



## “YES Bank Q2 FY17 Results Conference Call”

**October 20, 2016**



### **MANAGEMENT:**

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the YES Bank Q2 FY17 Results Conference Call. We have with us today members from YES Bank Top Management Team; Mr. Rajat Monga –Senior Group President, Financial Markets & CFO; Mr. Pralay Mondal – Senior Group President, Branch and Retail Banking, Mr. Ashish Agarwal – Senior Group President and CRO and Mr. Jaideep Iyer – Group President, Financial Management.

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

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

**Rajat Monga:** Thank you. And thanks everyone for joining our results call. We will be sharing a brief summary on our view on the broader economic and banking sector backdrop as we are experiencing in our business and we will then delve into the details of the results of this second quarter of the fiscal year 2016 – 2017.

We have seen the Indian economy gain momentum in this quarter as well as the few months and quarters gone by. I think the government's growth oriented policies, their focus on public investment and somewhat complimentary consumption demand dynamics have been gradually improving the broader economic dynamics. Among some of the events, the passage of the GST Bill in the Parliament is looking to simplify the tax regime, improve productivity, boost manufacturing, hopefully dismantle the barriers of movements of goods and therefore create a productivity leg-up for the economy as such. We have also experienced a fairly steady currency backdrop. I think the Indian Rupee or INR has been remarkably stable despite a fair bit of turmoil in the global financial markets, some geopolitical sort of precipitation in the local context as well. And in the larger scheme of things, if we look at over the last two years, particularly I think the Indian Rupee has been pretty steady in the backdrop. And in the current fiscal it probably has outperformed almost of its Asian peers.

I think the other recent development has been the partial rollout of the disbursements under the 7th Pay Commission. I think complimented by a good monsoon is all feeding into somewhat more improved consumption side demand. While there are more variables to be observed on that side but the tailwinds seem to be overruling the headwinds at this point in time. For this full year we now are expecting a GDP growth of 8.1% which should be very encouraging in the backdrop. Similarly, we think we will have a consolidation position on the fiscal deficit side. The tax revenue continues to be buoyant, we are expecting the fiscal deficit for the current year should settle at about 3.5% of the GDP and possibly the lowest in the last eight years. Correspondingly, the current account well seems under tight control at a 0.7% of GDP in terms of a deficit that we are expecting and this might be a 12 – 13 year low as such as far as



the current account deficit position is concerned. The balance of payments has also turned respectably surplus, we are expecting about a \$20 billion surplus for fiscal year 2017 and this compares to particularly large deficit of about \$70 billion for FY13 a while back which was when we had a little bit of a challenge on the currency side as well.

On the inflation side, we believe the inflation is likely to undershoot the 5% target which the system is currently working towards. I think it is possibly going to be the second consecutive year where the inflation has been comfortably below the target framework that is being pursued and we are hoping that this will be giving RBI headroom to ease their policy rate by another 25 basis points in the short-term.

I think as a sum of all of this, the external sector position continues to be comfortable, reserves touched an all time high in this quarter, they are now correcting on account of fulfillment of the FCNR deposit related outflows that may have begun as we speak and the overall position on reserves remains reasonably comfortable.

I think some headwinds which need to turn into tailwinds that continue to be a matter of risk and observance of risk relate to both the stress resolution related to the debt situation in the economy and the resumption of a private sector CAPEX, I think these two subjects continue to remain of some concern, though improving. However, I think the expectation is for this process to take another 12 – 18 months to come to a logical next step platform.

This was a quick backdrop on the economy. We would give some statistics and data on our current financial performance. We are reporting a 29% increase in total assets, the Bank is about Rs. 1.87 trillion in assets, that is about Rs. 1,87,000 crores. In this quarter the loan book benefiting from a benevolent base of last year did very well, grew about almost 38% on year-on-year basis resulting in the total loan book touching about Rs. 1.1 trillion. The underlying growth continues to be reasonably diversified across sectors which the Bank has been reporting and we also have a sectoral mix reported in our current annual release as well. The Bank has also been seeing a continuous growth in its international banking setup which is an offshore branch that has been initiated about same time last year in the Gift City, it is an international banking unit or branch and the book is running close to about \$700 million which has come up all of in the last 10 - 11 months. There has also been a healthy addition to the growth opportunity for the Bank.

The mix between corporate and non-corporate continues to be hovering with small changes in the range of two-third versus one-third. However, within mix of non-corporate is continuously turning favorable in favor of more retail and more micro-SME and in general more granular. In our core consumer lending we saw a 100% year-on-year growth and a 20% quarter-on-quarter growth on a sequential basis. On the micro and small enterprises business the Bank saw a 50% year-on-year growth on a relatively larger base as well. I think the Bank's objective remains to take the retail and SME mix to closer to 45% by 2020 and correspondingly the corporate mix should level off to about 55% by that time. And in the meantime, while the mix has been



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relatively stable in terms of change off late, but the inter same mix has been showing a reasonably good improvement.

