structured this program and we continue to look at many other innovations that you should also hear more announcement from the Bank in the next two to four weeks as well on innovations and new payment designs that the Bank will launch. Bank is also part of the control group that NPCIL is working for the launch of unified payment interface, that is UPI for person to person payments and we should also come out with some use cases in the near future. So digital banking is showing some very promising early days with substantial exposure being generated on account of the recent introductions of new products and services, it is still early days and we hope that this will be one of many innovations that the Bank will bring to the market.

On mobile payments as well the Bank continues to be doing reasonably well, the Bank contributes 5% to the traffic that is serviced by the IMPS platform which is the mobile payment services, again the switch is run by the NPCIL and we should be among the top five banks in the country in terms of volumes that we are processing on the IMPS platform which we have also offered to many of our corporate customers as part of our cash management offerings.

Some of the other items we wanted to highlight, include the fact that the capital funds of the Bank continue to be satisfactory in terms of the overall capital adequacy being 16.5% and the Tier-I capital ratio being at 10.7%. The bank is reporting a liquidity coverage ratio for the quarter at 83.9% which is sufficiently above the regulatory minimum of 70%.

The Bank is also proposing to pay a dividend of Rs.10 per share, so this will be the first 100% dividend that the Bank will be proposing in its lifecycle of the last 12 years as subject to the shareholders approving the dividend.

The Bank continues to see more recognition on both digital and or social media as well as moving up on the ranking whether it is Bankers Magazine in Global Bank Rankings etc, so we continue to see a lot of recognition that the Bank is getting from various publications and other industry bodies.

I think with this we will close our commentary for this particular financial quarter and we will be happy to take questions. Thank you.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Mahrukh Adajania of IDFC. Please go ahead.

Mahrukh Adajania:

Just had one question, what will be the drawdown of contingency provision during the quarter and if you could give me the number for the full year?



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- Rajat Monga:** We would have drawn down about 6 to 7 basis points of the contingent provisioning in this particular quarter. We started the year with 40 basis points of contingent provisioning and we will be close to 30 basis points right now.
- Moderator:** Thank you. Our next question is from the line of Rohan Koshy of New Horizon Investments. Please go ahead.
- Rohan Koshy:** My question was regarding the switch to the change in accounting standards and the Bank of International Settlement Standards where you have to provide on a forward 12-month assessment of possible delinquencies on both fund and non-fund base and on sanctioned amounts even which may not have been disbursed. So could you give some color on what the impact would be for provisioning for GNPA for books and for profits?
- Rajat Monga:** See, though we do not have a very precise estimate but the method that we follow in our contingent provisioning will very likely subsume this requirement, so our contingent provisioning can be looked as sort of a current management strategy for sort of let us say taking provisions when you can so that the cyclical balance is made and it serves the purpose of what the accounting requirements will require when they become much clearer than they are right now. So it is unlikely that it will be an incremental requirement is what I am saying, it will get subsumed how we are already providing for our credit costs.
- Moderator:** Thank you. Our next question is from the line of Manish Karva of Deutsche Bank. Please go ahead.
- Manish Karva:** Just my question is on fees, for second quarter in running we are seeing very strong corporate banking fees, is it some one-off that we are seeing now given the lack of interest from the PSU banks to grow or do you think this can be sustainable going forward as well?
- Rajat Monga:** Manish, see corporate banking fees are here to say, I think we can discuss and debate the intensity of these numbers and if you remember in the last call we had mentioned that we might be above trend on this particular number and we would have also discussed that March usually is also a busy sort of period and therefore it shows up in corporate banking fees as well, it is also showing up in the fact that we have had a very large loan growth number also on a sequential basis that we are reporting. So it is I would say relatively back on trend but it is still biased by the fact that March is more brisk than what June will be. But on a year-on-year basis if you adjust for the seasonality you should see that there will be a continual delivery on account of this particular fee item, even though there is a sequential drop in the corporate banking fee in this current quarter as compared to December.
- Manish Karva:** And you do not see any challenges on this and as of now the environment is good to have continued fees on corporate banking front?



