# "YES Bank Results Conference Call"

## October 20, 2011

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

**Moderator**: Ladies and gentlemen, good day and welcome to the YES Bank Q2 FY'12 results conference call hosted by IDFC Securities Limited. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Pathik Gandotra of IDFC Securities Limited. Thank you, and over to you, sir.

**Pathik Gandotra**: Good afternoon everyone and welcome to the YES Bank Second Quarter Fiscal '12 Results Conference Call hosted by IDFC Securities. At this time, we have with us Mr. Rana Kapoor, Founder, M.D. & CEO; Rajat Monga, Group President, Financial Markets and CFO; Jaideep Iyer, Senior President, Financial Management; and Aparajit, Executive VP and Head, Financial Investor & Strategy and along with their team.

I would just request Rana to run over the results, the key aspects of the results and then we take it from there, and on the Q&A. Over to you, sir.

**Rana Kapoor**: Prathik, thank you very much for the introduction and for hosting this conference call. We also have some other senior colleagues including Vivek Bansal as well as some other members, the key members of our Financial and Investor Strategy team: Divik Anand & Vikram Pandya included. I just wanted to make a couple of comments. As you know, September 2011 marks the end of seven years of YES Bank's operations and in these seven years, I think we have consistently demonstrated sequentially and otherwise of very sustained track record in terms of our overall financial performance, in terms of P&L and fairly steady balance sheet growth. In terms of highlights in this particular quarter, what I really wanted to spell out is that, you know, we are in investment mode, we've made significant investments in this quarter as in previous quarters, a fairly consistent with our Version 2.0 strategy vision and strategy that was announced in April 2010 and updated thereafter in April 2011.

Within that strategy are, one of our predominant goals was to really build more revenue and risk diversity in our overall portfolio. One, invest more significantly in our retail banking and branch franchise as well as continuously add high quality young bright, energetic people in our team. And I want to start with the latter part first, I want you to report to you that our headcount as a bank is at 4,714 people. I'm sure very soon it's going to cross 5,000. We have added about a 1,088 people in the last 12 months and about 785 of those people have been added in the last six months of this fiscal year.

Equally importance in this particular quarter is the fact that we have crossed 300 branches. We added 305 branches of which 50 have been transformated in the September quarter and almost in the last six months, we've added 91 branches, and in the last one year, we have added 134 branches. So one year ago we were at 185 and we have gone up to now 305, and then we launched Version 2.0 in April of 2010 we were at a number of – round number of 150. So in the last 18 months we have more than doubled our branches to 305 vis-à-vis Version 1.0 period and number of 150 branches. So this is a very significant development and I want to share this with this team today, with investors, analysts, on this call because this is very, very much in line with our long-term commitments to invest in our Retail and SME network across the country.

I think equally important is the fact that in this quarter, we had been able to demonstrate further diversification in our portfolio and therefore reductions, diversification also in the revenue streams as a consequence of which our corporate banking portfolio has come down to 61.4%. Our commercial banking mid-market portfolio which is company's below Rs. 1000 crores and at the lower end Rs.100 crores is gone up to almost 24% is at 23.8% and the Retail and SME is steadily rising and is almost touching 15% as of end of September. These numbers as I'm sure ladies and gentlemen you'd recall just 18 months ago were at levels of 73% of wholesale assets and about 19% on the commercial banking assets and just under 6% on the retail and SME. So we are very much in sync with our long-term vision and strategy to get to 40/30/30 combination of wholesale, mid-market commercial banking, and retail and SME, and we have every reason to believe that we will get to this combination by 2015.

I think it's been a good quarter. As you know, this is a period of consolidation and value growth, so at a profit after tax of 235 crores representing an increase of 33.3% over the corresponding quarter. And sequential increase of almost 8% relative to 217 crores in the June quarter, at least we believe that this is a good overall performance for a quarter where markets have been challenging, the backdrop has been somewhat riskier. The good thing is that the NII has gone up quite meaningfully by 23.1%, non-interest income has gone up to 214 crores. So this has been a very significant contributor in this quarter to a level of almost – the increase is almost 63.4%. Total net income is up by 35% touching almost 600 crores – 599.7 with operating profit up by 37% to a level of about 386 crores.

The non-interest income to a total net income is at a level of 35.7% more or less in sync with our long-term plan to have a two-third, one-third combination of NII to non-funded income. The yield on advances has improved to 12.2%, cost of funds is steady at about 8.6%, there is marginal improvement in the net interest margin after having seen a fairly stable number of 2.8% in the preceding three quarters, this quarter has shown an improvement of 10 basis points to a level of 2.9%. We are fairly happy with the overall efficiency ratios, the ROA after being fairly sticky at 1.5% has improved again this quarter to a level of 1.6%, and as you know, our ROAs have been in the last 14 quarters now had been in excess of 1.5% consistently during post crisis. The ROE has improved further to a level of 22.6% and ROE also as you know over the last 14 quarter had been around 20% or better.

EPS stands at Rs. 6.73 for the quarter and diluted EPS is at 6.56 for the quarter. I'm not getting in to the half year numbers because we have discussed June earlier, but just moving on to some of the balance sheet highlights. You know, recognizing fairly early on in the beginning of the year that this is the year when we need to get the bulkiness out of the balance sheet and create more granularity, and also re-price of book and create more value stretch in our balance sheet. We have grown our loans to a level of slightly over 34,000 -- approximately 34,200 crores and they have grown by just 12.7%, but including credit substitutes we have grown by 27.4%, which is the more meaningful number to look at given the opportunities in the bond markets to build our AFS and long-term plan driven credit substitute book.

Deposits have increased by 10.2% in a far more granular fashion taking out further our bulky dependence as a consequence of which our wholesale deposits now constitute only 12% which is substantially the CD deposits driven by our ratings and they have been a constant source of supply for that dependence is down to just about 12% in totality. CASA is pretty much around 11%. Balance sheet is grown through, further through about 62,750 crores, representing a growth of over 21% year-on-year. The good thing is in a high-end risk environment or we have been preserving and focusing considerably on the overall asset quality as a consequence of which gross NPAs are just about 0.2%, in aggregate the number is around 66 crores, and the net NPA is all of four basis points, which is, the absolute number is below 14 crores.

Our loan loss coverage continues to be on a overall level at a very healthy 360% and at a specific coverage level at a level in excess of 80%. Total capital funds have improved further to a level of 7,860 odd crores, which has been somewhat supported by an increase of low Tier-2 of 320 odd crores that we raised in the quarter gone by, as a consequence of which capital position of the bank continues to be fairly strong with the overall GAAP added 16% and the core Tier-1 at 9.4%. Book value of the share has crossed Rs. 122 and represents an overall increase of 21.2% relative to a book value of just under Rs. 101 as of September 2010. I did speak about the HR investments continuing relentlessly and we do expect that our run rates of about 90 to 100 people a month will be maintained in the rest of this year as well.

Moving on, in terms of the overall other data points, the overall transaction banking revenue constituted about 28.5% of our total non-funded fees, financial market showed approximately were slightly about 19%. Our advisory businesses significantly linked to our corporate finance loan book were about 45.7% of total non-interest income, and branch banking fees and others is growing, but still small at 6.7% of total non-funded fees. The other couple of points I wanted to mention is that CASA at 11% year-on-year has grown by about almost by about 19.9%, and the overall contribution of branch banking retail deposits has grown by about 28.6% year-on-year, so if when you look at CASA plus branch banking, we are at a level of above 28.6% and overall branch banking deposits actually have grown by about 97.8% to a level of almost 7,760 crores.

Other institutional deposits government, corporations, commercial banking, corporate banking continue to be a very steady streams of new and old customers with lot more granularity. So we are seeing a lot of stickiness and steady growth of our liability portfolio. On the asset side, we are, as I mentioned to you, seeking greater and greater diversification across market segments, geographies around the country to constantly ensure that there is no real industry geographic portfolios stress. And I did speak to you about the segmentation in terms of respective businesses contribution, but overall we don't have any large concentrations in terms of our loan book is very diversified and certain industries, which are causing concern in the marketplace such as power, in our case constitutes – directly power constitutes only 4.4% -- about 4% and electricity, which is ready in our case existing – running companies with a proven track record is around 3.3%.

And within the power sector, we are basically into a working capital of finance; we don't really have a whole lot of project finance debt, and the couple of mandates that we have done in the past are more in our area of specialization, which is really renewable energy. So as a consequence of which overall – you know, the asset quality looks fairly strong, and the only other development is on the restructured book, we had a overall addition of approximately 90 crores of restructured assets attributable to three micro-finance companies which have got restructured in the system. And we have created more than adequate provisioning proactively far in excess of our RBI norms and very much in consistent with our dynamic provisioning policy and the interest payment pre and post-restructuring on these three accounts continues to be absolutely regular.