A few comments on the deposit and CASA side as well. The deposit base corresponding to the asset base grew about the same rate at about 28.9%, we now have about Rs. 1.28 trillion of deposits. Within deposits CASA continues to grow healthy, reasonably at a healthy rate of about 53% and the total book of CASA is now close to Rs. 380 billion. We also crossed the 30% CASA mix threshold in this current quarter which continues to be encouraging for us to take our CASA mix to even more logical, higher mix levels. Within CASA we saw a roughly equalish growth between savings accounts and current accounts, both grew in the range of 52% to 53% on a year-on-year basis. The CA deposits had some benefit of additional float funds as well towards the end of the quarter. The retail deposits along with CASA as a mix have reached about 56.5% of the total deposit mix, this proportion was 52.5% same time last year so we also continued to look at retail and CASA funding, taking higher and higher share of the total funding with a 2020 destination objective of between 70% to 75% of the Bank's total funding. Total deposits should be coming from either CASA deposits or retail term deposits.

Moving to the logical outcomes or income. The Bank saw, on the back of plus-minus 30% growth on most balance sheet variables saw a net profit growth of 31.3% as well, we are reporting net profit after tax of Rs. 801 crores or Rs. 8 billion. This is on the back of a small NIM expansion as compared to the same quarter last year, we are reporting 3.4% NIM in the current quarter as compared to 3.3% in the corresponding quarter of last year. The net interest income as a consequence of balance sheet growth and some uptick in margins grew at about 30.5% and the non interest income grew at about 43%. The yield of advances has been moderately correcting quarter-on-quarter following the interest rate scenario in the economy, our yield on advances now stand at 10.9% and cost of funds stands at 6.8%. The Bank is currently reporting small improvements in ROA and ROE positions as well as compared to the sequentially previous quarter the ROA has moved up from 1.7% to 1.8% and the ROE has moved up from 20.7% to now 21.4%, all the ROA and ROE numbers are on annualized basis.

Moving to the subject of asset quality. I think we had a reasonably resilient performance on the asset quality front as far as the current reporting quarter is concerned. We are reporting a gross NPA position of 83 basis points, that is about Rs. 9.16 billion of loans. We are reporting a net NPA position of 0.29% which will be a Rs. 3.23 billion of net NPA position. The slippages for the current quarter at a gross level will be Rs. 3.01 billion and given the increasing dynamics related to recovery of past NPAs, the net slippages for the quarter are Rs. 1.81 billion. The Bank has made one sale of loan as well in this current quarter which has resulted in a small increase in the security receipt position of the Bank and that would now stand at 23 basis points to loans. The restructured book continues to moderate, from the year ago period there is a significant moderation, the restructured book has fallen from a position of 71 basis points to loan book to now a 46 basis points position. And there are observable improvements in a good



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majority of the underlying restructured loans as well and the bank would like to believe that the trend of moderation of the restructured advances position should continue.

The SDR is a continuing position, we have had one exposure which has gone through a 5/25 refinancing in this current quarter and the 5/25 book stands at 9 basis points to the total loan book. I think some of the so-called sensitive sectors like iron & steel or electricity or EPC companies, I think the Bank is reporting no notable changes in this current quarter, if at all there are some reduction in business mix coming out of some of these sectors. However, particularly relating to steel and EPC businesses the Bank believes that the underlying structure of businesses is already on the case for improvement.

The credit cost for the current quarter will stand at 11 basis points, this is a bit of a reduction from sequentially previous quarter where we had reported a credit cost of 16 basis points. We are also lowering our range for the full year credit cost expectation, we had earlier indicated at the beginning of this year a credit cost expectation of between 50 and 70 basis points. We are taking a token correction in that estimate to now down to 50 to 60 basis points. Given that, we have the data for the first six months of the year. The specific loan loss coverage has remained flat at about 65%, the exact provisioning for the quarter on account of credit matters stands at Rs. 1.62 billion. The capital position being reported for total capital will be 15.0% and the Tier-I capital will be 10.1%. Total capital funds stand at Rs. 23,118 crores, that will be about Rs. 231 billion. The Bank is also reporting a sufficient coverage on liquidity, we have a position of about 84% LCR coverage which is reasonably above the regulatory threshold, minimum currently prescribed at 70%.

The Bank has had some new initiatives that got executed in the quarter gone by, one of the most awaited ones was the launch of UPI which is the Unified Payment Interface which has been commissioned by NPCIL. YES Bank had been in the user group which was also closely working with the NPCIL to launch the product, so we are now the first bank to create a UPI compliant mobile app for large ecommerce players who are now using the YES Bank's software development tool kit or SDK as we call it and we have already witnessed about a million downloads of such apps where the UPI handle will be a YES Bank handle. And the monies that are collected by these merchants when customers make payment from UPI will be collected by YES Bank on these merchants' behalf. So it is like acquiring design for UPI that the Bank has already gone live with in this current quarter. We have also introduced the Chatbots in terms of trying to automate the query handling, particularly related to some cross-selling and customer service requirements as well as some customer acquisition requirements. So I think we were happy to be among the first banks, while we are not sure but possible the first bank as well in India to be able to announce that we have chatbots which are already out there in terms of helping us service our customers better. We have also launched IRIS and EMV ready payment solution with our partner called lastmile.mobi, I think that is also going to be one exciting sort of opportunities for the Bank to pursue. We are also ready to implement the location base personalized offer services so that we are able to also relate to where our



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customers are and therefore what kind of offers are being relayed to them, including some instant offers.

