"YES BANK Q4 and Full Financial Year FY17 Results Conference Call"

April 19, 2017

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Moderator: Good Day, Ladies and Gentlemen and A Very Warm Welcome to the YES BANK's Q4 & Full Financial Year FY17 Results Conference Call. This call will be attended by following participants -- Mr. Rajat Monga -- Senior Group President (Financial Markets) and CFO; Mr. Pralay Mondal -- Senior Group President (Branch and Retail Banking); Mr. Ashish Agarwal -- Senior Group President & CRO; Mr. Sanjay Palve -- Senior Group President (Corporate Finance); Mr. P. Kumar -- Senior Group President & COO; Mr. Rajan Pental -- Group President (Retail Lending); Mr. Niranjan Banodkar -- Senior President (Financial & Investor Strategy).

As a reminder, all participants' 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, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Rajath Monga from YES BANK. Thank you and over to you sir.

Rajat Monga: Thank you, Ali and thank you all participants for joining us on this call for the discussions on Financial Performance for YES BANK for the Fourth Quarter ended March 31, 2017.

We will begin our commentary by giving our perspective on the general global and Indian economic operating conditions particularly relevant for the banking sector and we will also then detail our financial performance for the quarter gone by.

We have been witnessing a degree of turnaround in the global economic sentiment and we believe that there have been further positive macro impulses which have strengthened the global and more so the Indian economy. Among others, we have noted that the Indian exports for the recent quarter have grown by 16.5% on Y-o-Y basis which was as against degrowth in the whole of the financial year 2016. Private consumption growth is running at a healthy 7.3% run rate over the last couple of years. This is the third year in succession that the consumer price inflation has undershot the Reserve Bank of India's year-end target which has been helping the balance of monetary policy.

To add to that, the twin deficits in the country are also had their lowest levels since the global financial crisis period which augurs pretty well for the domestic economy going forward as well. India has also been accreting to foreign reserves given the increase in capital flows and exports over the recent weeks and months, and the reserves now stand close to record high levels of $369 bn. As such we believe that India continues to see a healthy mix of macro, micro and institutional along with administrative reforms given the emphasis of the current government. The Indian rupee as well is beginning to reflect the relatively improving position of the underlying macro economic conditions which is essentially driven by the domestic focus on creation of more economic capacity as well as looking at initiatives that can boost the productivity of the economy as well.

As some of you would know that in the April to February period for the fiscal '16-17, the FDI had touched more than $35 billion which is the highest ever for the first eleven months of any fiscal year as I was mentioning about the capital flows and there has also been $11.1 billion portfolio inflow in just the fourth quarter of fiscal '16-17 which is more than what the country witnessed in the nine months prior to this current quarter.

We continue to witness some lagged transmissions on account of monetary policy both action by the RBI as well as the surfeit of liquidity which got generated on account of demonetization. The government bond yields though they have risen in the recent period have otherwise declined by about 62 basis points since March '16 and the corporate bond yields have also declined by 45 basis points in the same period.

Through this year, we have also witnessed the one-year MCLR rates of banks have dropped by anywhere between 80-120 basis points indicating a reasonable degree of transmission of interest rates during the year gone by.

The forecast for monsoons continues to be normal and there seems to be subdueness in the pricing power which is continuing and with reasonability in terms of commodity prices and exchange rates, we think that the inflation dynamics also remain largely under control.

On the other hand, we see headroom improving in the fiscal policy with now a more visible likely implementation of the goods and services tax regime. We believe 1-1.5% GDP boost can be expected over the next two-three years from the productivity gains resulting from the Goods and Services Tax. Besides the fact that it can also broaden the tax base for the government.

Besides GST, the Bankruptcy Code has also begun to see effects in terms of banks beginning to realize the benefits of the new bankruptcy code, enhancing relatively the ease of doing business and also to help confidence as far as the banking sector and lending business is concerned.

We do believe that there is an expected improvement in tax on account of both demonetization and GST which we believe will be utilized increasingly by the government to plough it back into increased public CAPEX and also hopefully result in crowding in of private investments going forward.

The revised FRBMA architecture which charts out the expected fiscal deficit over the next few years is also likely to have constructive influence on the fiscal discipline as well as potential sovereign grading upgrade in time to come. All of these observations in our opinion are auguring reasonably well for the economy going forward.

I will shift my commentary now to the "Financial Performance of the Bank":

I will start with some key milestones that the bank has been able to achieve in the last quarter. We have crossed total asset base of Rs.2.15 trillion. We have also been able to increase our total assets book in our overseas branch which was the first branch in India to go live in the GIFT City. We have crossed the total assets book base of USD 1 billion which has been achieved in a short period of 18-months. The bank has also crossed branch count of 1,000 in the last quarter, again a significant milestone in the bank's journey to become a more meaningful banking business in the country and its employee count has also exceeded number of 20,000.