The bank in this quarter has also continued its journey in building knowledge initiatives and has also received numerous recognition and rewards across a spectrum of leading awards, such as the Financial Express Ernst & Young, wherein we were ranked as the number one private sector bank across the large and medium category. So, in the combined category, we were ranked ahead of some of the larger and more proven private sector banks as the number one private sector bank including on asset quality and growth. Also CNBC's jury for their best bank awards gave us the Best Bank Critic Award, which also means a lot to us because this is the first time we've received the meaningful award from CNBC.

In addition to that Dun & Bradstreet also ranked us as the number one private sector bank. And we have been constantly receiving recognition for our HR practices as one of the best employers in the financial services sector for our marketing activities as well for the overall technology, rendition and offerings at our bank. So, basically this is a bit of the summary of what happened in this quarter gone by. And you know I will request Rajat, Jaideep any of the others to make some additional comments and then after we will take questions. Thank you very much.

**Rajat Monga:** I think we could move on to questions. I think the moderator, if you can open the Q&A line please.

**Moderator:** Sure. Thank you very much, sir. We will now begin the question-and-answer session. Participants who wish to ask a question may press "*" and "1" on their touchtone telephone. Participants are requested to use handsets only while asking a question. Anyone who has a question may press "*" and "1" at this time. We have our first question from the line of Mahrukh from Standard Chartered. Please go ahead.

**Mahrukh Adajania**: Yeah, hi. I just had a couple of questions. Firstly on your exposure, the telecom exposure seems to have gone down a lot and you know the media exposure seems to have gone up a lot as well. So is there any classification change or it's just the way it is?

**Rajat Monga:** I would say more or less it will have to be interpreted as the way it is.

**Mahrukh Adajania**: Okay.

**Rajat Monga:** But there will be some -- there are companies which have overlapping businesses so it is not always the simplest of exercises to produce this pie-chart. But yes, I would assume that we should, significantly assume that it is as it is.

**Mahrukh Adajania:** Okay.

**Rajat Monga:** So telecom exposure, which let's say classical exposure to telecom, some of these companies have come down, that's right.

**Mahrukh Adajania**: And the other thing I wanted to check is that of that, what is the amount of MFI restructuring that was done in the quarter and how much it has been classified as NPLs and have provisions risen largely only because of that apart from write-back last quarter?

**Rajat Monga:** So we have about Rs. 90 crore of MFI addition to the restructured book. There is no addition to NPAs on account of MFIs because there are non performing MFI exposures. There has been a provisioning which has been taken for MFIs on account of restructuring and adversely labeling. The former is regulatory the second which is adversely labeling is the voluntary provisioning that the bank takes and which is both put together along with general provisioning and along with the provisioning for NPAs is a number of about 35 crores for the quarter.

**Mahrukh Adajania:** Okay, okay got it. And just one thing that would you be able to provide the amount of credit substitutes this quarter and previous quarter; the absolute amount, this quarter, previous quarter and previous year?

**Rajat Monga:** Yes, I think the numbers will be available. I think we will have to do some mathematics here to get the numbers exactly. But we have about, for example 7,000 crores of – 6,600 crores of credit substitutes as of September 30, 2011. Which is in addition to the loan book of about

34,000 crores so about a total of 40,760 crores is our total loan book plus credit substitute book. The same number of credit substitutes for the June quarter would be 4,700 crores. We're still looking up the numbers for last year. Yeah, so, and the last year the number was about 1,700 crores. December '10, 1700; March '11, 4700; and September '11 would be 6,600 that's been the progression.

**Mahrukh Adajania:** Okay. And what is the credit substitutes would be for high rated cooperates or how would it work?

**Rajat Monga:** I think it's very safe to assume that the, the average rating of credit substitutes will be reasonably better than the loan book, naturally speaking. I won't say they are all AAA but yes, there is a good dominance of AAA in that book as well.

Mahrukh Adajania: Okay. And even then your yields expanded substantially, that's largely because of the repricing of the existing book is it or?

**Rajat Monga:** On the loan book, that's right.

**Mahrukh Adajania:** Okay, okay. Because I mean actually on a marginal basis because the credit rating is improving the yield should go down.

**Rajat Monga:** No, you are talking about yield on investment?

**Mahrukh Adajania:** On total, credit plus credit substitutes.

**Rajat Monga:** The yield on loans itself has increased by about.

**Mahrukh Adajania:** 60 bps, yeah.

**Rajat Monga:** 30 to 40 basis points. And that will be 80% factor in any case.

**Mahrukh Adajania:** Right, right. Okay. Okay, thanks a lot.

**Rajat Monga:** More than that, 60 basis points.

**Mahrukh Adajania:** 60 yeah.

**Rajat Monga:** Yield increase on loans, sorry.

**Mahrukh Adajania:** Yeah, okay. Thanks, thanks.

**Moderator:** Thank you. The next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

**Amit Ganatra:** Yeah, two, three questions. One is this the Tier 1 ratio of 9.4%, does it include profits?

**Rajat Monga:** It does. It includes, because of this number, these numbers are auditing numbers.

**Amit Ganatra:** Okay. So before you basically the numbers audited, okay. Second thing was that, can we get moment of NPAs in terms of how much addition recoveries updates.

**Rajat Monga:** There is a gross addition of 15 crores of NPAs and there has been reduction of 3 crores of NPAs.

**Amit Ganatra:** 3 crores is on account of recoveries or write-offs.

**Rajat Monga**: Both, you can assume half each.

**Amit Ganatra:** Okay. And third was this, see basically if one look at the quarter-on-quarter quarter moment of your resources which includes borrowings as well as deposit, the deposit has not grown but the borrowings have grown significantly right, from quarter-on-quarter sequentially I am talking about. But funding cost is actually not moved, so.

**Rajat Monga:** Yeah, because borrowings are not necessarily more expensive, what's happening off late is that raising our foreign currency funding capability because foreign currency funding is done now almost as cheap as CASA is, has been because the hedging cost has been very, very low given the behavior of the currency that we've been witnessing. So we've been proactively maximizing our foreign currency borrowing window and there is more to come, more business happen on that even in the December quarter. Secondly, some of the refinancing opportunities with the developmental institutions in India have also become more favorable. So schemes that EXIM bank, SIDBI, NABARD run for refinancing of our exposures particularly private sector exposures are becoming more attractive. We are seeing more activity on the refinancing side. What's also happening is that, we are also being able to acquire cheaper tenor with borrowings, let's say then we issued our Tier-2 in July, that had a coupon of 10.3%, that's a 10-year paper, it's 10.3% annualized. There is like as opposed to deposits which is compounded quarterly, we've done foreign borrowings which would have caused us in rupee terms about 5% to 6%. We would be doing a refinancing from some of these institutions that I mentioned between a coupon of 9% and 10% but the refinancing does not attract reserves.

**Amit Ganatra:** Okay.

**Rajat Monga:** But these institutions will be reserving on those exposures. So on a net of reserve basis this works out to a deposit equivalent of 7.5% to 8%. So some of the action has like you've rightly noticed moved in favor of the borrowings, but these borrowings are bit tenor and with the pricing advantage.

**Amit Ganatra:** But is it that is the large portion of the borrowings have come at the end of, fag end of the quarter or something like that?

**Rajat Monga** And, I know that yes, one reasonable size refinancing deal happened in the last quarter of the – last week of the quarter, yes.

**Amit Ganatra:** Okay.

**Rajat Monga:** But I won't like to generalize it because I mean, we've been also taking foreign currency funding through the quarter. But yes, particularly, the second half of the quarter because the dollar-rupee behavior changed from August.

**Amit Ganatra:** Right.

**Rajat Monga:** Before that, foreign currency funding used to be more expensive than local currency funding, but in August it actually turned quite substantially in favor of foreign currency and that helped us pick up some foreign currency funding on top of that as well. So yes some element of second half bias for the quarter is there.

**Amit Ganatra:** Okay. And one more -- last question was that your quarter-on-quarter growth in terms of CASA seems to be around 2% odd, now as far as you already have expanded branches, when do you think that the results of your branch expansion should play out in terms of CASA growth, because just, a size of CASA small and to have only 2% growth is actually nothing. I understand that the environment is challenging, but at some point of time you have to improve your CASA percentage right?

**Rajat Monga:** Yes, I think that is the opportunity. There has to be the value unlocking from a network that has to be carried out, absolutely you are correct. But we cannot do that irrespective of the environment. We will be affected by the environment as many other banks will be. Some of the banks that have had their number realized also have shown reduction in their CASA percentages, I am not too sure if they have shown reduction in absolute CASA as well.