A couple of other highlights of the quarter would also include some items related to fund raising, one was on account of green bond fund raising that we have signed up with FMO, that will be a \$50 million green bond that the Bank will be issuing to the Dutch Development Bank called the FMO. The Bank also has raised towards the end of September one domestic tranche of infrastructure bonds, essentially a senior debt being issued for a size of Rs. 2,135 crores, that is about Rs. 21 billion for a tenure of 10 years at the price of 8% per annum. I think this was a couple of summary on the fund raising.

I think we also got a very encouraging recognition in this current quarter when the bank was adjudged the global winner in the payments category by The Banker magazine, I think this is where we were essentially facing off with global bank names, it is not an Indian recognition, it is a recognition at a global level and we are happy to be recognized, positively surprised as well. Also, we recognized by The Global Finance magazine as a digital bank of distinction for the year 2016. So I think the transaction banking technology and digital interface, while it is coming through in terms of the Bank's business outcomes is also getting due recognition by various stakeholders as well.

This was the summary of the results and the commentary that we had in mind to share. We will be happy to take questions now.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Marukh Adajania of IDFC Securities. Please go ahead.

**Marukh Adajania:** Just wanted to know why your consumer loan growth has been softer than the corporate loan growth, so just some explanation on that. And also if you could break down the FOREX debt income, because it has been really strong, it has overtaken even the corporate banking income.

**Rajat Monga:** Okay. So on the first of the question, Marukh, which was relating to the consumer bank, I think the consumer bank number that we put out is a combination of the consumer business that we are self originating as well as consumer business that we also acquire in order to largely fulfill our priority sector requirements. On priority sector what has changed beginning this year is that you do not need to acquire the portfolio any more because the Reserve Bank has introduced what is called the PSLC, Priority Sector Lending Certificate, so we need not buy assets, if we are running short of priority sector we could just buy this right and this right is only a P&L entry, it is not a balance sheet entry. So, as our old consumer book is running down, it is not getting a commensurate replacement because we are getting a P&L entry and not a balance sheet entry, so assets are not transposing, only right is being exchanged, so which is one of the reasons that this particular quarter we saw a Rs. 1,500 crores reduction on discount.



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On the second part of your question, so just to wrap up the first question a little bit, so the Bank's own origination continues to be doing actually pretty well, like I mentioned in my commentary the like-for-like increase is 100% on year-on-year basis and a 20% on a sequential quarter-on-quarter basis. This was relatively good trajectory quarter, so we would have had about Rs. 150 crores of income, so Rs. 1.5 billion of income that we can attribute to monetization related to selling government bond holdings.

**Marukh Adajania:** And last quarter was 40, is that correct?

**Rajat Monga:** No, it was close to 100, I think maybe last year it may have been close to 40.

**Marukh Adajania:** And just one last question, what would be the impact, if any, of the recent Essar deal on your loan book?

**Rajat Monga:** We are not particularly looking at any immediate outcomes in terms of from the Essar, you are talking about Essar Steel and Essar Group or security receipts?

**Marukh Adajania:** Yes, the SR Oil deal, how would that impact your exposure to the Essar Group?

**Rajat Monga:** So, let's say if we have an exposure to Essar Oil it will possibly move, it is only the owner which is changing. So we do not have a holding company exposure in Essar.

**Moderator:** Thank you. Our next question is from the line of Veekesh Gandhi of Bank of America. Please go ahead.

**Veekesh Gandhi:** I just had one question, your growth has been very strong this quarter and your Tier-I is now 10.1%, so any thoughts incrementally of how do you plan to manage both?

**Rajat Monga:** Yes Veekesh, so I think on one hand we are looking respectable on our ROE outcomes, so the Bank also continues to generate internal capital pretty decently, I think we possibly are reporting among the highest ROE in the peer group set. So that means that a good 20% year-on-year growth is a self-sustaining sort of a structure as it looks in the current operating structure. On the other hand, while we have had not a successful attempt to raise capital, the position on approvals continues to be all valid till June of 2017, so we have a reasonable intent to complete the capital raising before that so we just have to let the dust settle a bit around this as its not a so successful attempt. So we are otherwise fully enabled and we could continue to evaluate the growth opportunities and the need for capital and growth opportunities in terms of how much they will be in excess of the self sustaining rate which is close to 20%. So that opportunities continues to be compelling, I think there is, like I was mentioning in my commentary that we believe that there are more tail winds than headwinds now and the tailwinds are only getting stronger, I think the economy will have a much better picture to be reporting 18 months hence and we want to sort of take advantage of that growth that will line up in the process and the reduction of risk that will materialize in the same period. So, capital



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raising is very much on the planning sort of horizons, and like I was mentioning our resolutions are all valid and we can begin to look at a capital raising when we want. It is at least till June 2017 that we do not have to look at any other approvals or thresholds to be fulfilled.