Given the bank's focus on Retail and CASA business:

The accretion continues to be respectable to strong as far as both CASA and Retail Time Deposits is concerned. While CASA has reached little more than 36%, the CASA book in combination with the Retail Time Deposit book has also crossed 60% of the bank's total deposit base. On the other hand, the bank is also seeing increased activity on its retail assets business and the core retail advances have more than doubled as well as have contributed meaningfully to the share of fees to the bank's business.

There have also been capital additions in the bank's position. So the QIP concluded in the month of March has contributed Rs.4,906 crores of Tier-1 capital and before that the bank had also raised Rs.3,000 crores or Rs.30 Billion of the additional Tier-I perpetual bonds which are permitted under the Basel-III guidelines and these bonds were rated "AA" by three Indian rating agencies. As such, the aggregate capital raising of the bank total to little over USD$1.2 billion in a year gone by.

The bank continues to take newer and follow through on its older initiatives in digital banking and we are very happy to share that the bank currently has market leadership in UPI as far as enabling merchant payments is concerned and the bank has about 30% market share as currently computed in that particular development and UPI as you all know is a fairly recent introduction by the Indian policymakers and the government.

Moving to some Highlights of the Profit & Loss Account:

We are reporting profit after tax of Rs.914 crores, that is Rs.9.14 billion, that represents 30% growth on YoY basis. Full year profit is Rs.33.3 billion and that represents 31.1% increase corresponding period last year. Contribution for the growth in net profit was largely led by 41% growth in net income for the current quarter and 37% increase in net income for the full year. The net interest income for the quarter grew at 32.1% now adding up to Rs.16.4 billion, for the full year, the net interest income increased by almost 27% totaling to about Rs.58 billion. The net interest income has generally been guided higher by the increased balance sheet size both loans and deposits as well as an improvement in net interest margin which improved from 3.4% about same time last year to now 3.6% for the fourth quarter of the fiscal ended March 31, 2017.

The bank's return ratios have been generally consistent over the last three-four quarters. We are reporting return on assets of 1.8% for the quarter gone by and return on equity of 21.8% for the fourth quarter. Return on equity will now have to deal with higher base given the expansion in the equity capital and correspondingly the numbers might be reported will be higher base in the future quarters. For the full year, ROA has improved by 10 basis points to now 1.8% and the ROE has increased by 60 basis points to about 21.5% for the full year fiscal '16 & '17.

The book value per share of the bank now stand at Rs.468.7 which is adjusted for the proposed Rs.12 dividend subject to shareholder approvals in the ensuing AGM.

Moving to some highlights of the Performance of the Balance Sheet Parameters:

I mentioned earlier the CASA ratio has reached a level of 36.3%, that represents a mix improvement of 8.2% in this financial year. Both Savings Account balances and Current Account balances have grown well in this period, which has been about 66% growth on YoY basis in CASA and 60% growth in SA and 75% growth in Current Accounts balances as reported on March 31, 2017. The mix of CASA plus Retail Deposits has also improved by 7% over the same period even though there were some challenges in terms of redemption of the FCNR Scheme which had reduced the Retail balances in course of this year as far as time deposits is concerned.

We are reporting a Loan book position of Rs.1.32 trillion as on March 31, this represents almost 35% increase in advances over the same period last year, and within this book, the core Retail book is showing YoY growth of 140%. As such the bank has seen asset growth in both Corporate and Retail businesses. The capital adequacy position of the bank under Basel-III now stands at 17.0% and within the total capital adequacy, the Tier-1 capital adequacy stands at 13.3% and the CET-I capital ratio stands at 11.4%. The total shareholder funds are now in excess of Rs.222 billion and the total capital funds are little short of Rs.320 billion as well.

Some statistics now on the asset quality performance of the bank for the current quarter:

The bank is reporting credit cost at 19 basis points for the quarter gone by which takes the total credit cost for the year at 53 basis points. We have seen largely on account of one significant exposure an increase in GNPAs. We are reporting gross non-performing asset position at 1.52% and net non-performing asset position at 0.81%. The GNPA position is influenced by one particular borrower which will represent 0.69% of the total advances and therefore is contributing about 0.69% of the 1.52% gross NPAs, as well as contributing to about 52 basis points of the 81 basis points of the net NPAs. The bank does believe that this is a near-term recovery case and is holding about Rs.2.28 billion of provisions on this particular account.

There has been a recent circular issued by RBI on account of divergences in asset classification and provisioning so the bank has been able to incorporate all the financial impact rising out of the said circular in the current reported numbers.

Some statistics on the Loan book of the bank after the NPAs would also include the standard resection advances. The position reported there is at 36 basis points which is a continuous reduction over the last many quarters. The position of security receipts stands at 73 basis points. Standard SDR loans position stands at 22 basis points. The 5/25 refinancing position stands at 9 basis points and the S4A position stands at 1 basis point of the bank's loan book.