**Amit Ganatra:** No, absolute, there has been a growth in many events.

**Rajat Monga:** Right, quarter-on-quarter, but the mix has reduced.

**Amit Ganatra:** Yeah, CASA percentage has reduced but basically, absolute basis there has been healthy growth in many events in terms of quarter-on-quarter CASA.

**Rajat Monga:** We are not particularly risking our medium-term outcomes on CASA. So I don't want you to conclude that CASA growth is going to be slow and as slow as 2% per quarter. It'll definitely be better these branches that we're putting will help, but they will not help immediately. They do need some gestation on the ground to be completed before they can become meaningful and productive. So this is what we are investing today will yield us outcomes in 18 to 24 months in terms of meeting. And so that investments like we were mentioning earlier on the call have to be made and we are actually accelerating those investments. But the results will find accelerations 18 months and 2 year events.

**Amit Ganatra:** Okay.

**Rajat Monga:** That's the investment we have to be making.

**Amit Ganatra:** And now lastly, what will be your outlook on advances growth?

**Rajat Monga:** Well, the advances and substitutes put together is that we believe we don't get too much of benefit on the credit substitutes numbers but that's also a very respectably yielding portfolio. So 27% growth is something that has been achieved over the last 12 months. I think our predominant part of the phase of consolidation in de-concentrating, de-bulking is also behind us. The time of looking at our new opportunities is also getting better as the competition is easing up on that front. So I think the outlook should be improved from here on, and we should be looking at year-on-year growth in excess of 25% of advances by the end of this year.

**Amit Ganatra:** Advances, not including credit substitutes?

**Rajat Monga:** Credit substitutes if at all will be over and above.

**Amit Ganatra:** Okay, okay. Thank you.

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

**Anand Vasudevan:** Just a question on your operating expenses.

**Rajat Monga:** Yes.

**Anand Vasudevan:** Firstly, if I look at the average sequentially that's increased by 10%.

**Rajat Monga:** Right.

**Anand Vasudevan:** But the stock expenses have been flat sequentially.

**Rajat Monga:** Yes.

**Anand Vasudevan:** I'd like to understand that. And second question is, given that your -- the proportion of un-matured branches in the system is now increasing significantly.

**Rajat Monga:** Yes.

**Anand Vasudevan:** But you've been holding your cost in term line quite steady.

**Rajat Monga:** Right.

**Anand Vasudevan:** Which is very commendable, but I'd also like to just have a confirmation, are you expensing everything through the current P&L or are any cost being capitalized?

**Rajat Monga:** Well, if I may just respond to this reverse order. We capitalize the lease hold improvements done in branches only, which is materially speaking that would include the work we do in the branches on the physical part that tiling, the false roofing, the electrical work, the ACs, the DG set that goes there to provide power backup, the furniture that goes into the branches. Pretty much that is what we capitalize and typically that should be about for a large branch about 10 million rupees for a large metro branch let's say and for a rural branch that should be about between 500,000 to 1 million rupees in terms of the stakes, that's the range from a cheap to an expensive branch and that is what we capitalized and it's capitalized and depreciated then over the useful life or the lease period whichever is lower, these are not a very large numbers because of 50 branches put together will generate, maybe an expense of about 10 to 20 million maybe 20 to 30 million per quarter. So that's not going to be the major factor, I think the cost income gets lot more influenced by the running and operating cost in the branch, we possibly end up spending as much per annum in running the branch that we spend onetime to setup the branch.

**Anand Vasudevan:** Right.

**Rajat Monga**: Cost income will pan out like that and has been so in the past branch business as well. As a bank we are not allowed by Banking Regulation Act to capitalize expenses because otherwise we'll lose our ability to pay dividends. So, we don't even capitalize other banks for example, finding it hard to capitalize even DSA expenses for that reason, like we have also to partly answer the other question. We have, I have been mentioning earlier on the call have taken some foreign currency borrowings. They do come with an upfront cost, so a lot of bank do charge upfront fees on that, so we expense that during the quarter, that is one of the reasons that the OpEx has, it's a little bit of a one-off that may come again in December quarter, but it's not necessarily going to come again and again. So there is an element of that cost which shows up in OpEx, strictly speaking that should be amortized over the life of the borrowing. But, given the Indian Law and Regulations we end up expensing it. The HR side, I think there is possibly one, 2%, 3% factor, I think where we have been let's say, overcautious in the June quarter was on our compensation-related, the bonus-related cost. At the time of making the provisioning we were not fully sort of done with our, the bonus process and we ended up being, I think two, three crores higher on provisioning in June which got therefore taken up for the provisioning for this year as the balances are going to be rebuilt. So, there is, therefore I would say a little bit of an overstated, slightly these are two, three crore numbers, overstated HR cost for June quarter and one-off numbers are there also in the operating cost for the September quarter.

**Anand Vasudevan:** Okay. And just to understand, you know, the profile of people that you are recruiting now, were they – what's the profile on an average, are they lower cost than the, you know, the existing, perhaps the group of staff that was existing until, you know, the beginning of this year?

**Rajat Monga:** No, I think on the margin our average cost is coming down definitely, which is to say that our recruitment is getting more towards branch heaviness and that is not the – the most expensive resource category.

**Anand Vasudevan:** Yeah.

**Rajat Monga:** While we are hiring even at senior management levels, but the proportions are definitely moving in favor of the branch end hiring. On June quarter there was also one-half of the campus hiring that happens and the joining of the campus hires IIMs and some of the other B-schools in India and CA campuses, that the process of joining happens usually in the first quarter of the fiscal, so that's also going to be getting refracted fully in the second in terms of the costs.

**Anand Vasudevan:** Okay. Can you also comment on the strong growth in your financial markets and financial advisory line items, I would also like try to understand what the drivers are?

**Rajat Monga:** Well, I think the financial market size has also had some deal flow related driving sources, so we for example, in this quarter we've been associated with the – we had a sole arranger mandate for Reliance Ports and Terminals for a 2500 crore issuance for a ten-year debt. We were a joint arranger for Reliance Gas Transportation and Infrastructure Limited for another 2500 crores of debt, again a 10 year issuance. We were joint arrangers for a 10-year bond issuance by Steel Authority of India. We were lead managers to the public issue of non-convertible debentures by Religare Invest, as well as of Muthoot Finance. So these have been for example some of the – the transactions that we have worked with on the financial market side and besides that we've been seeing a growing traction in our foreign exchange throughput, what sometimes happens is that when markets are more volatile throughput increases because…

**Anand Vasudevan:** Yeah.

**Rajat Monga:** The customers do get more excited to manage their exposures, so there is a tendency of sometimes volumes increasing with more volatility, but that is not sustained in general. So, these have been the predominant drivers, we've also had the benefit of continuing to distribute some of the business that we originated in the previous quarter, that distribution opportunity is also expressed itself in the financial markets outcome on the number side. I think on the financial advisory, we've been associated with – I would say a much improved performance on loan syndication business, which is something where we are – we are now seeing, as a bank we are delivering now larger and I would say more sophisticated mandates as well in the loan syndication space, there have been a lot of refinancing opportunities that have come up in the last two, three months and continue to do so given the significant shift in rates that have taken place.

There are customers who are in a situation where there – now cost of borrowing some of their Brownfield Expansion or some of even the project financing situations has become for even good names in excess of 13% because the base rates have been raised quite substantially by banks in the last six months. So, there are refinancing opportunities where we are able to – for example underwrite projects which are two months from completion and take them into syndication markets, so re-syndicate them, so those opportunities are materializing. We've had a couple of private transactions also closed in the investment banking space in this quarter and there has been – generally speaking we are increasing our credit sophistication also in terms of substitute financing, which is also one of the drivers of these in terms of financial advisory.

**Anand Vasudevan:** Okay. And what's the outlook for financial advisory is?

**Rajat Monga:** Well, I think outlook remains reasonable in terms of the, the deal flow and pipeline is intact, I think we always risk conversions in some our deal-related business, which is – for example, like I mentioned, refinancing should be conversions, conversions should be accelerating in refinancing because some of the borrowers are very keen to reduce their costs, and rightfully so they possibly have a better – I would say ability to get funded at cheaper cost, so they need a solution in the middle which we help facilitate. The outlook, I think is reasonably intact, if I may say and pipelines are continue to be robust, but there is always that element of conversion risk that we content within, a part of the advisory business and also part of the market business, financial market business.