**Veekesh Gandhi:** Also can I have a couple of data points, one is, what is the breakup of your provision for the quarter?

**Rajat Monga:** Yes, so the NPL related provisioning is about Rs. 115 crores, that is Rs. 1.15 billion. There is about Rs. 28 crores or Rs. 0.28 billion of standard assets related provisioning. And there is about Rs. 18 crores of other provisioning, among others it includes provisioning for investments.

**Veekesh Gandhi:** And that means you have not made any counter cyclical, right?

**Rajat Monga:** No, there has been on addition, maybe if at all it is fitting in the channel asset provisioning but it is a very small number there, you can ignore it.

**Veekesh Gandhi:** So what is the outstanding?

**Rajat Monga:** About 30 basis points to loans is the outstanding counter cyclical provisioning.

**Moderator:** Thank you. We have the next question from the line of Sri Karthik Velamakanni of Investec. Please go ahead.

**Sri Karthik Velamakanni:** A couple of questions from my side. Firstly on the liabilities, could you share the average staff cost and the cost of deposits?

**Rajat Monga:** So the cost of deposits will be 6.8% and cost of savings account will be I think somewhere in the middle range between 6% and 6.5%.

**Sri Karthik Velamakanni:** And the second question is with regards to breakup of our borrowings, since you have raised several green bonds and other long-term borrowings, if you could just split up the range what is the market related borrowings and the long-term borrowings within this?

**Management:** So, if I have to detail our split of our borrowings, I mean, you will find that in our investor presentation, I will just give you a highlight. So, about a third of our borrowings are capital instruments, so that will include old Basel II Tier-II, Basel II Upper Tier-II and some Basel III Tier-II and Basel II 81 instruments. So all of them will constitute about a third of our borrowing in mostly longer dated, though we will be wanting to retire some of our older Basel II instruments as and when the opportunity arises because they are anyway undergoing grandfathering, so we will want to retire them when the opportunities is right. So this is about 30.6% of our borrowing base as at September 30th. Our green and infrastructure bonds





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constitute about 10% of our borrowings. We have about 17% of refinancing that we take from Indian refinancing bodies like EXIM, NABARD, SIDBI, that is the function of how our asset book is. About 36% of our borrowings is foreign currency and that also a good part of that relates to our overseas branch now. And these again, foreign currency borrowings also are, when we have been announcing them if you have kept track of transactions with OPEC or ADB or IFC, all of them are five years, seven years, 10 years sort of tenure and there will be about 5% - 10% of our funding which will be banks, financial institutions, so there is no call borrowing, there is no CBLO borrowing as on that date for example.

**Sri Karthik Velamakanni:** And the foreign currency borrowings would be fully hedged?

**Rajat Monga:** No, to the extent they are deployed in dollars like it would be in our overseas branch, there will be currency matched to the extent that they are being used to fund rupee loans, they will be hedged for the rupee risk that is right.

**Sri Karthik Velamakanni:** And then if you could just give us the customer assets for this quarter and the previous, credit substitutes rather.

**Rajat Monga:** Just the credit substitute number? So this is Rs. 106 billion - Rs. 107 billion, so let me use crores, so it is Rs. 10,600 crores for the September position and Rs. 11,150 crores for the June position, there is a slight reduction.

**Moderator:** Thank you. Our next question is from the line of Deepak Kumar of Narnolia Securities. Please go ahead.

**Deepak Kumar:** Sir, my first question is regarding the restructured book, the standard restructured book. In IP it is mentioned that the two roads would have commenced operation, so we can expect these accounts to get upgraded fully?

**Rajat Monga:** Well, I think we will have to wait for a year is what my understanding is, though underlying risk is getting mitigated so it is only a matter of how the disclosure changes and when, but underlying risk is already getting better.

**Deepak Kumar:** And my next question is for ARC sale, can you quantify that amount how much it was?

**Rajat Monga:** So the security receipts book has increased by Rs. 60 crores and it is now 23 basis points of our loan book.

**Deepak Kumar:** Book value of this.

**Rajat Monga:** This is the book value.



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

**Nitin Agarwal:** Firstly, the SA growth this quarter if I look at on a sequential basis looks a little soft when compared to say like past five six quarters, so any reasons behind this? And secondly, when will we look to lower our SA rates now?