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- Rajat Monga:** See the environment is balanced I would say, it is still challenging to keep looking at good quality opportunities where also the Bank is adding reasonable value to the underlying customers, there is still us say a headline growth challenge that the economy, particularly the banking sector is witnessing. So it will continue to be hard earned this particular line item, but we also are seeing a lot of prospects and opportunities which are there on the table and as we have been highlighting, if you look at the corporate banking business in general, we are also using this opportunity to break ice with customers, we have not been banking or have not had the opportunity to bank in the past, so we are stepping up on good names particularly who have already seen the let's say the worst of this business cycle. So there will be more and more opportunities as the Bank also becomes more and more relevant in the corporate banking space in terms of size as well.
- Manish Karva:** Sure. And the second one was on the credit cost front, while this year has been pretty strong would you guide a similar kind of a number for next year as well?
- Rajat Monga:** Yes, so we would guide about 50 to 70 basis points of credit cost for fiscal 2016-17, I mean last year we had closed the year with a credit cost of 50 basis points.
- Manish Karva:** But on pure slippages, given the fact that RBI review is now behind, you have taken the hits that you had to take, would you still see stress on your book which is rising from current levels?
- Rajat Monga:** See, the stress in the book is not rising but some of the stress which is there in the book can manifest as labeled assets in the future which is what we are possibly looking at in terms of probability based estimate as to how much of that can actually become labeled in the next 12 months and take a 60% - 70 provisioning cover on that particular sort of labeling which is how we are arriving at our credit cost estimate for next year. So the stress in the book and in general in the banking sector is not growing, if at all it is reducing.
- Moderator:** Thank you. Our next question is from the line of Adarsh P. of Nomura. Please go ahead.
- Adarsh P.:** First question was on the deposits, on the book is there a difference between the retail TD rates and the bulk term deposits that you would have or it is more just that sticky so longer-term that is beneficial?
- Rajat Monga:** So there will be differences, so the differences become let us say, so the retail deposit rates do not move up and down as much as the corporate or wholesale deposit rates would move up and down. So corporate rates respond faster to interest rates, they are usually higher than liquidity is tight than retail rates and they are usually lower when liquidity is surplus as compared to what otherwise retail rates are prevalent because retail also mostly gets let's say taken on a different maturity spectrum. So retail deposits are being taken largely as CASA or as between one and three years in terms of term deposit structure, very little of corporate goes beyond one



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year. So even if they are on different rates they do not really compete as much. So corporate and retail are both usually competing with alternative to deposit classes, so it could be mutual fund, it could be small savings, it could be some other such sort of competing sort of financial saving asset category. So they not really compete with each other so much.

Adarsh P.: The second question was on the fee side, one is, what happened to the third party sale number, it shows a decent drop, so apart from the mutual fund amortization that you have to do is there anything else there?

Rajat Monga: So it is mostly related to mutual funds I think because the income recognition has clearly gone through a full cycle, so predominantly you can explain that, I mean there is also a good if you see sequential increase in third party earning as well, it is just that it does not have the benefit of mutual funds that was there till last year.

Adarsh P.: And again on the corporate fee side, if you stood off the number of treasury gains right, because I think you have kind of your bond book has gone down so I would think that you would have booked some gains there, how does that number compare, say gains booked on bond sales if any?

Rajat Monga: See, number is on the uptrend, so since a new presentation of fee we have split the financial markets income into corporate and retail, so both are trending higher. If you look at the revenue we generate from foreign exchange and derivatives in corporate and mostly remittances from retail and SME, so these numbers are both, somewhere they are growing at about 40% - 45% per year.

Adarsh P.: So like the 200 crores number which has become more like 360 would say at least 30% - 40% would still be...

Rajat Monga: No, no corporate banking does not include treasury.

Adarsh P.: So where would that sit in the breakup?

Rajat Monga: So if you look at the non-interest income line there is firstly a corporate breakup between trade and cash management, FOREX debt capital markets and securities and corporate banking, so these are the three large corporate breakdowns. So corporate trade and cash management will include LCs, guarantees, all CMS, escrow, any fiduciary fees that we will earn from a client, all of that is under transaction banking essentially will be under corporate trade and cash management. Then you move to the next line that we disclose is FX, DCM and bonds. So that would be essentially treasury plus plus, so a dominant majority would be customer business that we are doing in terms of foreign exchange forward, foreign exchange remittances, FDI, ECB, hedging, derivatives, NCDs and CPs of customers that we are originating, all that gets reported in this line. Corporate banking fee would be related to investment banking, loans



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indication, loan underwriting, structured finance, so all of the corporate banking sort of either advisory or lending related income that will come under corporate banking fees. Then there is further subheading of retail banking which is further broken down between trade and remittances, facility fees which is related to lending largely, third party sales which is related to mutual funds and insurance, interchange income which is related to use of ATMs and cards and now credit cards will also come beginning next quarter, it will start small and general banking fees which will include lobby service, some penal cost charges also that the Bank applies if customers do not maintain balances etc. So general banking would include demand draft issuance or any lobby service and the fees that the Bank charges on provisioning of that service. This is how we are giving our breakdown.

Adarsh P.: So the corporate bonds book, if anything got sold in gains are booked it would in the FOREX decision line?

Rajat Monga: Yes, FOREX decision security. So all of this will be in that line, that is right.