I think I did mention that there is Rs12 per share dividend proposed by the management approved by the board and will be recommended to the shareholders for their approval as well.

Cost-to-income position of the bank for the quarter stands at 41.6% and for the year it stands at 41.4% generally in line with the numbers the bank has been reporting over the last few quarters. The non-interest income share has improved slightly in the fourth quarter at 43.4% and for the full year the share of non-interest income to total net income stands at 41.8%.

A few more statistics on the loan mix and sectoral distribution:

The business mix of the bank between Corporate Banking which is spread across eight segmental relationship groups stands at 67.7% of the total bank's lending business and the Retail and Business Banking mix stands at 32.3% as on March 31, 2017, and this mix has been generally moving in a small range in the current year gone by, even though the objective of the bank remains that the Retail and Business Banking mix should be looking to more between 40% and 45% as we aim for our targets in the year 2020. The sectoral distribution continues to be generally widespread with no meaningful change as far as the current quarter gone by.

The Reserve Bank of India has also issued a circular regarding higher provisioning for certain sensitive sectors and they have nominated telecom sector in their current communication. The bank is also added to its sensitive sector disclosures besides electricity, Iron & Steel and EPC, its position on the telecom sector as well. The bank's mix of exposures towards the telecom sector stands at 4.9%. Of the 4.9%, 4.2% is rated 'A or better'. The bank continues to be reasonably comfortable with the position on the telecom sector and we will be addressing that provisioning requirement accordingly.

I had mentioned about the one extraordinary item in the NPAs which has moved the NPA position higher. I was mentioning the bank is also reasonably hopeful that near-term recovery prospects are pretty visible. If we hypothetically remove this from the computation, then the reported gross advances of the bank would have been showing an improved position as compared to the sequentially previous quarter and the net NPAs would have been flat as compared to the previous reported quarter.

Short Update on the bank's credit ratings which continue to maintain their positions. We have had one upgrade by a domestic rating agency of an additional Tier-1 instrument which has been upgraded from rating of A+ to AA. The same rating agency has also awarded an AA rating of the bank's recently issued Tier-1 capital; besides this the domestic ratings continue to maintain their position.

We have some more statistics to share before we take questions on Digital Banking and some Expansion Initiatives along with some Recognition Updates about the bank. I briefly mentioned about UPI in my earlier commentary. I think we are pretty happy with the bank's performance on UPI as a new product. YES bank was the first bank to create a UPI compliant mobile app for e-commerce players which use the bank's UPI related software development kit. This has now resulted in over 20 million. UPI partnered apps with the YES BANK that have been downloaded, and like I mentioned earlier, all this adds up to about 30% of the total volumes in the UPI ecosystem.

YES BANK has also integrated the UPI application to its own wallet application which is called YES PAY. The wallet has also been the first wallet to get enabled by the Bot services which is now called the Yes Pay Bot. So the wallet can be used and the customers can be serviced, using chat bots, they can make payments, pay bills, using chat bots under the service.

The bank has also launched Prepaid Card programs with two smart cities which are Nasik and Udaipur cities in the facilitation scheme for the government to citizen payment services, which will be rolled out through the newly created and some existing citizen facilitation centres. Similarly, the bank has also tied up with the Puducherry Tourism Development Corporation for issuances of Co-branded Prepaid Cards helping the cashless transactions in the Puducherry Tourism Economy.

We have also enabled Banking Transactions at Fair Price Shops and the Food & Civil Supplies Shops under the Food & Civil Supplies Ministry for the Government of Maharashtra.

There has also been a launch of a Personalized Card Linked Offer program where merchants offer services to bank's led customers on the back of robust analytics support system depending upon the customer's past behavior.

The bank had launched a new technology which can also support digital payments on feature phones which are not smart phones, is called SIMsePAY. This technology has also been awarded three premier recognitions in the last quarter. The recognitions had come from Finnoviti, Money Tech and Golden Peacock, essentially for its frugal nature of innovation.

There have been tie-ups with 31 cooperative banks in the country in order to enable mobile payments using this technology for their customers.

We have also received Certification from the NPCI for the Bill Payment Service which is called the Bharat Bill Payment Service and we are in the process of rolling it out shortly.

The bank also recently concluded its first cohort for the YES FINTECH program. Essentially the bank has launched a business accelerator program for FINTECHs and start-ups and we as a result will be enrolling 12 companies who will be introducing their technologies in the bank's ecosystem with some internal and some customer facing applications as well. This cohort received about 750 applications from 18 countries including 50 applications which came from overseas as well, helping the bank in terms of get introduced to new technologies, new innovations as well as create co-existence system for development of better customer proposition and customer service.

The bank is also the first now globally to migrate to the ISO 14001 2015 certification for its Environmental Management System, (EMS).