**Rajat Monga:** So, Nitin we had also possibly mentioned in our last earnings call when we had extraordinary SA growth that we may have to consolidate with this position and I think we have seen a little bit of consolidation. So I think we have seen all the consolidation that we were sort of wanting to see on account of the activity from the first quarter because it was a fairly sharp growth. So the second quarter has compensated and we are possibly back on trend. So what was over shooting of trend like we had discussed in our earnings call for the first quarter that has fallen back on track. So we should be able to now see the savings account should be looking back on trend year-on-year as well as sequentially we should see more predictable numbers. Our last quarter unfortunately was very good and therefore Q2 is little looking poor on a sequential quarter-on-quarter comparison. Year-on-year is clearly a better comparison since it is now a post consolidation number. We have reduced pricing on our higher ticket bucket on the 1st of September in the last quarter, so we will hope to see some of the pricing benefits in the coming quarters, I mean, it was only 3rd of the last quarter where the pricing benefit would have fell. And we are also working towards taking more price reductions as the interest rates in the economy are falling and like I mentioned in my commentary I believe there will be more fall, so we would like to follow that trajectory in our pricing also.

**Nitin Agarwal:** And secondly the 5/25 refinancing that we have undertaken, if you can give some color as to what is the total exposure to the system and what industry does that account belongs to?

**Rajat Monga:** So the debt is a little more than Rs. 15 billion and we have a Rs. 1 billion of that share.

**Nitin Agarwal:** And this is which sector?

**Rajat Monga:** It is in the social infrastructure sector.

**Moderator:** Thank you. Our next question is from the line of Shubranshu Mishra of Anand Rathi. Please go ahead.

**Shubranshu Mishra:** Sir, my first question is with respect to your growth path, you indicated that your corporate book would be around 55% and non-corporate around 45% by 2020. I want to understand your thoughts on that, how you see the growth path going forward, how would it be this ratio by 2020? That is my first question.

**Rajat Monga:** I am not sure I got your question well, I am interrupting, I am sorry. So you are saying the growth path in what respect?



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**Shubranshu Mishra:** As in what is your path to get to the 55% ratio of corporate book and 45% of non-corporate book by 2020, I want to understand this growth path for that.

**Rajat Monga:** So, maybe I still have some more doubts, so I will just maybe discuss this with you. So the current mix is about two-third and one-third, corporate and non-corporate. So let's say if we grow our business at let's say 25% on a year-on-year basis, I am assuming our corporate growth will be in the 15% to 20% range and our retail SME growth will be in the 30% to 40% range. On a year-on-year basis this will result in the mix which we were discussing two-third : one-third, moving towards more like 65:45 over the next four years or so.

**Shubranshu Mishra:** My question is a bit specific, what I am understand is what products or what kind of sectors would you look at in terms of corporate book and non-corporate book, what will be incremental from today?

**Rajat Monga:** So, on the corporate side I think the book should possibly not look terribly different from what it is today, other than the fact that you should be seeing us as more mainstream bankers of the larger corporate as we are able to now break into the good companies consortiums because we have also taken a lower pricing threshold on our MCLR versus the base rate earlier. So the pricing and product is now pretty competitive so we should see whole lot of that kind of mix evolving. We will continue to focus on our chosen sectors, we think we will grow significantly in the Indian MNC space. I think we will continue to be looking for opportunities in life sciences, healthcare, in urban infrastructure, in renewable energy, in roads and logistics. We will clearly be focused on the relatively more new economy in designs, we will continue to address the old economy but we will not address it from core of the opportunities but more on the specialized part of the opportunities. So I think that philosophy that you have seen us observing is not terribly changing, it is just that we are adding large corporate sort of universe to that now that we have a relatively clearly more established transaction banking product, FX and hedging product, cash management product, we also have a loan pricing which now we should be competitive. So this is going to lead us into more of these names.

The retail on the other hand, or retail and SME, I think the focus in SME is currently mostly to do asset backed secured lending and that is not changing in hurry, what we are looking at is to tweak a little bit of mix between service sector and manufacturing sector within the SME domain because we are to look at the scalability of the respective opportunities as well. Within retail, we are looking at retail in two parts, one is the business financing structure in retail where we are financing maybe an asset for our borrower who is our retail customer but he is using that to run a business on top as opposed to the consumer retail where we are financing consumption because it would be auto or housing or personal loans or credit cards. So we see that the commercial retail lending will lead the near-term outcomes, we started with commercial retail because it also highly overlaps with priority sector requirements and our current results that you are seeing are being driven more by commercial retail. And we have, as of last quarter, have completed our consumer retail product offering, not necessarily growth



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and more customers. But the fact that we now are complete as far as the consumer retail product is concerned, the last product that we were awaiting was a credit card which we have launched. While we had mentioned on our previous call that we have already launched the card, the pilot card had already been launched, but in August and September we have another customer in commercial launch as well and I think we currently have about 30,000 - 40,000 card customers that we are already servicing. So the product is complete, but we believe that the latter part of the next four years is where you will see that the consumer will begin to take over the burden of growth from commercial retail segments. I think SME, we have been working for the last eight - ten years already and I think it should continue on that trajectory, we are very happy with the portfolio in terms of both the quality of business, the cross-sell ability in that pool of customers as well as the credit outcomes, I think we are very comfortable with the platforms so we are happy to grow with that. Retail, very happy with the developments till date but we still need to time test some of our outcomes so we will watch our steps as we go there, we are not trying to rush into any of our retail offerings either. So, credit cards I mentioned, yes we are offering credit cards to our existing liability customers only predominantly, as of now the mix might be 80% - 90% of our new cards are going to our existing customers. We are not saying this is how it will stay but that is the start. And as we mature our products, as we test our systems, processes and efficacy and recovery we will also be able to add more sophistication to our business.