Moderator: Thank you. Our next question is from the line of Mudit Painuly of Max Life Insurance. Please go ahead.

Mudit Painuly: My question was regarding the assets sold, what would be the quantum of asset sold in the quarter?

Rajat Monga: See, the exposure would be between 70 crores and 80 crores but the book value would be between 40 crores and 50 crores.

Mudit Painuly: So this was a standard account basically?

Rajat Monga: It was standard restructured account.

Mudit Painuly: It was a standard restructured account which slipped into NPL in the quarter basically before...?

Rajat Monga: Strictly speaking let's say it was directed in that direction because it had to be sold.

Mudit Painuly: So the 327 crores number would not be including this 40 crores number basically?

Rajat Monga: Yes, so we have not included this because it already has been reported as past restructured asset, because it is more part of the resolution of the problem.

Mudit Painuly: So out of this 363, 370-odd crores of slippage etc of the quarter what would be AQR related, basically would any of this be AQR related?



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- Rajat Monga:** Yes, so the slippage, if you leave this account out, is 330 crores and significant part of that will be overlapping with names which also were there in AQR, that is right.
- Moderator:** Thank you. Our next question is from the line of Nilesh Parekh of Edelweiss Securities. Please go ahead.
- Nilesh Parekh:** So two questions, one is on the CASA, so you have seen a significant improvement over the last 12 months, so if you can just give some color in terms of how are the daily average balances tracking and let's split in terms of how much of this SA would be, specifically on the savings how much of that would be bulk savings and in some color in terms of the customer new to bank customers in terms of are we seeing deepening of the balances, some color that you can provide on that will be helpful.
- Rajat Monga:** So Nilesh I will give some information and I will also ask Pralay to give a little bit more color on how CASA is panning out. So we are reporting a 28.1% CASA and our daily average for the quarter would be in the vicinity of 26%. The period end number usually is higher than the average and particularly the last day because it is a quarter end, it is also a day salaries get paid etc, so there is usually we report in SA particularly, SA is always at the highest on the last day of the month and then it depletes, then it goes up again at the month end then it depletes again. So there will always be that bit of a bias in favor of the end of period number and it will always be there.
- Nilesh Parekh:** So comparable number on a daily average if you can give, maybe six months?
- Rajat Monga:** See, I am not carrying that number but it will not be very different. So if 23% is our EOP reported number, end of period reported number as at March 31, 2015, it will be in the vicinity of 20% - 21% which will be the daily average number, I mean I do not have that number right now with me. Usually there is a 1%, 2% sort of benefit which EOP numbers will have. So in terms of some of the questions that you were asking on growth, so we have seen a 60%-odd growth in SA deposits and the trend has been in the same vicinity for some time now, we are adding about 50,000 - 60,000 new savings account customers a month, this number is also steadily improving. Our average balances continue to be in the vicinity of 1.3 lakh crores - 1.4 lakh crores, our mix between what you can say retail versus what can be classified as less retail continues to be in the 80% to 90% versus 10% to 20% in terms of the 80% to 90% being individual retail and 10% to 20% being maybe non-retail, it could be government, it could be some other bodies that can open savings accounts and that mix is with some up and down it continues to be in that broader range.
- Nilesh Parekh:** But the rate would be higher than the card rate that you offer on the savings?



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- Rajat Monga:** So the rate does not differentiate between the type of customer, it does differentiate between the value. So upto 1 crores of balances we have now a uniform rate of 6% and above 1 crores balances also we have only a single uniform rate of 7.5%.
- Nilesh Parekh:** So everything above irrespective of the customer above 1 crores would be at 7.5?
- Rajat Monga:** That is right and there is no change in these numbers, I mean we last changed them on 1st November 2015 is when we last changed them, they have been the same since, there has been no change.
- Nilesh Parekh:** So the second question is surrounding, there is a lot of news articles floating around regarding the SMA1, SMA2 numbers, so can you throw some light, maybe not put out that number but can you just throw some light in terms of where we could be looking at this number?
- Rajat Monga:** I hope you ask that question to the publication also, I mean the SMA2 numbers, given that there will be some seasonality etc will be low to mid single-digit percentages for us, low could be also as low as between 1% and 2%.
- Moderator:** Thank you. Our next question is from the line of Saurabh Das of Franklin Templeton. Please go ahead.
- Saurabh Das:** Just following up on Nilesh's question on the SA growth rate, it has been line three quarters now and you are clocking above 60%, if you can just give some more granularity on the volume and ticket size breakup between what is contributing to this 60%?
- Rajat Monga:** So let me take Pralay's help on this question. So I will just put the context again, like you are saying we are adding about 50,000 to 60,000 new accounts per month and because that will be about let's say between 1.25 lakhs and 1.5 lakhs a quarter and also running average balances of between 1.25 lakhs and 1.5 lakhs, some more some less depending upon how we have picked up on origination, etc. So I think Pralay if you can add some more color.
- Pralay Mondal:** Sure. I will put some qualitative aspects to this how it is happening. The acquisition machinery has started working pretty well right now, so month-on-month, quarter-on-quarter the acquisition machinery is doing extremely well. The branches, at least the older branches have started maturing quite well, so we are putting lot more relationship managers and sales force in the branches so we are seeing some amount of operating leverage with the branches. We are also seeing growth happening on the existing customer base which is specially on the top-line customer base, we are measuring that and that is also growing pretty well. So I think there are two parts, one is the acquisition new to bank accounts are starting to grow and also the existing pace is also growing at a fairly good pace. We believe that we will be able to sustain the growth because of two reasons, because one is the machinery will continue to function and we are also adding branches, last quarter itself we added 110 branches and we will continue to add