The bank was also the Digital Banking Partner for NASSCOM India Leadership Forum held in February of this year, where we also co-hosted a panel on FINTECH and banks discussing the co-creating of financial innovation.

The bank was also recognized as the best mid-sized bank by "Business Today-KPMG Study" and this is the eighth year in a row that the recognition has come.

It was also adjudged the Best Bank in Asia Pacific for Payments and Collection by Global Finance.

The bank won the Best Technology of the Year Award in the Medium Sized Banks Category from the Indian Banks Association.

It was recognized for API Banking Innovation in the FIN TECH India Conference and award held at the National Stock Exchange.

Also recognized as the Best Social Bank during the ASSOCHAM 12th Annual Banking Summit.

Our Chief Sustainability Officer, Ms. Namita Vikas also received the Leading Woman Award from the World Business Council for Sustainable Development.

The bank was recognized for its Best Innovation in Corporate Banking for its Unique Innovation which I described earlier called SIMsePAY.

We also received the Sustainability Performance Award at the Indian Corporate Governance and Sustainability Vision 2017.

This was about the summary I wanted to share on the bank's both financial, operating and some other developmental performance. The management and my colleagues here will be happy to take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: I just had a couple of questions; firstly the account that slipped which sector did it belong to? Also that would you have a watch list or any pending set of accounts where there are already deals in the pipelines obviously as a banker, you do not feel the need to classify that as an NPL because there is a deal in the pipeline, but in the interim RBI might anyway ask you to do so?

Rajat Monga: As far as the sector of the slippage is Cement. The developments on all of these are pretty recent. So I think we should be very current on second part of your question. So the bank has also done is taken full financial cognizance of the Reserve Bank of India circular and as at March 31, we believe we are pretty current on that situation.

Mahrukh Adajania: Just on IFRS, any color that you could give where if that is implemented or if you cast your accounts under that, then what could be the variation in profit or any parameter?

Rajat Monga: IFRS, Mahrukh, I think it is still early to be able to gauge the consequences because we still want to see if there is any regulatory override on the IFRS guidelines because as far as the banking sector is concerned, it will continue to follow the Reserve Bank of India as far as accounting statement is concerned, for example, IFRS will also require us to change the presentation of our financials. So the P&L, balance sheet, schedules is something which derives itself from the Banking Regulations Act for example. There is a lot to be seen in IFRS yet.

Moderator: Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: On this exposure to cement with you have, what is the nature of the exposure do you have, and why do we say that we will be able to recover it soon?

Rajat Monga: Essentially this underlying business is already an announced M&A and the M&A is expected to close out maybe as soon as this current quarter. So the exposure is essentially take out from that M&A as and when it fructifies.

Manish Karwa: So is it is also in a nature for bridge loan that you would have given after the M&A announcement had happened or is it old exposure that you would have add towards this asset?

Rajat Monga: No, this is a exposure tacked to an asset. So if the asset changes hands, because it will be a slump sale, the loan will be repaid upon the sale of the asset.

Manish Karwa: No, because like say an IndusInd Bank also announced results and they made standard asset provision of about 20% on this particular exposure which they would have had and they classified and said that is kind of a bridge loan, and that is why they did not classify it as an NPL, but you are classifying it as an NPL. So is it a difference in the exposure that both of you all had or is it one bank taking a conservative view, other bank not taking conservative view?

Rajat Monga: Let us say I can speak for ourselves more than as I do not have full information about another bank, but I do believe our view is conservative.

Manish Karwa: When you said divergence, would you have any additional impact because of divergence which RBI said yesterday?

Rajat Monga: No, I will reiterate, divergence has been fully taken care of in this current financial presentation, our financials fully incorporate the divergence ask of RBI.

Manish Karwa: Was there any additional impact that you had to take because of divergence or… ?

Rajat Monga: It is there in our financials, so if there is an impact, it is already reported in our current financials. We have closed the chapter on that particular item as of today.

Manish Karwa: But would you quantify what would have been the additional recognition or provision that you would have taken because of that?

Rajat Monga: If you look at our press release, let us say it is predominantly one account, the rest is all let us say par for the course in any case.

Manish Karwa: This one account is the cement account that you are talking of?

Rajat Monga: That is right.

Manish Karwa: On the asset sales, I believe you have done few asset sales during the quarter. So, can you just explain what is the gross value, the net value, what kind of provisions that you are carrying?

Rajat Monga: The value after cash will be close to about Rs.700 crores. The reason they have gone into an ARC is that these are highly asset-backed exposures and if we can combine with the other co-lenders, these can be very quickly put into resolution format. So the predominant focus here is the ability under SARFAESI to be able to monetize the collateral.

Manish Karwa: What is the cash that you received on this?

Rajat Monga: This will be the 15%, 20% cash that is generally structured in these ARC sales.