**Shubranshu Mishra:**

And my second question is with respect to the costs that would be involved in achieving this kind of a growth, can you split it into your headcount change as well as the technology which will go into the cost?

**Rajat Monga:**

Okay, that might be a very long answer for me. So, I think the way we have looked at, let's say for the next four years we still have not asked and we see an opportunity that we will continue to scale. So we are not talking about the fact that we have done everything, how do we now optimize or maximize, we are saying we can still double, triple our distribution. And naturally distribution will need technology to support it, we will need to re-platform our technology, we do that all the time. So if you look at our this year's cost for example, it carries a 20% - 25% growth burden on account of branches, it also carries a corresponding refresh burden on technology. So, the plan that we are looking at is a proportionate plan, I am not going beyond 2020 where we might want to say that we have done enough on branches and now we want to focus mostly on non-branch sort of side of the business etc, but at the moment we have not crossed those thresholds. So we continue to calibrate ourselves on a 40% cost income, what happens is sometimes when we do derive productivity outcomes from our business we increase our cost base, we put more pace into our expansion because we can afford it. So, it is a little bit of timing that we are trying to play with, but otherwise what we know and believe is that we have to scale two three times our current size before we can worry about whether we are now trying to optimize or is there more growth that can be lined up. So in the current planning horizon we are not worrying so much about cost optimization because we see scale, we see



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productivity gains and we see margin improvements, so all that is helping us keep costs and expansion pace going.

**Moderator:** Thank you. We have the next question from the line of Kaitav Shah of SBI Capital Securities. Please go ahead.

**Kaitav Shah:** Sir, your international book size now, could you give us the total size and is it growing better than your previous estimates, does that open up new leg of growth for you over the shorter tenure of medium-term?

**Rajat Monga:** Yes, so the size of the book as we speak is about \$700 million, I mean, this was zero same time last year. So I think it has added an element of growth to our opportunities clearly. At the moment the operations are also non-taxable so we have some benefits coming from the fact that these are currently not taxed. So it is still in a developmental phase, we think this business can scale from about \$0.7 billion to about \$2 billion - \$3 billion of loan book in less than couple of year. So it has that opportunities, we already know the customers, we just did not have the product so it is not that we have to reinvent our clients, the clients are already Indian clients who are looking to take their businesses overseas or backward integrate overseas etc. So most of our comfort lies in India's collateral, possibly lies in India or the corporate guarantee lies with the Indian counter party, so it is just a new nomenclature, new balance sheet. The caution that we are also working is that it currently has the benefit of having low tax or no tax to restructure and that will not be permanent, so we cannot go too far as well, so it is I think again a calibrated approach, we need to also align the funding. We are new to that funding market as well relatively. So opportunities is there, we know we can also convert it but we are just taking one step at a time and not trying to plan too far right now.

**Kaitav Shah:** Sir, could you also give us the new-to-bank customers in your savings accounts.

**Rajat Monga:** Our monthly run rate is ranging between 40,000 and 50,000 of new customers, that you will see net additions are lower because we also close accounts which may happen in Q3 or Q4 but we will inform then accordingly because once in a while we take a weed out clean up exercise as well when we have dormancy, because dormancy also can be a risk at some point in time. But the new customers are coming at about 40,000 - 50,000 a month.

**Kaitav Shah:** One final question if I am permitted, in CA is there any one-off that you have seen during the quarter or would you expect these trend lines to continue?

**Rajat Monga:** No, this quarter has a one-off, so this quarter has a couple of one-offs. So, though one-offs happen but we are not relying on them or budgeting on them.

**Moderator:** Thank you. We have the next question from the line of Manish Karwa of Deutsche Bank. Please go ahead.



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**Manish Karwa:** Just one thing on your margins, and before that on your priority sector you said you have started to buy the PSLC certificates, how much did you buy this quarter and at what rates are you buying this?

**Rajat Monga:** So we would have brought about 70 crores to 100 crores of priority sector compliance certificates. Pricing will be a function of what the coverage we are getting, is it agri, is it other than agri, so I think the cost will be 3%, 4%, 5%, 2%, depending upon, mostly it will anchor around 3%.

**Manish Karwa:** And then just on the margin line, because of this look we are in a transitional phase, the last year you were doing priority sector in year end and now you are starting doing it on a quarter perspective. Then this should be negative on your margins at least for time being, is that right?