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branches next year. And secondly, the maturity of the branches has started to pick up a little bit more and we are now, if you saw, retail assets have also started showing some green shoots out there and we will discuss that later. But once credit cards get launched, retail assets start picking up, the other surrounding businesses like securities business, the broking business and so on and so forth started picking up, these also are already helping and will help a lot more in the future in terms of building the balances on the liability. So overall we are seeing, generally what happens is as we go deeper into geography, more branches, more customer acquisition, average balances fall, that is my experience in the past. But we are seeing that we are able to hold the average balances and at times improve them as well because of the deepening we are able to do. So it is a combination of factors which I think that the machinery has started working in a well-oiled manner. And also of course our focus on key customers and large customers is also there, on the Yes First category, we also have something called OPDT owner, promoter, directors, those kind of focus is there in terms of customer acquisition, so that is also helping getting some good accounts. Obviously the objective is to cross-sell and build up the relationships further. So overall I think the machinery is working pretty well.

Saurabh Das:

If you can also just give some sense on what is the proportion of salaried corporate accounts, corporate salary accounts within this SA base?

Pralay Mondal:

So in terms of numbers it will be roughly, it used to be 50-50 but now we have picked up the non-salary a little bit more because what happens is that the salary base gives a lot of numbers but the value comes from the non-salary base which is they could be salaried but they do not necessarily come from the payroll kind of business. So our incremental numbers were increasing through the branch acquisition because that machinery is working well and there the average balances are significantly higher, three to four times higher than or even more compared to the salary base. So we are focusing, that also in a way is also helping. So when Rajat gives the number in terms of absolute number of acquisition the mix has shifted towards non-salary, that is number one. But salary also has grown vis-à-vis what we were doing last year in terms of absolute numbers. In terms of value, I mean if you do a math on what I just said you will see that salary base will be contributing not more than 20% to the base and non-salary will contribute almost 80% of the base. Having said that, salary base is also very-very important for a different reason because when you are launching credit cards and we are getting aggressive on consumption, retail and so on and so forth, securities to give you an example securities 50% and more of the business of securities is happening through the salary base. So that becomes a very strong cross-sell base not necessarily for liability but also for other products including fee products and things like that. So salary base is important for cross-sell but not necessarily important for the value of the liability, so that is the way both franchise are important. But to specifically answer your question, it is 40-60, 40 salary and 60 non-salary, it used to be 50-50 before in terms of numbers, in terms of value probably little less than 20 and little more than 80.



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Saurabh Das: Just one other question on the breakup of advances, if I just look at that then we see that there is a very clear traction on the consumer banking as well as the micro and SME space and my assumption would be that those businesses be it consumer banking or micro-SME will be at a higher yield and the overall average bank balance average of the bank?

Pralay Mondal: So the whole idea is, yes there is a little bit of traction but you will see lot more traction in the next 12 to 18 months because we are putting the entire execution machinery there including the leadership team there. So you will see lot more traction there in the next 12 to 24 months. Specifically to your question, our objective is to build a franchise and not necessarily maximize profits at this hour or maximize NIMs at this stage, our margins at this stage. So what we are saying is that retail assets business has to be grown with a good quality portfolio, so we are not looking at margins at this stage, on ends we are looking at how do we build a good quality portfolio. Also given that we have to get into a competitive market and get business and things like that, you can do two things, you can sacrifice the quality of the portfolio, you can sacrifice the yields. So we have decided that we will not sacrifice the quality, we will build up a good franchise and hence to that extent the yields will be slightly better than business banking unless it is a personal loan, credit cards, obviously those things will be much higher. But broadly our focus is to build a good quality franchise and not maximize yields at this stage.