Manish Karwa: If it is around Rs.900-odd crores, Rs.180, 200-odd crores of cash that you would have received, gross would have been close to Rs.900 crores, Rs.200 crores cash and Rs.700 crores is the incremental SR that you would have…?

Rajat Monga: Yes maybe you are just adding about 5%, 10% more, broadly.

Manish Karwa: What sort of treasury gain that we had during the quarter?

Rajat Monga: Our gains would be I think about Rs.80-90 crores for this current quarter, previous quarter was higher, I do not seem to have the exact number, but the gains were lower than last quarter, but I am currently speaking from memory.

Moderator: Thank you. The next question is from the line of Gagash Shah from Stewart & Mackertich. Please go ahead.

Gagash Shah: I just had a couple of questions: Firstly sir, with relation to the expansion, we are currently looking at 1,000 branches. So at what rate are you all planning to expand over the next two to three years?

Rajat Monga: We should be looking at let us say an expansion of about 250 branches in the year '17-18 itself, that is about 25% growth in branch numbers. Unless technology changes dramatically, I think we should be continuing with this run rate.

Gagash Shah: Just a follow up to that, what sort of this expansion have on your CAPEX?

Rajat Monga: As you will know that the bank has already invested significantly in its flagship branches. So greater share of our new branches are more the spoke branches as we call them because the hub branches have already been invested into. The CAPEX that typically goes into a branch will be anywhere between US$100,000 to US$200,000, so let us say about Rs.50 lakhs to a crore could be an average CAPEX in a small to a mid size branch which should be the bulk of the constituency of the new branches. CAPEX will not be a very significant number. It might add up to about let us say Rs.150 crores for the year.

Moderator: Thank you. The next question is from the line of Subhranshu Mishra from Anand Rathi. Please go ahead.

Subhranshu Mishra: I wanted your guidance on the credit growth for this year sir.

Rajat Monga: Generally, our trend of growth has been in the recent few quarters in the low to mid-30s. The bank has also raised capital recently. So we are also well stocked. We also believe that it continues to be a good time to increase both mind share and market share as the competition continues to be a little bit mixed. So if all works well, our corporate business is well established, our retail business is gaining traction pretty sharply, so we continue to believe that mid-20s to even as much as 30% growth should be available for us if we can bring that to our book so to say.

Subhranshu Mishra: What would be your NIM guidance going forward sir?

Rajat Monga: NIM guidance continues to be of gently improving going forward as the CASA mix continues to improve. We are reporting 3.6% NIM as the last year same time it was 3.4% NIM. So there should be let us say 10-15 basis points NIM improvement which we are still working through on annual basis.

Subhranshu Mishra: So you are talking about 3.8% exit NIM of FY'18?

Rajat Monga: No, that will be exit NIM. All the numbers I mentioned were for the fourth quarters of the respective years. So the NIM for the year will average lower, but the exit NIM hopefully should be upwards of 3.7%, maybe even 3.8%.

Subhranshu Mishra: As in how your branches mature sir, what would be aspirational CASA ratio that we should be looking at in the next 1-2-years?

Rajat Monga: Subhranshu, we are working with 2020 target of (+40%) CASA ratio. Currently we are good on that target and likely to achieve it sooner than 2020. But we can also improvise our CASA strategy in the meantime, lower the cost of CASA further if we continue to see momentum in that business if our new branches also continue to contribute strongly. So that is basically what we are aiming for and I think we are doing reasonably well on that target.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Antique Stock Broking. Please go ahead.

Nitin Agarwal: I have a couple of questions like one is on the risk weighted asset growth, that number is like higher than advances growth this quarter. So anything in particular which drove that? Secondly, what is the core common equity Tier-1 bond that we have done this quarter apart from the benefit that we got from the capital raise?

Rajat Monga: So the difference between risk weighted asset and loans, one big variable there is off-balance sheet which is the LCs and the guarantees that also adds to the growth in risk weight, but that is off balance sheet, so you will have to put them together and then see if the growth rate is still not explaining. We were also dealing with a fairly high amount of liquidity at the year-end. We had raised capital, we have also had let us say meaningful sort of movement in CASA towards the year-end… CA particularly. So all these added up to us being more liquid than we usually are and therefore had to deploy the liquidity in the interbank instruments, that also consume risk weights. So it is a combination of basically all these factors.

Nitin Agarwal: So what was the credit substitutes number?

Rajat Monga: Credit substitute number will be Rs.14,000 crores.

Nitin Agarwal: It was I guess Rs.9,000 crores previous quarter?

Rajat Monga: It had been ranging in Rs.9,000 to Rs.10,000 crores, we have also added a couple of large transactions in March, that is right.

Nitin Agarwal: Now, what was the CET-1 at the end of 3Q and now what is it adjusting for the capital raise?