**Rajat Monga:** That is right, so Q1 and Q2 both, more Q2 because as we have said both Q1 and Q2 already have taken that adjustment. So for example, last year our priority sector would peak closer to 40%, it will trough closer to 31% - 32%. So let me take simple number, our peak at March will be 40% and trough at September will be 30%, this September we are at 38%. So last September we would have been 30% priority sector fulfillment, this September we are at about a little more than 38% priority sector fulfillment. So there is already that sort of drag it is already in the numbers.

**Manish Karwa:** So roughly what you are saying is that you are paying 3% on Rs. 800 crores additional on PSLC which you are buying, that is the additional cost that you are paying?

**Rajat Monga:** You are talking about margins?

**Manish Karwa:** No, I am just talking in terms of rupee crores cost, how much you are paying just because you have to do it on a quarterly basis and not on a yearend basis.

**Rajat Monga:** Yes, so for that you have to do, simply you can look at a 3% proxy. So let's say my weighted average priority sector of last year would be 33% - 34% and this year will be 38% - 39% and you can look at 3% as a proxy for cost. I am being told by Jaideep that the blended average might be less than that because not all will be of the same 3% nature. So maybe you can look at a 2% but it will be of that order.

**Manish Karwa:** So does it mean that like 33 to 38, 5% points and 2% points, it has a 10 basis points kind of an impact on your margins, is the math right?

**Rajat Monga:** Yes, on a completely simplistic basis the math is right. It is just that these are loans and margins are computed on the total asset base which is about 1.6x of loans etc. So maybe 5 - 7 basis points would have been the play here, that is right.



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**Manish Karwa:** And on the asset sale transaction, what we have done is that you have sold a Rs. 100 crores asset for Rs. 60 crores SR, right?

**Rajat Monga:** Yes.

**Manish Karwa:** And Rs. 40 crores is what you have made our provision?

**Rajat Monga:** That is last year's, that is right. And we got Rs. 10 crores cash as well, so it is a net presentation.

**Moderator:** Thank you. We have the next question from the line of Sameer Bhise of Macquarie. Please go ahead.

**Sameer Bhise:** Hi Rajat, just a question on our RWA trends. Obviously, given that asset growth is pretty strong RWA has kind of inched up, the RWA ratio is around 80% to 83% of our total asset. So what is your sense on that, could this go higher or...?

**Rajat Monga:** So this took a little bit of a bump in Q1 on account of increase in market risk and some of the recent increase in RWA, or actually growth in general and not necessarily RWA, but the bump would have been on account of everything else being the same but the regulatory ask has increased on RWA. But there is, I mean otherwise structurally speaking I think we are mostly looking at risk is reducing but I think some of the RWA, for example, rating agencies are still not reacting to improve the rating, assuming they are taking their time. But I think RWA should have, minus the regulatory changes, it should have peaked.

**Sameer Bhise:** But over the last couple of years it has kind of moved up pretty sharply.

**Rajat Monga:** So you will have to eliminate the mix, and there will be one-offs, and one-off you can easily measure because it is a regulatory stipulation, market risk has gone from 10% to 12%, so there is a corresponding 2% bump up in that respect and this is very identifiable. The other thing would be a loan and investment mix because we have had a higher investment mix in our history, while the investment book is similar in size it was four year ago but the loan book size has increased. So the share of loans has increased and loans clearly take more risk weight. So it is a mix sort of design as well and there will be peculiarities like we have one in the current quarter, we are holding the capital instrument of SBI which we had sort of transacted with them in last quarter, that attracts higher risk weight. And it is not permanent, it is being distributed and it will possibly run down as soon as this quarter if all goes well. So I have nothing peculiar to sort of suggest, we will be able to explain all of that, it is not that ratings are falling that we are required to take higher risk weights. There has been a regulatory action on let's say the old rated but no longer rated, so you had to put some more capital on that, so it is just regulatory action which is driving some of these things, not the underlying themes and mixes.



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- Sameer Bhise:** And just one data point, the CET1 number.
- Rajat Monga:** 9.7 or 9.8 range it is.
- Moderator:** Thank you. We have the next question from the line of Mahesh of Kotak Securities. Please go ahead.
- Mahesh:** Just a couple of questions on the NIM side. Just trying to understand a few things here. If I look at the average growth in loans, sequentially it was about 4%, the interest income is up by 7%, yield on loans is down about 20 basis points, how do we read into it? Again, corresponding additional question on this, cost of funds at 6.8%, your 45 to 90 day deposit is also at the same range, how much more headroom do we have on the cost side? And what would be the difference between average CASA and the period ending SA side.
- Rajat Monga:** Sorry Mahesh, I could not even note your questions at the speed you are going.
- Mahesh:** I will just repeat. The first question is on the yields, on the margin side we are just talking about the movement which we are seeing on the growth and loan sequentially.
- Rajat Monga:** If you do not mind I will answer the questions one at a time. So loan growth on a average basis was higher than the reported basis, so we had some run downs towards the end of the quarter and there has been a second decimal margin improvement. So there is essentially, maybe you can assume 1% effect of each, roughly speaking, which will narrow your gap.
- Mahesh:** And the cost of funds at 6.8% today, if I look at the deposit rate book that you have, that is also in the same range and your cost of savings is at 6.25%, so the differential is not too high right now. How much more headroom would you have from here onwards on the decline in cost of funds or deposits?
- Rajat Monga:** See, if you look at the mix let's say there is a book at zero which is current account, so that itself is lowering the cost of the funding by 50 - 60 basis points. So sans the current account the cost of funding is more like 730, 740, that includes a component of savings and time. So once you will look at the time deposit, it still has reprising to undergo, I mean, it is about 14 -15 month book, so some of the 14 - 15 month ago rates are also going to be reprised.
- Mahesh:** I am just trying to, see the CA proportion has not changed, so the incremental benefit is negligible on it.
- Rajat Monga:** You can see that, but the cost of funds without the CA is more like 7.3% because the cost of funds of CA is computed as zero in this, 7.3% can correct to 6.5%.
- Mahesh:** And the difference between average CASA today and what would be the kind of period ending, how does that...