**Anand Vasudevan:** Okay, great. Thank you.

**Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

**Hiren Dasani:** Good. Just couple of data points, I don't whether you are already covered earlier, but, a) is there any trading-related gains in the financial markets line of 41 crores?

**Rajat Monga:** I would not call that exactly trading, but yes, we do run now a distribution business on net capital markets. So there would be a plus, minus there, but it's not the – the main driver.

**Hiren Dasani:** Okay. But would it be like less than 5 crore kind of thing?

**Rajat Monga:** Of that order, yes.

**Hiren Dasani:** Okay, okay. And of the 38 crore provisions, what's the specific and general?

**Rajat Monga:** Specific provision is about, I would say about 10 crores which has also include restructuring provisioning, general provisioning is about 10 crores.

**Hiren Dasani:** Okay. So remaining is what, mark-to-market?

**Rajat Monga:** So there is actually no mark-to-market, we also have a provisioning for – we call that adversely labeling provisioning. So when our internal ratings are – let's say downgraded to below a certain level, we've begin to take higher provisioning, so there will be another 7, 8 crores of adversely labeling in terms of provisioning.

**Hiren Dasani:** But its total is about 38 right, so 10 crore specific, 10 crore GP?

**Rajat Monga:** 10 crore GP, another 7, 8 crores is on account of this adversely labeling. And the others would be non-credit provisioning.

**Hiren Dasani:** Okay. But would be this related to some derivatives-related or what?

**Rajat Monga:** It could be a P&L reversal or some, let's say provisioning, which needs to be written off in the future on account of some other, some asset going bad, not loan but some physical asset, some – it will be a combination of three, four factors.

**Hiren Dasani:** Okay. So, in some sense you are saying that 15 crore was the best for the quarter and of that couple of crore was the recovery, but you did about 10 crores of the specific provisioning as well?

**Rajat Monga:** Yes, but I don't attribute all the 10 crores of specific provisioning.

**Hiren Dasani:** It's a good news, apparently some will be to the older ones and some will be for the…

**Rajat Monga:** Yeah, that's right.

**Hiren Dasani:** Now, this 7, 8 crore of adverse labeling provisioning…

**Rajat Monga:** Yes.

**Hiren Dasani:** Would it be also termed as a floating provision or could just be used against this specific loan loss provision when…?

**Rajat Monga:** That's specific to exposure, if by any chance the existing exposures become NPAs, this provisioning will become a carry forward provisioning.

**Hiren Dasani:** Okay. Okay, so it's more of an anticipatory in nature?

**Rajat Monga:** That's right. Let me not say anticipatory, this is – you may want to say it, that it is, that…

**Hiren Dasani:** Prudent in nature, you can say.

**Rajat Monga:** Yeah, better, I must say, it might be a better descriptor, yes, the asset has some element of stress there, but not enough to be a non-performing. But, enough for us to begin to recognize that we need to not move from 0 to 100 or 0 to 25, whatever is the minimum provisioning, but at least to grade that in.

**Hiren Dasani:** Okay, okay. And you follow a certain policy which kind of…

**Rajat Monga:** Absolutely.

**Hiren Dasani:** Exactly.

**Rajat Monga:** Let's see it's rating base, we have a – just to short brief on that, we have a rating scale, internal rating scale of 1 to 10, where is 1 is AAA and 10 is NPA, and there is 10 A, 10 B, 10 C, where 10 A is substandard, 10 B is doubtful and 10 C is loss. So we start taking higher provisions from rating Grade 8 or lower.

**Hiren Dasani:** Okay.

**Rajat Monga:** 7 or better, we are – we are saying – 7 or better let's say is, we only follow general provisioning, but 8 and 9 we follow adversely leveling in terms of provisioning, and 10 we follow the RBI or higher provisioning.

**Hiren Dasani:** Okay, it's helpful. One question is on this – you said there was a lot of foreign currency borrowings in the quarter, right?

**Rajat Monga:** Well, not a lot.

**Hiren Dasani:** Not a lot, but…

**Rajat Monga:** Yeah, more than normal, that's right.

**Hiren Dasani:** More than normal, okay.

**Rajat Monga:** Yeah.

**Hiren Dasani:** So, if you I look at March balance sheet it were about 1840 odd crores, 1834 crores, what would be the quantum now of the foreign currency borrowing, outstanding with this?

**Rajat Monga:** I don't have a handy number, but I might sense this should be about in excess 2500 crores now.

**Hiren Dasani:** Okay. And I was also little curious when you said, end of August afterwards because that was the time precisely when there were lot of UN crime or you know, people not getting foreign currency pending and people, I mean, lot of dollar shortage and all, so you think that in that time you've managed to get recent foreign currency borrowing?

**Rajat Monga:** Yes, I think basically there is always a bank, I think which can do better than on the borrowing front, at least Indian Banks I think didn't get hurt, spreads didn't get hurt definitely. So, if I am – normally when you hear people cry for not having dollars the first understanding that I get is that dollars are there but they are costly.

**Hiren Dasani:** Sure.

**Rajat Monga:** So the – it's not always necessary that dollars are not there, but yes there was a dollar shortage and I think there was arbitrage so we tried harder I guess than others, we recognized that opportunity maybe timely enough and it got better, these opportunity into September and October it got even better in terms of the – the cost got lower, not the spreads, but the hedging costs.

**Hiren Dasani:** Okay. Okay. And lastly on the credit substitute side, I mean, are there any MTM applications going forward?

**Rajat Monga:** Well, these – there is a part of the portfolio which is subject to mark-to-markets, we are not – by regulations I am not allowed to recognize MTM, mark-to-market gains, so the portfolio at the moment is, is in a gain zone where we don't require to recognize any mark-to-market, but if the rates go too high there will be a point in time where that portfolio might require provisioning.

**Hiren Dasani:** Okay.

**Rajat Monga:** But, there is an element of hold to majority there also, at least if not on paper, but some of these credits substitutes will hold to majority.

**Hiren Dasani:** Okay.

**Rajat Monga:** So we doesn't have to – it will be a transient issue in terms of MTMs, it will not be a….

**Hiren Dasani:** Would it be possible to know, how much is the FS book we are having and what kind of duration is that?

**Rajat Monga:** Yeah, it should be about 6000 crores, that should be our FS book and duration will be between, I would say, about two years.

**Hiren Dasani:** Okay. And lastly it also has capital implications, right? Because the profit of half year including we are at 9.4, so…

**Rajat Monga:** Yes.

**Hiren Dasani:** So, and almost spend about a year, we have consumed quite a bit of capital.

**Rajat Monga:** And the good thing investment is that, like I said I mean, at the cost level front, so again it depends on what we are trading off, are we trading off capital or we are trading of MTMs. So, I think the good part of credit substitutes is that they are bonds and CPs, so they can also move in terms of -- they are structurally enable to move. So capital can be unlocked.

**Hiren Dasani:** Sure. But…

**Rajat Monga:** That is the good part but doesn't mean that it will be at zero cost. It could be that we may have been doing it when the rates higher and we are at the loss.

**Hiren Dasani:** Sure, sure.

**Rajat Monga:** So, I mean, its not that, I mean, fortunately we are worrying about that yet.

**Hiren Dasani:** Okay. But – and just speaking a little about, little further, I mean, do you expect capital pays over the next what six months or 12 months or 18 months?

**Rajat Monga:** I am sorry, capital?

**Hiren Dasani:** Capital raise.

**Rajat Monga:** I think it's very difficult to say given the markets and there would be global developments that are kind of taking place, I think we will leave some of these issues to settle down before we can think of raising capital. I think in the meantime what we are dealing with us is the 22% ROE, so we can, we can grow at that rate without needing to raise more capital, and that is not necessarily loan growth but also loans – less credit substitute growth. We have room to raise more tier two and hybrid capital, so that will be, also be deployed, in course of time in case the visibility of the capital raising is not here. So I think we are working with at this point in time an assumption that we may have to run our business with the assumptions of no capital raise for another 12 months.

**Hiren Dasani:** Okay. Okay, great. Thank you.

**Rajat Monga:** Bye, Hiren. Thanks.

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

**Suresh Ganpati:** Yeah. Hi, Rajat. Just, we wanted to understand this foreign currency borrowing that you have done, is that a limit by RBI, so how much you can borrow abroad bringing back to India and then in the domestic market?

**Rajat Monga:** Yes, there are two limits.

**Suresh Ganpati:** Okay.

**Rajat Monga:** Actually one limit. There are two purposes, one purpose is export on lending.

**Suresh Ganpati:** Okay.

**Rajat Monga:** The second purpose is general, you do what you want, typically what we will do in this environment is convert that into Rupees.