Rajat Monga: CET-1 is currently 11.4%. This had become 13%. If you allocate the capital back at December, our like-for-like position would have been 13% CET-1 as at December 31, 2016 and our reported CET-1 was 9.9%. So that will be the like-for-like comparison.

Nitin Agarwal: So that means like 160 basis points of decline in CET-I on like-to-like basis?

Rajat Monga: Yes, some of that also would get into dividend because there is Rs.12 dividend which has also been proposed, there is like I said the risk weights are higher but they are not sustainably higher. What you also do is that if I have capital at my disposal and if I have low risk and low earning business I might still entertain that business because I will at least put my capital to some low risk, high churn business even though it is not very optimal in its earning but because there is capital you might use that opportunity as well. So capital at a point in time also you have to weight it with the context in which it is being utilized. So today if I have capital we will go and talk to a lot of large public sector entities, we will say, we want to do your LCs, you want to give us five paise. "Okay, we will take five paise commission." Because we have capital and these are very low risk businesses, we will want to be able to burn the capital into earnings. That will have its bearing on capital but the management of that process is also factoring that these are short-term churn exposures. Next time you go to them, "No, we will do at 10 basis points only." They will go to someone else possibly. So churn business, so it can also be rolled down pretty quickly.

Nitin Agarwal: On the ARC sale though you did clarify but have you fully provided for the loss on this ARC sale in the current quarter or are you amortizing it?

Rajat Monga: No, all provided as necessary there is no amortization.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: In the Press Release you have mentioned that gross exposure of Rs.900 crores have kind of slipped. Just wanted to clarify whether this was part of the RBI requirement in terms of disclosure in the notes to account?

Rajat Monga: Yes.

Amit Premchandani: So basically this RBI highlighted this NPL in FY'16 annual accounts?

Rajat Monga: The account is a regulatory indication. We continue to believe it is current and recoverable.

Amit Premchandani: The regulatory indication came now or last year?

Rajat Monga: Now.

Amit Premchandani: Just another clarification same; there has been two cement M&A related deals; one was one of the largest cement there bought out and the same player which sold out also sold out one of the JV-related cement plants and one smaller plant. So this is part of a larger deal that happened or the smaller deal that happened?

Rajat Monga: My answer is more larger than smaller.

Amit Premchandani: There is no breakup of the other income this quarter. Can you just share the breakup?

Rajat Monga: It is on its way.

Moderator: Thank you. The next question is from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

Adarsh Parasrampuria: Again just getting back to the ARC sale, you said you provided. What was like the gross exposure behind this Rs.9 billion of SR and cash and where has it been provided from -- is it some contingency reserves?

Rajat Monga: What happens is some of the accounts already carry some provision. If the account is already provided, then we continue to keep the provision. There is no other than the price at which the asset is being exchanged. There is no other provisioning requirement. So the guidelines require is that if you are carrying a provision, you have to continue to carry it. Else if you are selling it at a hair cut then you have to provide for the hair cut immediately.

Adarsh Parasrampuria: So what you are implying to say is that you do not essentially have an haircut in these assets?

Rajat Monga: These are very well collateralized assets.

Adarsh Parasrampuria: All of these were standard?

Rajat Monga: Except one, it is a small Rs.25 crores item where we had taken 50% haircut, I think the others are very well collateralized, and there is no discussion of haircut.

Adarsh Parasrampuria: Are the nature of some of these collaterals, because we have had very specific cases where our collateral were not the asset off of that specific asset but of some other asset or better SPVs of the group. So is it something of those sort or is it the specific asset that you funded itself is the collateral here, I am just trying to understand that?

Rajat Monga: No, here the case is predominantly on account of hard collateral. It is reasonably ring-fenced, in the sense that we are the predominant lender in one case, in the other case we are a joint lender with another bank. The other bank is also coming into the same resolution mechanism. The design in these two items has to be through now realization of the sale of the underlying asset. The underlying asset has I would say multiple times value of our exposure.

Adarsh Parasrampuria: These are how many accounts?

Rajat Monga: Two.

Adarsh Parasrampuria: Is there anything to do with these assets to the RBI divergence in any form that you chosen to sell it to ARCs or they are not linked in any form to the RBI divergence?

Rajat Monga: Yes and no, in the sense that, because what happens is divergence comes late, action may have been taken already, so I cannot say yes or no to that answer, I could have taken something as NPA already, but the divergence comes with reasonable lag, but that it does not factor the developments in the meantime.

Adarsh Parasrampuria: So to simplify it, if you had not sold this asset to the ARC, though it is well collateralized and if you had followed RBI's divergence and you would have tried to bridge that gap, this could also become an NPA. Is that a fair statement to make?

Rajat Monga: Not at all, I am just saying is that there could be an overlap but it is hypothetical.