Rajat Monga: Just a couple of points I want to add on this, we would be slightly underreporting our retail SME mix, I would not say underreporting but let's say the message is incomplete because there is a priority sector sort of a burden that the Bank has, what is also happening is that as our retail and our MSME businesses are growing we are substituting what we would otherwise have to buy. So what happens is that first we will stop buying as we build our own origination capability, but you will not see that in mix improvement, because it is more substitution but margin improvement will come because what we buy does not come ahead a very attractive yield.

Saurabh Das: Because I was not able to explain the mix shift while the declining yields, the yields have actually fallen quite a bit. So there is a system rate decline which I understand but despite that the yield decline was kind of quite sharp. And just on margins, can you just give us a broad guidance for next year how do you look at that given the CASA momentum and the mix shift?

Rajat Monga: So we are looking at better margins, I mean I would reckon we should be able to improve margins by anywhere between 10 and 20 basis points over fiscal 2016-17.

Saurabh Das: And any views on the macro on the rate cycle?

Rajat Monga: Well, we are looking at a 50 to 75 basis points rate reduction in the course of the financial year and I think that is in the back of continuing sort of I would not say deflation but continuing weaker momentum on inflation. I think this also budgets, we believe that the monsoons as



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forecasted will be normal which is the belief behind these conclusions, I mean these conclusions actually will change if the monsoons do not turn out to be as predicted currently. So it generally you should see 25 basis points, three rounds of further rate cuts.

Moderator: Thank you. Our next question is from the line of Roshan Chutke of ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Could you please share the branch level metrics for a mature branch, like what is the CASA per branch, revenue per branch, CI ratio for a branch?

Rajat Monga: While we will give some color on that, but Roshan I must say this is not a metrics that we necessarily look at as a primary measurement of how the branch is doing because the way the business is being done today branch is one among all the channels, some business will get serviced through internet, some business will get serviced a branch lobby, some business will get serviced through ATM, some business will get serviced through the digital sort of ecosystem that the Bank has built, will build more around that. So it is not necessarily that everything gets delivered by a branch, but yes all businesses get booked in a branch because branch is also a ledger and also is an accounting level sort of grouping of business. So if you look at a very old mature branch should have 100 crores CASA, Pralay is that correct? And that too retail, not including corporate.

Pralay Mondal: So let me explain this, if the reason behind it is to how do we monitor the branches performance and things like that, the way we do it is very simple. There are three, four categories of branches and depending on the categories of branches we provide, because you must understand that we are in the initial stage of lifecycle of branch and retail, so here it is not that we have reached a level of maturity where these parameters because these are the... banks like HDFC, ICICI they measure they all this, when I was in HDFC I used to measure all this, but here we are in the initial stage where we are in the acquisition game and we are building the business. So the leverage available in the branches are fairly high as we are talking. So from that perspective the way we measure is very different, we say that a branch can have three relationship managers and a five sales acquisition managers who goes and gets accounts and there could be three let's say service managers and we measure the productivity of each of these guys based on the objective given to them. For example, savings account acquisition guy should get let us say 10 accounts or a current account acquisition guy should get five accounts or RM should have two accounts and this kind of portfolio and this kind of cross sell. So that is the way we are measuring today because till you reach a 500 crores, 1000 crores kind of a CASA the measurement should be more in productivity in a branch rather than just saying the CASA per branch and things like that. While I understand your question but we have not reached that level of maturity as yet. So these are the parameters we measure. Also, we see that what is the growth every branch is getting on the base which they are depending on the categorization of these branches. To add to that what we are doing is, because unlike some of the other banks we are not necessarily believing that branch is liability franchise, it is a



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customer franchise, now every business whether it is small business banking, whether it is retail assets, now when we sell credit cards, etc, branch will be measured by a metrics of all these products including insurance, mutual funds, securities, everything will be measured, a combination of this thing just than saying that how many liability of CASA per branch. So we are actually going to follow a very different model compared to some of the parameters which you are asking.

Moderator: Thank you. Our next question is from the line of M B Mahesh of Kotak Securities. Please go ahead.

M B Mahesh: Just a couple of questions, one, in kind of continuation of the previous one, just trying to understand how profitable would the retail business be in let's say in the next couple of years and how would that change the overall ROEs given that we are already at about 19% to 20%?