**Suresh Ganpati:** Correct.

**Rajat Monga:** Drop them into Rupees and use that per on lending in Rupees.

**Suresh Ganpati:** In India?

**Rajat Monga:** In India.

**Suresh Ganpati:** Yes.

**Rajat Monga:** The first does not have a limit.

**Suresh Ganpati:** Within the export one?

**Rajat Monga:** Yes.

**Suresh Ganpati:** Okay.

**Rajat Monga:** So, if I have to run. I just need to have equivalent export of loans in dollar.

**Suresh Ganpati:** Okay, fine.

**Rajat Monga:** The second limit of 50% of networth.

**Suresh Ganpati:** 50% of networth, okay fine. And, in terms of having an open exposure is there a limit?

**Rajat Monga:** There is a limit not just on borrowings but all positions that banks had.

**Suresh Ganpati:** Okay.

**Rajat Monga:** Including the customer business we do on remittances and forwards.

**Suresh Ganpati:** Okay.

**Rajat Monga:** All put together all banks have a limit, what is called net open position limit.

**Suresh Ganpati:** Okay.

**Rajat Monga:** And this limit is measured separately per currency.

**Suresh Ganpati:** Okay.

**Rajat Monga:** And then you ignore the signs whether you are long or short.

**Suresh Ganpati:** Okay.

**Rajat Monga:** Just add the absolute number to arrive at – and I think the highest limit that I know of a Bank in India has $100 million.

**Suresh Ganpati:** Oh, okay. It's an absolute amount that they specify not as a percentage on network or something like that.

**Rajat Monga:** No. It is specified normally as a Rupee amount if I am correct.

**Suresh Ganpati:** Okay.

**Rajat Monga:** Absolute amount.

**Suresh Ganpati:** Okay, fine. And, yeah, the other things on your credit substitute I mean, I know, I mean, how exactly do you take a call whether you really need to go for them alone on a credit substitute, the reason I am asking this is because, I mean, at least in a credit substitute it does expose you to the, to a P&L volatility which is definitely not the case in case of loan. So what advantage does the credit substitute give it to you over a loan, you can still loan to a AAA rated company where you are taking it in the form of a credit substitute, right?

**Rajat Monga:** Yeah, I think the advantage credit substitutes gets is, at least the two tangible advantages that I know is, one is liquidity.

**Suresh Ganpati:** Okay.

**Rajat Monga:** You can sell it on a good day and also possibly on a bad day.

**Suresh Ganpati:** Okay.

**Rajat Monga:** The other advantage it gives is, it does not burden us with PSL.

**Suresh Ganpati:** Oh, okay, okay.

**Rajat Monga:** At least in the current equation it does not burden the PSL kind of deliverables.

**Suresh Ganpati:** But how does that matter, because PSL is a function of funding not a function of assets, right?

**Rajat Monga:** PSL is a function of assets.

**Suresh Ganpati:** No, I mean, you mean to say, okay. You need our party does enough you total or loans, okay, so you mean to say credit substitutes are not included in that, okay fine.

**Rajat Monga:** They denominated, that's right.

**Suresh Ganpati:** Okay, okay, okay.

**Rajat Monga:** It is not always our choice as well, the customer will say, I want a loan, I want this or I want to do a CP. We will quote him for both.

**Suresh Ganpati:** Okay, fine.

**Rajat Monga:** And he will -- depending upon his ratings and his size of his portfolio, depending upon his – depending of the acceptability of his paper in the domestic markets, it is taken, and we have a right to say, no. It has to be done necessarily by that design, it also has to be a function of opportunity, and our commercial papers I am not mark-to-market for example.

**Suresh Ganpati:** Okay.

**Rajat Monga:** Bonds are mark-to-market but.

**Suresh Ganpati:** Okay, okay, fine, fine, fine. Okay. Thanks so much Rajat. Yeah.

**Rajat Monga:** Thanks Suresh.

**Moderator:** Thank you. The next question is from the line of Manish Chowdhary from Citigroup. Please go ahead.

**Manish Chowdhary:** Hi, I just wanted some more color on the branch banking and retail book, loan book, a little but more on the mix there I mean, in terms of different types of assets?

**Rajat Monga:** We don't have a meaningful retail book at all.

**Manish Chowdhary:** Okay. This will largely be SME, is it?

**Rajat Monga:** Well, actually the SME part of the loan book also will have a dominance of two acquired pools.

**Manish Chowdhary:** Okay.

**Rajat Monga:** Because lot of our pools get, also get classified as, because I don't know what else to call a, truck operator but SME. These two pools are obviously rated and gelatinized, so there is, it's not a classical SME exposure either.

**Manish Chowdhary:** Okay. So that you put as branch banking?

**Rajat Monga:** Yeah. A branch banking is a mix of retail and SME.

**Manish Chowdhary:** Okay.

**Rajat Monga:** And the – but the more activity on branch banking actually is what we take on the liability side, so CASA and branch retail deposits is something also which is at least deliverable by branches in terms of their measurement.

**Manish Chowdhary:** That's all. Thank you.

**Rajat Monga:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Ramnath Venkateswaran from Birla Sunlife. Please go ahead.

**Ramnath Venkateswaran**: Yeah. Thanks, Rajat, I just wanted to understand if you look at the recent RBI Guidelines that have been issued for some of the loans held on by NBFC's to banks, at least on the bilateral sale side they seem to be fairly stringent, how do you see that impacting meeting some of the Priority Sector norms and how is your bank planning to basically cope up with that?

**Rajat Monga:** I would find it, I mean, first you need a draft. So…

**Ramnath Venkateswaran:** Sure.

**Rajat Monga:** So, that's RBI draft. Secondly, I am – I am little – myself little amazed because some of the footnotes are very liberal.

**Ramnath Venkateswaran:** Okay.

**Rajat Monga:** For example, there is a footnote in the guideline which says that, if there is a consent of the borrower, the end borrower.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** The borrower of the NBFC, the NBFC has the consent of the borrower to assign the loan to a bank.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** Guidelines don't apply.

**Ramnath Venkateswaran:** Okay. But, I think it's quite, yeah, it seems, yeah.

**Rajat Monga:** But is a consequential footnote.

**Ramnath Venkateswaran:** Sure. Yeah, I get what you are saying, but – because -- but then values the entire purpose of this guideline you know, suppose it comes in the particular shape in which it has come out you know, the footnote, I accept your point in terms of what you are seeing, but in just in case the things are straightly more stringent, do you see that having some implications for some of your branch expansion and looking at some of the areas in, some of these priority sector areas in greater detail for you and leading, how do you see the bank actually coping up with that?

**Rajat Monga:** Well, let's say, like he was saying is that, we are not too sure what RBI is addressing through these guidelines.

**Ramnath Venkateswaran:** Sure.

**Rajat Monga:** Because there is confusion to be fair. Do we understand very clearly as to what RBI is trying to achieve other than one objective of this is that, yes, they need to system stability. So securitization will not necessarily tackle only priority sector as a business, securitization will also tackle the issues which market is going through in the west for example. They have to tackle seasoning, they have to tackle the translational issue in terms of moving from one balance sheet to the other. And in the process we are wondering whether this is designed for PSL. This is not designed exclusively for PSL, it is designed for creating, because there are differential KYC norms between NBFC's and banks. There are differential regulations between NBFC's and banks. So the securitization route should not be looking at becoming a conduit for creating systemic potentially instability in the long run. I think those are also issues which RBI is addressing through these guidelines not just seasoning for example, you should not be selling a loan that you have not held for a while so that your motivation is not just to become a broker. You should be also holding on to, you should be participating in your own settle down so that you are at least a proportionate party to the consequences.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** If not completely dealing.

**Ramnath Venkateswaran:** Sure.

**Rajat Monga:** I think there are also issues by because ratings should not become the only methodology by which investments are being made or assignments are being, decisions are being taken by banks, there are host of issues, its not just only PSL. So, to answer your question, its too early to say how exactly some of this will finally become a reality, there is a Priority Sector Committee which is being set up separately, we need to see some guidance coming out of that committee as well, and how does that merge with the securitization situation. Finally, let's say if you can't securitize it, that is the inevitable, then you equivalent with an NBFC, you don't have to be through a securitization route.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** You could begin to work with NBFC as originators only, not as originators, bookers and sellers.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** There would be new models which will become; NBFCs have a valuable distribution channel that they have build. In the long run they might decide to become banks, some of them.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** So…

**Ramnath Venkateswaran:** So, my – yeah, I get what you are saying, the other thing would be that you could basically look at approaching this through building sustainable models by expanding into some of these areas and building capabilities on your own for some of these loans you know, that could also be a possibility just in case things becomes slightly more tighter?