Adarsh Parasrampuria: On liabilities especially on the CA side, we have had extremely good growth while lot of other banks offering higher SA rate, had very good SA growth, our CA growth been phenomenal. So can you just spend some time to explain what is driving that and what is the sustainable part? Second question is the retail TD share has not grown, when you see CASA share has moved up like 700-800 basis points, if you can just explain both those parts?

Rajat Monga: Retail TD share if I can take first, actually has been seeing the FCNR maturities. So as the FCNR program which was started 2013-14 has let us say matured to some extent, to that extent the retail FDs have had reduction in those books, because they have been repaid and we have not been able to completely make up and outdo that reduction, that has been happening because the FCNR at that time had subsidies, it no longer has subsidies, FCNR pricing has also gone down, we used to take FCNR at LIBOR plus 300 then, now we are taking at LIBOR plus 100. There has been a little bit of churn in that business. So that is the reason what you are seeing is the net book in percentage terms it has not moved much higher, but there was this full back in this current year which hopefully is not repeating. On the current accounts, there has been a year-end flux of last two weeks of March, there was a flux of money. I do not think that is entirely sustainable as far as the current account book is concerned. I would continue to say that you should look at the trend and the part which is let us say looking like it is overshooting the trend may not sustain as far as the March position is concerned.

Adarsh Parasrampuria: No, I was referring even into nine months your CA growth was like 40-ish per cent which is very high. You saw lot of banks are doing that kind of growth. But for…

Rajat Monga: CA is a good business.

Adarsh Parasrampuria: No, absolutely, it is great, what I wanted to understand is what is driving that and which is extremely good and positive?

Rajat Monga: So what happened in December also, CA also got helped by demonetization. Otherwise, cash management, we have been communicating to you, even in this call we have been saying we are doing reasonably well on transaction banking. When you open current accounts, it is a ledger. What matters is what services are being delivered on top of the current account and how useful are those for customers and how many customers are banking their cash with you or their checks with you or their electronic payments with you or their digital requirements with you. So current accounts is a consequence. The point I was making when I was saying there is flux is that because March growth is 70% on YoY basis. That I do not believe is sustainable. But 40% growth I think is well earned, well booked. That is not something that I am trying to say is unsustainable at all.

Adarsh Parasrampuria: Any guidance you are all giving on credit cost for FY'18? You do give guidance for full year, give it last year.

Rajat Monga: We are assuming in terms of that our credit cost trend should be pretty much in the same vicinity. We are just biased by the fact that there is one large account which we are currently sort of discussing as well and if it does get repaid it will change the credit cost picture because some due provision has already been taken on that account.

Adarsh Parasrampuria: The same account you are discussing is the NPA declared account in this quarter?

Rajat Monga: That is right, that has also been provided, and it can also recover in the near-term. If that happens then you have writeback of provisioning. We will also get a better visibility for the year given this is a large bias, when we discuss the first quarter earnings I think we will have better position to report, but otherwise working understanding is similar to last year about 50 to 70 basis points.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I have three questions; first on this RBI divergence point just wanted to understand this. So, if you look at the notification, it refers to the financial year 2015 and 2016. So when you say that the RBI notification has been taken care of, so does it pertain to FY'16 and is it possible that there could be more divergence or there could be any divergence for that matter for FY'17 also which could be identified by RBI at a later date?

Rajat Monga: I think that question RBI might answer better than me, but again can I say that RBI will point out "No divergence in the future" I cannot say that. I cannot rule out what Reserve Bank's point of view will be in the future.

Rahul Jain: But, when you say the divergence has been taken care of you refer to fiscal year 2016…?

Rajat Monga: Whatever I know and what generally we also believe that RBI is looking at a position, they will also look at latest position in terms of if they have anything further to sort of let us say look at from the weakest standpoint. So to that extent, let us say, I cannot vouch for it but I think we will want to believe that we are pretty current on that sort of risk.

Rahul Jain: What would have been interest income reversal on this account?

Rajat Monga: So the interest income I would say about a month interest because the account was current.

Rahul Jain: The month's interest was overdue and…?

Rajat Monga: Because as at let us say March 31st, 1st April's interest would not have received, so we would have to reverse the interest which is overdue.

Rahul Jain: Another question was how much would have been fresh gross addition in this quarter to NPLs?

Rajat Monga: So outside this I think we have Rs.100 crores is the net slippage.

Rahul Jain: Just trying to understand this in terms of our view on the specific sectors where we have grown, for example, I see that Metals and Infrastructure exposure has gone up QoQ if I am not wrong. So just wanted to understand, of course, we keep hearing that operating environment is getting better. So what kind of nature of exposure these would be -- would these be credit substitutes or term lending or working capital, can you just help us understand or give some more color?