Rajat Monga: So if I can sort of possibly convert that into an ROA answer Mahesh, so like we were saying not just retail but a lot of that is driven by retail is CASA for example. So over a period of let's say three to four years we are expecting margins to increase by between 50 and 60 basis points and a lot of that will be predominantly on account of the margin improvements we discussed on the previous questions also, CASA is low cost and retail lending is either in housing priority sector or is also improving yields, so both of this will result in a 50 to 60 basis points improvement in margins. So I would say a large part of that will be a flow through to ROA, naturally we will have to pay tax on that. Retail will also add to increased fee share, our retail share of fee already in two, three years has come from 10% to 20% of our fee headline and despite that we are not maximizing retail fees because we are still putting a lot of chargeable service that is free because it helps us acquire more. And as we get closer to our CASA objective, closer to more 40% CASA naturally we will try and start adding to more charging than we currently do given that we would have fulfilled our out of line acquiring need and we would have become more inline acquirer at that point in time so we should also have inline charging for retail. So on fees, for example if you compare us with larger banks who are more retail, have spent more time on retail both on assets and liabilities, their fee to assets are higher than ours, so we generate about 1.6% fee to asset or thereabout and the other larger also retail banks close to generate 2% of fee to assets, I am not saying we will match everything but that there is room for us to also improve our fee to assets ratio. Having said that, we also will have to spend more so we also are more efficient on cost to assets so we will have to be averse of there if we are going more and more retail unless we see a significant digital evolution of sorts and customers also adapt in digital modes quickly. If you keep that aside for a moment we think that we will also have to deal with higher cost to assets and you should see that is happening already in our reported numbers over the last couple of years as we are going more towards the retail. While our cost income is not worsening because income is also improving to assets and cost is also increasing to assets.



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M B Mahesh: Sorry, just kind of interrupting here, the question is that, see from all what we have been hearing in the last few quarters is that the retail is still not as profitable as corporate book, if productivity is leading this improvement then ideally the ROA and ROE, whichever way you are looking at it, should see further improvement from here on. Then just trying to understand because then essentially what we are implying is that this 1.6% or 1.7% ROA that we are talking about can potentially move to over 2 and ROEs can move to over 20, is that what is being implied out here? That is the broad question.

Rajat Monga: The answer is yes.

Pralay Mondal: If I can just add, see as we said before that retail we are still into the investment mode, so let me break it up into two, three parts. One is, if we stop adding any more branches branches are already profitable, another way of looking at it is that how many more branches we are adding and hence how much more investment is going into retail because that is coming in spite of the fact that the cost to income is retaining at the same 40% level. Number two is we are launching our big investment business like credit cards right now and the ability to launch itself talks about how things are doing in retail at this point of time. So credit card is a very front end heavy loaded kind of a business and very high technology driven, so that is also getting launched. Then you can see that retail assets is also picking up and there also there is a lot of leadership cost. Obviously in all these businesses we are reaching the level of maturity in branch banking, credit cards will take few years and retail assets, generally the ROA, means return on investment is faster than many other businesses because it is not a very investment heavy business at the end of the day. So when you see all this you will see that more than returns, I mean if you adjust a simple calculation, even if you have the similar house to income and if you are making this kind of investment that shows that the return on the retail branch banking etc is starting to pickup already. So that is where we are right now. As we are talking next few years we are continuing to invest in to retail and that will help us in building up a larger book in the long-term on the retail side. So that is another way of looking at it. As I said before that every year we will add 20% branches and every year 20% branches are getting profitable, so that to some extent is helping us.

M B Mahesh: And just a sub-point, we assume that the corporate profitability that we are reporting today that can sustain for some more time?

Rajat Monga: Yes, in fact corporate business we will get stronger in terms of time and I think like I was mentioning a little while earlier, though not in the same context, that this is also a very good relative opportunity because the competition is not as keen as it can be, the current dynamics continue to be confusing. So we are actually using this or trying to use this as a relatively more discerning opportunity and try to increase if not market share right away but at least mind share in the current context so that when the opportunities become more compelling our market share also will move in our favor hopefully.