**Rajat Monga:** That is already a possibility.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** And it is always in a possibility in the sense that even that part is going through a similar, lets say, rethinking process in terms of what was, because NBFC, see finally if NBFCs continue to be like they are, banks will not be able to do that on their own because of cost structures.

**Ramnath Venkateswaran:** Sure.

**Rajat Monga:** So both will have to happen, if banks are doing it on their own, it will also be because NBFCs are not able to do. It is because NBFCs do not get the same low cost funding anymore.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** Right? So things will get enabled for bank sourcing.

**Ramnath Venkateswaran:** Sure, yep.

**Rajat Monga:** And there will be less competition therefore.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** So both – it's all over a period, its – we are in that phase where it is difficult to anticipate what's going to happen in three months hence. But three years, hence we are reasonably clear, I think it's just a transition which will have to be managed and I would also depend on what RBIs view on that is, do they want NBFC or do they want NBFC? I think they want NBFC and you are not convinced that RBI purpose is that they don't want NBFC.

**Ramnath Venkateswaran:** Right.

**Rajat Monga:** So there has to be a balance. That balance is not very visible, and I think the moment it becomes visible some of the answers will be the borrower needs money, he is a priority sector borrower. I don't think the Government or Reserve Bank of India will comprise the borrower in the process, because that is the main agenda, right? So whether it's a bank, whether it's an NBFC, it obviously has to be with checks and balances.

**Ramnath Venkateswaran:** Right. Yep, thanks, thanks Rajat.

**Moderator:** Thank you. The next question is from the line of Aditya Garg from Goldman Sachs. Please go ahead.

**Aditya Garg:** Actually, could you tell us what is the nature of your investments portfolio and what's driving increasing the yields?

**Rajat Monga:** Well, investment portfolio has two parts, one is the results which is what we call SLR, that is almost entirely constituted by government securities. So as we add to this portfolio, as well know the interested environment is now nominally at a high. So as we add to the portfolio we naturally increase the yields because the marginal yield on the – in adding anything to the portfolio is only going to lift the portfolio yield.

**Aditya Garg:** Right.

**Rajat Monga:** Secondly, we have also seen the mix of non-element paper increase on our portfolio so which could be commercial paper, it could be bonds issued by our clients. Those naturally come at a price which is couple of percentage better than the government bonds. So as that shed off the overall investment portfolio is increasing so is the portfolio yield.

**Aditya Garg:** Alright. So what is the split between government securities versus non-government investments?

**Rajat Monga:** It will be about 65/35.

**Aditya Garg:** Okay. Good. And so, what is the criteria for differentiating between loans two-third grades whether on under restructured book versus NPA book for example, the 90 crores of MFI loans which?

**Rajat Monga:** NPA is basically where money is not coming.

**Aditya Garg:** Yeah.

**Rajat Monga:** Restructure is basically where you agreeing with the company under prescribed regulatory regime to receive the money later. NPA can also be on account of non-receipt of interest.

**Aditya Garg:** Okay.

**Rajat Monga:** Restructuring typically happens when there is in the judgment of the regulatory administered process and banks that there is economic value remaining in the business, so we need to preserve it.

**Aditya Garg:** Okay.

**Rajat Monga:** Typically restructuring is a preservation process, NPA is a recovery initiating process. The bankers of the borrowers have to choose whether they want to preserve or recollect.

**Aditya Garg:** Right.

**Rajat Monga:** It's a difference between restructuring loss. Then he will decide to recover.

**Aditya Garg**: Got it.

**Rajat Monga**: So you liquidate collateral, you will liquidate the company. You'll unwind the business. You will have operations most likely and you will begin to unbundle and rely whatever value can be updated.

**Aditya Garg**: Right.

**Rajat Monga**: In this spring, it is thought better in the judgment of the bankers and the administrators that there is economic value to be preserved. Therefore in this instance, let's re-look at how the company has financed. It might have required definite amount of principle of the loan because of the short-term compromise of the business model and the restructuring. It could require sacrifice of principle because the economic value is there but damaged that is cannot payback service tax that already taken, so it might require haircuts, that is another form of restructuring. One form of restructuring is to reduce even the interest and that is not called restructuring, but at times you may just be required to reduce the interest as well.

**Aditya Garg:** Alright, got it. Got it, got it. Given the current environment, do you think the current NPA level of 0.2% is manageable in the next 12 months to 18 months?

**Rajat Monga:** Well, I think the – it's not the easiest thing to predict in terms of what the NPA picture will be. Let me say that our NPAs have been of this order for the last 18 months.

**Aditya Garg:** Alright.

**Rajat Monga:** The precursor to NPA. So the book that we continuously monitor, which is not NPA, but it could be – for example, like we were discussing it could be restructured; and therefore, a potential problem. It could be otherwise servicing that, but material developments have taken place that there could be a near, medium-term damage. We label these assets, we take proactive provisioning on some of these assets. They can become NPAs, but what I was also wanting to mention is that we are not seeing any runaway development in that book either, which could be a forerunner of an NPA picture developing or higher order of restructuring requirements taking place over the next couple of quarters. So like I said, I mean, it's not the easiest number to tell because we don't default, our clients default.

**Aditya Garg:** Alright.

**Rajat Monga:** So it's more their prerogative and if I may say, it is or their compulsion.

**Aditya Garg:** Right, right.

**Rajat Monga:** But hence is that it looks quite balanced. We are not terribly worried at this point in time. It doesn't mean that we will not focus on risk management issues. We know that the western backdrop is not great. We know currency is volatile. We know that the local economy is slowing. We know interest rates are high. So we have to look at consequences of all of these top-drawn variables and draw bottom of inferences, and take decisions to exit exposures when they are – so far good, but prognosis has become poor. In hand collateral with some of the situations because NPA doesn't mean the money is gone for good. If you have collateral, the chances of recovery are still there. Or restructure also, sometimes problem is only time, it is not the business.

**Aditya Garg:** Got it, got it. Will you provide details on your asset liabilities maturity profile?

**Rajat Monga:** Yeah, I mean, our loan book is about 20 months in maturity. At liability book is about similar.

**Aditya Garg:** Got it, got it and could you also provide the cost of funds breakup in terms of borrowings versus deposits, what it is?

**Rajat Monga:** Need to look down at that number. So if you have another question, may be I'll take that first.

**Aditya Garg**: No sir. That's it from my side. Thank you.

**Rajat Monga:** Okay.

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

**M B Mahesh:** Good evening. Just a question on this – on the branches side, this addition that you are seeing, which has been fairly strong over the last couple of quarters, has it got anything to do with the new guidelines, which is effective from next year with respect to 25% in the – with your five Tier-6 city?

**Rajat Monga:** Not really. I think we do have one motivation, which is that we want to do some of this before the new census becomes effective.

**M B Mahesh:** Okay and how do you see this new guideline affecting you in the next – let's say when you want to build your branch network to close to about 750 by 2015?

**Rajat Monga**: Let me say this guideline, you are referring to the 25% Tier-5 and 6 cities?

**M B Mahesh:** Yeah.

**Rajat Monga:** Okay. So let me say the -- this guideline was not effective our practice, may be it was not very visible in terms of in the public domain, but RBI, in turn was already practicing this. Not fully, but partly so, because the licenses that we will get from RBI couple of years ago will always have that this bias in those bunch of licenses.

**M B Mahesh**: Correct.

**Rajat Monga:** So, what I'm trying to come to the point is that since we were the younger of all the banks, while all banks were getting the same incremental mix, our average mix was the closest to the incremental mix, because we were younger – newer on the field. So most of our branches have already been granted with – I would say as 60%, 70% factoring of the current guidelines. Not 100%, but 60%, 70%. So we don't – you will not see us get that greatly challenge because we are 60%, 70% already there, even including our past licenses. My fear is that RBI might also insist that banks should be 25% not on incremental, but also on total.

**M B Mahesh:** Okay.

**Rajat Monga:** For the banks, which already have 2,000 branches or 1,000 branches may also have to deal with the consequences on their aggregates, not just increments.

**M B Mahesh:** But given this backdrop, you are not going to change your strategy with respect to branch expansion?

**Rajat Monga:** Not really. I mean – I think what you see is possibly that the branch strategy might need to accommodate more numbers.

**M B Mahesh:** I'm sorry. Would that be more than 750 or?

**Rajat Monga:** Possibly yes. I mean, possibly yes because this is also an evolving phenomenon.

**M B Mahesh**: Okay.

**Rajat Monga**: And the lot of the Tier-5 and 6 branches are not going to be that burdensome and cost either.

**M B Mahesh**: Okay.

**Rajat Monga**: These are going to be 500,000 cost branches.

**M B Mahesh:** Fair enough. Just one clarification, your employee base is up 30%, but your staff cost is only up 25%. I think you answered a little bit this question earlier, but just wanted to clarify this why do we see this big difference? Because you were saying that this cost also includes some of the one-offs in the current quarter.