Rajat Monga: If I discuss electricity a bit, so we have done some more renewable energy business in this quarter. I know we took Rs.14 billion bond underwriting for transmission project which was essentially refinancing of the transmission project because it had no risk left, so essentially cash flow redesigning of that particular account or credit substitute though. This would explain a fair bit of electricity. Our Iron & Steel exposure has gone up. Telecom, we have included again as part of our presentation in terms of sensitive sector; it has had about 4.9%. But at least the exposure in terms of names and ratings continues to be pretty comfortable; we have essentially 80-90% of our exposure is rated 'A' or better, the larger telecom companies essentially, more established players. Metals is something which I am still trying to reconcile. I do not have that information in my mind right now. I am referring to QoQ sequentially. Sorry, I do not have the delta in terms of where I can a sense of names, etc., these will be corporate exposure. So it is no better or worse than what the business has been done in the past. The increase is from 2 to 2.5 is what I am being told in this current quarter.

Rahul Jain: On Savings Deposits, the growth of course continues to remain pretty strong given post-demonetization which is quite heartening to see. Of which how much would have been from the Branch Banking side, and what is our current average savings deposit rate?

Rajat Monga: So we are running two rate buckets; the lower quantum rate bucket is 6% and the higher quantum rate bucket is 6.5%.

Rahul Jain: The average would be what on the overall balance?

Rajat Monga: Average would be 6.1%-6.2% in terms of the cost is what you mean, right.

Rahul Jain: That is correct. How much would it have come down because I remember you had reduced it last quarter?

Rajat Monga: From 1st February 2017, we have reduced the higher quantum bucket from 7% to 6.5%. So there would have been 20 basis points odd cost reduction in the savings account overall book which would contribute to about 3-4 basis points to margins.

Rahul Jain: Branch banking savings account deposit would be what proportion basically the granular part?

Rajat Monga: It is all branch banking, but some of the business also comes from let us say government entities. So it is all transacting businesses but if I have to carve out the branch banking, that carving out is always be subjective, but I would say 75-80% would stack up with branch banking.

Moderator: Thank you. The next question is from the line of Dhaval Gala from Sundaram Mutual Fund. Please go ahead.

Dhaval Gala: Firstly, just a data keeping question. What is the stock of contingency provisions now?

Rajat Monga: About 20 basis points.

Dhaval Gala: Last quarter it was 30 bps, right?

Rajat Monga: What happens is that some of the assets let us say which are already tagged with some contingent provisioning, if they go to an ARC, like we were discussing earlier on the call, we no longer carry that provision, we mark down the asset. So effectively, your provisioning gets netted with the asset position. It is no longer gross asset and provisioning, it is the net presentation. So it fulfils this purpose essentially.

Dhaval Gala: On these assets that was sold, one was Rs.25 crores, the other one which sector did it belong to?

Rajat Monga: Real Estate.

Dhaval Gala: We had more than 2x coverage on this one?

Rajat Monga: Yes, actually you can add to that x. Pretty strong, I think that is the reason the ARC route is currently the preferred route.

Dhaval Gala: On the sector-specific exposure, there has been a jump in the below 'A' rated EPC exposure. Just wanted to understand some more color on these exposures that we have taken specifically in the fourth quarter?

Rajat Monga: So we have had let us say one downgrade from 'A' to 'BBB' and I see a couple downgrade actions in total, that would explain about 30 basis points. I see two or three new 'BBB' exposures, that also will add up to about 50 to 70 basis points. So it is more let us say cut between 'A' and 'BBB.' It is not that the exposures are below investment grade rated or something like that.

Dhaval Gala: Would you have the provisioning breakup for the quarter just standard assets specific provision and any investment related provision, just wanted to get the flow there?

Rajat Monga: Our standard asset provisioning for the quarter is Rs.58 crores, there is Rs.7 crores on account of the FX related provisioning, the rest is credit provisioning.

Dhaval Gala: No investment related, right?

Rajat Monga: There is Rs.27 crores provisioning on account of investments also.

Dhaval Gala: On gross slippages, would you have the number, I was just trying to triangulate if we would not have this slippage because of the RBI guideline change, what would have been the overall slippage number, I think it would have been very high?

Rajat Monga: Let us say, I am also reluctant to put the slippage even the large number in this current quarter. That is the discussion. It is not for the quarter. So I think it will make more sense if we look at the number for the year if at all it makes sense.

Dhaval Gala: Any more chunky large exposures where you are working towards, apart from what we have discussed on the call, where you would be worried or those could slip in the subsequent quarter, anything that comes in your radar at this point in general?

Rajat Monga: No, more or less than I would be any day, in fact, like we have been saying in general the situation in the economy is improving. I do not think that there is something I can say with certainty in case right now and we have also been discussing that our credit cost outcome continues to be 60-70 basis points in terms of our current expectation. So the point I am making is that I am feeling as good this year as I was at the beginning of last year.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Rajat Monga for closing comments.

Rajat Monga: Thank you Ali again. I want to take this opportunity to thank everyone for their patient listening on this call and we will hopefully speak to you soon.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of YES BANK, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.