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- M B Mahesh:** Just the second question is, growth in retail fees, I think you highlighted briefly it is still a little bit slow, so just wanted to understand there especially in segments like the trade and process fees and the general banking fees considering the flow through that we are seeing on deposits and CASA. And second, some data points, if you could give us a breakup of provisions, credit substitutes and at what rate is the savings interest rates? Thanks.
- Rajat Monga:** Sorry, I did not note all your questions, so I will start with reverse. What rate is savings? Savings weighted average rate is about 6.5%, that is the cost if that is what you are asking, we are running two rate bucket 6% for up to 1 crores and 7.5% above that. So that was on savings account.
- M B Mahesh:** Credit substitutes, what would that outstanding look like today?
- Rajat Monga:** Credit substitutes will be close to 10,000 crores, this is what it has been for the last two, three years actually, so that book is not particularly sort of growing, it is just that the proportion to loans has reduced. So therefore we are not giving the same emphasis that we used to two, three years ago in our communication.
- M B Mahesh:** Breakup of provisions?
- Rajat Monga:** You will see for the quarter a provisioning of about 186 crores, out of that general provisioning is about 55 crores because that is also related to the fact that the loan book has grown sequentially, 55 crores to 60 crores I would say and the rest is related to NPA and other provisioning, so all put together.
- M B Mahesh:** And the last question was on the fee income that we are seeing in terms of retail and trade and cash management, because that has grown by only about 4% on YOY basis.
- Rajat Monga:** Let's say I was saying just about in the conversation on retail, we are not maximizing retail fee and like we were discussing on one of our earlier questions was that there has been a pull back on account of the mutual fund sort of third party business fee that has been on account of change in regulations. But if you look at some of the numbers, if you look at let's say general banking fees, it has grown about 25%. If you look at interchange income that has grown at about 60%, if you look at third party business while it has grown sequentially because of seasonality it has been flattish to minus as compared to the same period last year, that is also something that has been in terms of at works at the headline level and we have seen a 20% increase in our facility fees in terms of the bookings. Trade and remittance, while remittance has been growing trade has been slow, I mean we have been looking at both corporate trade and retail trade that has been a little bit worse of last year because of the correction in commodity prices. So while the country might be importing the same quantity of goods and commodities but the values have fallen because we will be more in the value business than in



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the quantity business. So that we are seeing a general sort of poor growth performance on that account. Pralay, do you have anything on this?

Pralay Mondal:

No, I think obviously we are not charging enough our liability customers and things like that which we are starting to now next year and also on the fees business we generally do not foresee because we are acquiring a lot of customers with lot of difficulty and our experience says that if you force sell to customer third party business it creates a franchise problem in the long run. So we are trying to do more retail activation rather than just maximizing fees there, but we are seeing positive traction on the fee side, starting to pick up now and I think our fees business will grow next year because it will grow along with the franchise because we have already started charging some customers, etc which we were not doing last year. So I think we will see a positive traction next year. Mutual funds of course we had a negative because that is industry level phenomena on the mutual fund side.

Rajat Monga:

Watch it for some more period Mahesh, it is not a fully delivered part of our P&L.

M B Mahesh:

The reason was I was just trying to see the flow through of savings, balances and just translating into the fee income and like that.

Rajat Monga:

Savings will translate into general banking, interchange and third party but not so much into the others, some of the others will go into current.

Moderator:

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

Nilanjan Karfa:

Pulling from couple of questions earlier, when you look at these assets, e-loan asset it has I think in the last four to six quarters kind of dropped off after having stayed almost flat for four years. Are we letting go of some business on the corporate side or have we changed how we do our corporate relationship business in terms bundling of several products probably offering loans at lesser rate but getting a fee out of it, has something changed in the way we bank with corporates, maybe?

Rajat Monga:

Well, I think firstly you should look at the fact that our corporate loan book will be predominantly a floating rate loan book, so if you compare us with other banks and you are drawing inference from that comparison you should expect us to be a little bit more up and down on yields because we have a higher floating rate lending component, so when the rates go up we will go up faster, I would not say faster but more, and when the rates go down we will also go down further than what you will see in other banks because a lot of the retail loans are priced on fixed rates and they do not therefore react to changes in interest rates. And if you look at our loan yields over a longer period you will be also be able to see that for yourself. While I would not say there has been a shift in the corporate banking strategy but as you also would see from some of the practical sort of differences that have appeared on our lending side



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among others is the change of the threshold of pricing, base rate used to 10.25 and now our one year MCLR is 9.6, we could also do that because when we set the base rate many years ago we had 10% CASA now we have about 30% CASA, so naturally our cost structures have also fallen so we can not necessarily give the benefit to the borrower because of productivity improvement on account of CASA but at least we can lower our thresholds at which we lend which also means, and actually it will mean in due course that we will be more and more working capital consortium lender to corporates, the better corporates that is in terms of rating whom we would otherwise be servicing through bonds or CPs so far. So you should see much of that coming more into the loan book than in the investment book. I do not think we have had any dramatic change in our corporate philosophy of doing business, nothing has changed when I say that we want to lead our financing opportunities and not just go as a small participant. So we would like to be even in consortiums we will go where we have significant role rather than just a role including working capital or we will prefer multiple banking arrangements so that we are relatively sort of in charge of our own collateral and our own relationship with the customer. I think that kind of philosophy will not change, we will continue to look at corporate banking in sectors where we believe we can add some value either in understanding or in structuring, so you will not find us too much in the more heavy sectors, like even today you will not find us too much deep down the heavy investment sectors. Some of that we will do more as a syndication, we will do restructure it and maybe distribute it with time, that philosophy is not changing either. So you may be reading a little bit more into the yields, it is clearly a reflection of the fact that rates are coming down and secondly of the fact that we are growing at a faster clip which means our new business is happening at lower rates clearly and the share of our new business is more than other banks.