**Rajat Monga**: No, not necessarily one-off, current quarter should be quite normal as far as the hr staffing system, but we are not hiring the same average cost. We are not hiring – thankfully we still have one CFO. So I think the way we are looking at it is that the lot of the incremental hiring is also getting at lower cost. So while the numbers are growing at 30%, but the costs are not growing at the same rate.

**M B Mahesh:** Okay. It is just one last question. See one of our – you know, when the balance sheet was going very aggressively, the CASA ratio was also going fairly strong and that kind of overshadowed the ratio, but now you've slowed down the balance sheet growth quite comfortably, but yet the CASA ratio is still kind of trending in the way the balance sheet is growing. See, if just wanted to understand why do we see this and second, if tomorrow interest rate were to decline, isn't that a possibility that the balance sheet actually will start expanding at the same as probably at the faster pace than what it is today. So what I particularly means that the corporation may not improve at a much rapid pace.

**Rajat Monga:** I think in my sense, the balance sheet or the opportunity will expand at a faster pace in the rising rate part of the cycle typically. The falling rate part of the cycle, will be accompanied by a poorer economic activity and therefore, that bit of a lesser opportunity. So yes, on the balance sheet, let's say lower expansion of balance sheet, if accompanied by falling interest rates, these are very good CASA period in terms of if I have to define that on the cycle. Rising rate environment is actually a very good growth period because that's when economy is growing, which is the reason rates are raising and therefore there is loan demand as a consequence. Fortunately last six months, we had a period where rates are rising, but in our case, the growth has been little bit off-color for other reasons, which are more related to – I would say, more to risks and value than anything else. So yes I think if they are looking at 12, 13, year being a year where rates will come lower. I think we are looking at CASA performance being dramatically better therefore. The second part of CASA is also that we still have a – let's say underperformance on the savings account on the balance sheet. Not necessarily, underperformance on the business side, but on the mix side, we are not – we are only 2% of mixed in the form of savings account and savings account tend to be the ones, which are less exposed to the cycle, they're of course exposed a little bit more to interest rates because of the motivations are putting money moving from savings accounts to fixed deposits. But yes, our – the current account business has not been added best thing in the September quarter, which is where the outcome has fallen little bit behind in terms of – in fact, we had a flat current account performance, no growth.

**M B Mahesh**: I – just one last question. Is that a – what is the difference between – in the breakup of loans between power and electricity?

**Rajat Monga:** Electricity is actually more transmission, distribution, essentially to do electricity purely and power is to do is everything, which is not necessarily only electricity. It could be power equipment, it could be power project, which is not necessarily completely electricity in that sense. So it's not an easy divide, I must say.

**M B Mahesh**: Okay, thanks a lot.

**Rajat Monga:** Alright, welcome.

**Moderator**: Thank you. The next question is from the line of Vivek Doval from Boyer Allan. Please go ahead.

**Vivek Doval:** Hello, yes. Just a very quick question. Just want to understand that the advance growth in the quarter was about 13% year on year. When you actually look at your loan growth target for the full-year et cetera, which I understand is probably the range of around 35% or so. How – you know, how does this number tally with that and you know, is there a cautious decision to go slowly given the current economic environment?

**Rajat Monga:** I think yes. I – there is a general and definitive risk management imperative, which is their in – expressed in our growth outcomes. Dominance of that imperative has been more from – also from the standpoint of de-concentrating or de-bulking of our exposures because the situation today from risk management standpoint is not necessarily very – I would say driven by the stage of the business cycle, but also driven by the environment, which has been little bit prone to be exposed on the political front and the consequences are very uncertain unlike the business cycle, which is more better understood variable for a bank. So we are definitely responding to the environment in terms of our growth outcome, but I must mention that we are not saying that therefore we will not grow at all. We are very conscious and very open to new opportunities, which are – I mean, our judgment gets only better in this environment because we are checking other situations from various risk constraints, which could be political, which could be environmental, which could be cyclical.

There is sometimes a value imperative as well, which has been also been playing an important role in our outcome, especially given that we had a very sharp change in interest rate environment over the last 12 months, which means that there were low price loans, which we were contending with for the some of the low price loans were also – large ticket loans, given that they were too the better-rated companies. So in the process of value maximization and de-concentration, we had to shed – we also ended-up shedding exposures as a strategy and that is a process we are mentioning earlier on the call is in our judgment substantially over and we could look at our business outcomes now on the revised base and in the revised environment.

That gives us some confidence that our growth outcomes will now begin to nominally higher in so much that we can look to even delivering a 25% year on year advances growth by the time we close the financial year. So yes, there is -- that bit of balance that is there now in between risk and growth definitely so. I think the environmental was clearly very good about 12, 15 months ago. That also leads to unreasonable competition, if the environment tends to be too good for too long. I think in this environment, we also feel more excited about doing more intelligent banking and not just competing only on price, which is the competition we see lot more often in very good times. So I think it is a time for mould discerning banking outcomes. If that comes with growth, I think we will take that .

**Vivek Doval:** Right, thank you very much. Just one another thing, when I should look at the system-wide credit stresses, I just done today, what you are seeing in the market and how do you foresee in the next 12 months? Do you think it gets exaggerated from here on or with falling rates, et cetera – you know, things are likely to kind of remain at the current state and probably improve going forward.

**Rajat Monga:** But I think – we, at least I – we don't draw a whole lot of connect between stress and – or let me say, asset quality stress and interest rate behavior. I think the asset quality stress will be predominantly driven by the fundamentals of the business more than the price that they pay for funding their working capital. Yes, maybe some new projects will be checked because of higher cost of interest rates and therefore there is no question of asset quality arising even those projects may not happen. I think the situation that we are dealing with today is slowing economy. I think the economy is not slowed down that bit, but it's still slowing.

It's not going at 9% plus, but it is still going at 8% minus, I think which is still a decent performance. So there is bound to be some stress in a slowing environment, but are we already isolating those stressed parts of the economy? Not really. There is a situation in the microfinance institution sector which has been there for the last 12 months. So that is one known variable. I think there is more anxiety less on the ground development yet on the some of the power situations where projects have been challenged given the price differentials between local coal and imported coal. They have also been challenged given the certainty of supply of coal. Many of the projects are still on the drawing board and have not yet taken shape, many may get scrapped as well, but some are underway. And I think those are the situations we will have to watch out for in terms of developments both on the policy front as well as on the ground in terms of project execution as well as supply chain integration.

I think these are developing situations. They are not like consequences that we are dealing with right now. I think the currency has depreciated so that should bring a good 5%, 10% relief to exporters, but not yet. It will bring relief over a period. Exports have been doing surprisingly very well. We are at a – I mean, though there are people not speculating about how or whether the export numbers are true or they are a consequence of some other phenomenon, but inherently, I think there is still base case that we are building that the Reserve Bank will work towards bringing the economy to a soft landing. And we have in general visibility that inflation which is the predominant macro-variable which is driving the interest rate stands of RBI will begin to ease by, but meaningfully the number will become easier only by March.

I think we have tough six months in that trade off to content with. I think the momentum on inflation on the manufactured goods side has definitely slowed down, while the inflation is still positive but the momentum is broken. We're predominantly dealing with – still dealing with the food and fuel led inflation given the delayed transmission of market prices into the economy. That means, there could be, diesel prices for example can cause some havoc if they are raised in certain sectors which are heavily dependent on diesel as a raw material. So there are still some variables which are out in the open un-crystallized can have downside from here. So we are – I must acknowledge to the extent that we are on the look out and watch for these variables, but we are not dealing with consequences on that front yet.

**Vivek Doval:** You're right. And even just on the SME sector and of course there has been many different sectors but on account of the fact that you know they are paying higher interest rates plus you know they've seen variety of inflation actually also you know – where inflation being quite strong over the course of last year. Are you seeing you know credits crisis in the SME segment broadly into the economy becoming quite unbearable for them?

**Rajat Monga:** No, actually – it depends on what unbearability is, because I think the borrowings I think have become 2% more expensive for the economy at large. I don't know if 2%, if 10 has become 12 is that a reason for stress to become, let's say, untolerable. I think what we look at sometimes is the fact that Reserve Bank of India has raised rates so many time and they started with a policy operational rate of reverse REPO at 3.25 about two years ago and have now taken the policy operative rate which is now REPO at 8.25, so has therefore put 5% increment to interest rates in the economy, but that's not the performance of interest rates on the commercial banking side because rates were never brought by the bank so low in the first list. I don't think SME is whatever borrowing below 10% or 11% even in two years ago, because they have inherent risk in, with the banks have to price – most of the benefit of low rates were actually going only to the very large and many PSU government kind of borrowers.

So I think we have to look at the rate stress in that range, couple of 100 basis points is what we are dealing with as the rates spread. In fact lending two projects actually has not even gone up by that much. The project lending was never cheap; it was always at 11% even two years ago, because the rate environment in India nobody believes will be at 3% for good given for historical reasons as well as given the views that people hold. So it depends how we look at it. I don't believe it's on that stage where we can begin to call it stress. I think I am feeling more concerned about the economy going too slow, that will bring more stress than interest rates.

**Vivek Doval:** Right. That's very useful. Thank you very much.

**Rajat Monga:** Thank you, Vivek.

**Moderator**: Thank you. The next question is from the line of Neha Dave from ING Investment Management, please go ahead.

**Rajat Monga**: Hello.

**Moderator**: Neha your line has been unmuted, please go ahead. So there is no response from the line, should we move on to the next question?

**Rajat Monga**: Yes, please.

**Moderator:** The next question is from the line of Subramanian P.S from Sundaram Mutual Fund, please go ahead.

**Subramanian P.S:** Good evening everyone and congrats on a good set of numbers.

**Rajat Monga**: Thank you.

**Subramanian P.S:** My question was, on the advances a little bit, you're talking about that you'll do 25% this year, it seems very high number from where you're right now. So in that context just wanted to understand how different would your advances mix be by the end of this year, would you once again be more wholesale than you're right now and what implications could that have on margins and ROEs?

**Rajat Monga**: Well, I think the growth that we are looking at is for example if you just size up the growth 25% growth on the March base it will give us about 8,000 crores net growth to be in terms of delivery for the year. I don't -- I mean, again it depends. I don't think it is a commercial challenge. It is more – it is in this environment more a challenge of balance between risk and reward. It's not going to be a commercial challenge, in the sense that it needs not change – alter the trajectory of our loan mix that we are targeting, so this is a number in good times we can deliver in a month.

**Subramanian P.S:** Okay, go ahead.

**Rajat Monga**: So it's not – if it has to be from larger borrowers that is. So it's – I think what we need to do what we are using this opportunity is to make our loan mixes, our loan growth more sustainable, more granular in the larger scheme of things that is. So it's – the headline growth is not something that we see feel terribly challenged in terms of delivery, I think we will be checking that if at all lot more from the risk standpoint.

**Subramanian P.S:** So does this mean that towards the end of the year you'd further see your strategy of moving into branch banking lending, commercial banking lending gathering pace?

**Rajat Monga:** Well, I think the pace -- what would happen is that you know the branch banking, the pace cannot – it cannot be on/off so much in branch banking.

**Subramanian P.S:** Sure.

**Rajat Monga:** Branch banking pace has to have its let's say a medium-term momentum.

**Subramanian P.S:** Right.

**Rajat Monga:** We can talk possibly not switched it off or on, you can accelerate or slow that down, that trajectory cannot be sharply steeper or flat.

**Subramanian P.S:** Fair enough.

**Rajat Monga:** We can switch on/off in the corporate banking business.

**Subramanian P.S:** Okay.

**Rajat Monga**: And it's definitely more switch on/off-able and commercial banking will somewhere stack up in the middle of the two kind of outcomes.

**Subramanian P.S**: Okay.

**Company:** I think it is in fact a predominant expression, which depending upon the part of the business cycle, the risk environment as we continuously trade off and opportunity. I mean, the opportunity – some times there are opportunities but they are of low qualities, so we don't have to grow when the opportunity on the margin is on a poor quality.

**Subramanian P.S**: Sure. My other question was on your CASA, once again I was just looking at your CASA with one year lag of branch opening and even that seems to be trending down. So and – so I mean just to take over the argument that most of your branches are new branches, just tried to do this exercise and you know sometime around Q2 FY'11, this will go to an average of 32 crores per branch of CASA and now it's 28 crores, so anything you think is lacking or any gaps that you have in your liability profile that you would seek to address now?

**Rajat Monga:** Well, I think – I don't think business is actually fundamentally weakening, I doubt. I think it is definitely clearly improving. This is – this has a mathematical answer more than anything else. I think we – let's say, if I can divide us between last 18 months and five years prior to that in two parts, I'll if you allow me.

**Subramanian P.S**: Yeah.

**Rajat Monga:** Both of these parts have had 150 branches each that we have put together. I think the problem with us is too many branches too soon, more than anything else. So we, that's the pace which is causing the averages to weaken, but it is not that what is causing the business is definitely clearly improving, I mean the sense that at least we get from the deals that we close, the corporate salary account mandates that we are getting, the cash management mandates that we are running with, the breakings that we are getting with government as well as with other large opportunities, I think there is no slowing this down. I think branches are also sometimes a matter of outcome in terms of are they commercial branches or are they residential branches. Okay, residential branches have higher gestation I must mention that. Commercial branches can hit the ground more running because they can be supported by CRM, they can be supported by corporate relationship groups with the same customers which is not so much true in the residential branches, because you need to get raw liabilities.

**Subramanian P.S**: What would be the mix are currently, residential, commercial if you could share that, what would have it been an year back?

**Rajat Monga:** I think the year back would be – will be predominantly commercial.

**Subramanian P.S**: Okay.

**Rajat Monga:** Because we – when we had 150 branches you'd have hired them in about 100 locations. It's a lot of one branch per location kind of situations and those branches will be downtown branches. More current account versus savings account if I must say and savings account will pan out over a period. I mean, this is something which we have to keep building with our heads down. Don't look at some of these short-term outcomes. We have to get our branches to 750 or higher before we can say we have enough to be able to make our model optimum on liabilities, on SA particularly. We don't need so many per CA.

**Subramanian P.S:** Right. Thanks and all the best.

**Rajat Monga**: Thank you.

**Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal, please go ahead.

**Alpesh Mehta:** Hi, Rajat.

**Rajat Monga:** Hi, Alpesh.

**Alpesh Mehta:** Congrats for the good set of numbers. Just a clarification about your restructured loans, as of 1Q there was no – there were no restructured loans on account of MFI, right?

**Rajat Monga**: Yes.

**Alpesh Mehta:** Okay and the outstanding MFI exposure for us on balance sheet or off balance sheet whatever?

**Rajat Monga:** Maybe another 150 to 200 crores.

**Alpesh Mehta:** So the total exposure would be around 300 crores, roughly?

**Rajat Monga:** Yeah, lower than that, yes.

**Alpesh Mehta:** Okay. Secondly, in terms of your non SLR book, is there any norm by the RBI that you can have it as X percentage of your net worth, or X percentage of your overall balance sheet?

**Rajat Monga:** On the non-SLR book?

**Alpesh Mehta:** Yeah, any norm from the RBI?

**Rajat Monga:** Not that I am aware off.

**Alpesh Mehta**: Okay and the outstanding branch licenses that you've been earned right now?

**Rajat Monga:** Unexecuted branch licenses it will be between Tier 1 and Tier 2, 56.

**Alpesh Mehta:** Tier 1 and Tier 2, 56, so you would be doing that over a period of next three quarters or two quarters?

**Rajat Monga:** Yes, three. We just got this license, so it will take us – there will be some gestation earlier on, they will not see lot of implementation in this quarter, December quarter.

**Alpesh Mehta:** Okay. And the last quarter the branches that you opened 50 branches, most of them would have been between Tier 3 to Tier 6 cities or part because of the licenses that you had in hand.

**Rajat Monga:** I would say predominately both, there were some licenses which were pending completion, which were being earlier licenses, which were not divided between Tier 1 and Tier 6, they were like name licenses. So this year regime has changed from name licensing to more tiering. So this quarter we would have done I would say a predominately between Tier 1 and Tier 4.

**Alpesh Mehta:** Between Tier 1 and Tier 4.

**Rajat Monga:** Have been the predominant branch content, so five and six would have been there, but not many.

**Alpesh Mehta:** Perfect. Thanks. Thanks a lot.

**Moderator:** Hi, due to time constraints we shall now end the conference call; I would now like to hand the conference over to Mr. Pathik Gandotra for closing comments.

**Chinmaya:** HI, this is Chinmaya. Thank you everyone for being on the call. Thanks a lot Rajat for answering all the questions patiently. Thank you so much.

**Rajat Monga:** No, thank you, Chinmaya, and thank you all for giving us this hearing and we will hope to see you again in the next quarterly call. Thank you.

**Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.