Nilanjan Karfa: Sure, I hear you, probably I will take this offline with you because the trend is pretty much the same when you look at your overall cost of funds, it has kind of behaved the same way.

Rajat Monga: It should because we have a lot of floating rate loan, so our pricing will... So let us say we drop our base rate by 25 basis points and another bank drops their base rate by 25 basis points, our loan yields will go down more than the other bank's loan yields was the point I was making.

Nilanjan Karfa: Okay, let me put it differently. Has anything changed in how you see or transfer rates let us say between your treasury and corporate or retail on the asset side?

Rajat Monga: Nothing, just that MCLR is now a more mirror image of our transfer rates.

Nilanjan Karfa: In the last four quarters?

Rajat Monga: No, nothing really has changed, this is a mere reflection of what is happening in the interest environment and share of old business versus new business.



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- Nilanjan Karfa:** Second question is definitely going into the liabilities side, I think it will help a lot if we get some granularity, I mean I think Saurabh had mentioned that in the past if you can increase some disclosures as to how the new to bank customers are behaving, the ticket size etc, I mean you have offered some clarity that is good, but what will make you lower your savings rate to let's say 5%?
- Rajat Monga:** What will make us lower, ultimately I think how we are approaching this, if I may say, equalization strategy of our pricing of savings accounts and equalization with other more established banks. It does take the benefit of falling interest rate environment.
- Nilanjan Karfa:** Let us ignore that right, let us ignore the broader interest rates for a while.
- Rajat Monga:** No, but that helps us in terms of administering the need to lower the rates because it gives me a good reason to tell the customers, our clients that the depositors that the rates have fallen and therefore we have to reduce our pricing.
- Nilanjan Karfa:** I take it, it is easy to market that way otherwise in terms of transactional behavior of accounts or the value of accounts etc.
- Rajat Monga:** I do not think, so the rates actually are not playing any meaningful role in terms of the resulting in a different behavior of customers, rates and we have been saying that for the last three four years, the rates that we have on offer are largely playing a role in helping us acquire more customers. Finally a customer will stay with the banks because he is deriving the service, he is not leaving large value in that account so it is not even a material sort of financial number at the end of the day, I mean if you have an average Rs.100,000 in your account ,5% and 6% is not a very compelling reason in terms of monetary terms, it is Rs.1,000 a year that is the benefit which if at all if you try to look at in absolute rupee terms. That is not exactly the reason why customers will stay with you, that is among a very strong reason that customers will give you a chance and they will start banking with you. After that it is still up to our products, services, engagements, relationship handling, migrating a customer from us being a secondary to possibly more a primary bank for his own banking requirements, so all those parts will still play a very strong role in the evolution of our savings banking franchise. Rate is only a tool, and once our origination is sufficient inline we will remove this tool from the front.
- Nilanjan Karfa:** Last question, could you share how the mix between term loans and working capital loans in those pure eight segments, especially the corporate book and how it compares let's say a year back or two years back? And maybe if you quantify or qualify the average maturity or tenures.
- Rajat Monga:** I do not think we have a very fructified information at this point in time but if I have to give you a intuitive answer without giving you hard facts here, there is nothing has changed over the last year one in our business philosophy. If you look at retail, retail clearly will have longer tenures of loans, corporate will have shorter tenure. But having said that we assume that a



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working capital facility is no longer than one year in tenure even though it is a perpetual facility but we assume that the tenure, because it renews every one year. On the other hand term loans will run down, so our loan book on an average ranges between 20 and 24 months of average tenure. So that will be, I mean the change if at all has happened will be in months, one or two months here and there, no more than that. But we will get back to you, I think we anyway will have to have an offline discussion, so I will add to our discussion in that part as well.

Moderator: Thank you. Ladies and Gentlemen, we will be taking our last question now, it is from the line of Sameer Bhise of Macquarie. Please go ahead.

Sameer Bhise: Just a data point, I believe I missed the savings account customer number.

Rajat Monga: It is between 50,000 and 60,000 a month.

Sameer Bhise: No the stock number outstanding.

Rajat Monga: Savings only?

Sameer Bhise: Yes, that will do.

Rajat Monga: It is about 1.7 million - 1.8 million will be our total savings account customer base.

Moderator: Thank you. I now hand the conference back to Mr. Rajat Monga for closing comments. Over to you, sir.

Moderator: Thank you very much and thank you all for giving us the opportunity to discuss our financial numbers, hope to speak to you again soon. Thank you.

Moderator: Thank you, members of the management. Ladies and Gentlemen, on behalf of YES Bank that concludes this conference. Thank you for joining us and you may now disconnect your line.