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**Rajat Monga:** Couple of percent point, like we have been suggesting firstly there is a rush of savings accounts towards the salary period which is month end and there will be some target achievement which is being done by different business group. So we are couple of percentage point ahead in the period end than we are on the average.

**Mahesh:** Sure. The second question pertains to this PSLC certificate...

**Rajat Monga:** Just to complete my point, the percentage is higher it does not mean that all will come down, that stays, a whole lot of that stays, it gets used also where people who get salary will also pay their bills, etc. But it develops, it goes up we are reporting sort of a peak, then it falls during the month, then it goes up again in month end but usually and more so in savings account current accounts can be more up and down, the next month is higher than the previous month end invariably, unless there was some high value item.

**Mahesh:** The second question was on the PSLC certificate, I just did not get that part. How do you account for a PSLC certificate in your books, in the P&L part at least?

**Rajat Monga:** It is expensed, it will be a operating cost.

**Mahesh:** It does not come in a revenue line itself, does it?

**Rajat Monga:** No, it is a cost, I am buying a right, I am paying a premium to buy the PSLC certificate from the seller, he is not giving me any asset, any liability. He will record revenue, I will record cost.

**Mahesh:** Okay, you record it as a non-staff expenses line?

**Rajat Monga:** Yes, it will be in the operating line.

**Mahesh:** And if you have to book it as a revenue it is another income line, is it?

**Rajat Monga:** It should come in other income for the seller. Assuming we will also be a seller but we have not crossed that line, whether we will have a net report or a gross report but very likely it will be a gross reporting.

**Mahesh:** And is it a public data that is available today and what is the kind of deals which is happening out there or it is still an interbank market that we are talking about here?

**Rajat Monga:** I do not know about that, but I know it is available to all banks, but I am not sure if it is readily available to non-banks.

**Moderator:** Thank you. Due to time constraints we would be able to take one last question. We have the last question from the line of Nilanjan Karfa from Jefferies. Please go ahead.



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**Nilanjan Karfa:** Just wanted to get some sense on the salary and non-salary accounts, if Pralay could speak on that.

**Pralay Mondal:** In terms of incremental acquisition and number of customers non-salary will be around 60% of the acquisition and salary will be around 40% of the acquisition. But because salary takes time to build the balances and things like that, so on the overall balance perspective when you look at the average balances, normal savings value will be typically 80:20, 85:15 kind of a portfolio because salary business is just not about liability, it is about cross sell and other products. So we are seeing a lot of traction and interest from salary business on the credit cards and retail assets, on fee kind of product. So salary business is a full cyclic cross sell acquisition engine and it takes time to build a portfolio. So in terms of numbers, 60:40; in terms of value maybe somewhere around 85:15.

**Nilanjan Karfa:** And Rajat, just wanted to check on this yields, what made 20 basis points drop on the sequential basis?

**Rajat Monga:** You are talking about yield or loans?

**Nilanjan Karfa:** Yes.

**Rajat Monga:** So there is always a growth factor, so the new loans will grow at new rates and the old loans, because what you see is a 4% - 5% sequential growth but the gross growth is lot more than the net growth. So two factors, one is the risk profile, as the risk profile be lowered of the new book and the new book is it coming at a lower price than the old book.

**Nilanjan Karfa:** So if I have to look at corporate, my guess is the risk on the corporate is something you are taking off quite aggressively, would that be a fair assessment then?

**Rajat Monga:** I wish that was as easy in terms of just taking the risk off, but the new business clearly I think the opportunities are increasingly alike, I think one factor that we are looking which is playing a role is the MCLR rate. So we have the ability, so we underwrote one financing for an acquisition for a cement asset, for example, and that was a large sort of transaction by size, I think it was priced at about 9.3% - 9.4% if I remember correctly. So those things are also playing their role but we will have to follow the interest rates, generally speaking. Our book is floating, MCLR is getting reprised all the time, I mean, I think our MCLR is already down 30 basis points, one year rate is down 30 basis points, the shorter term rates are down 30, 40, 50 basis points from when we set them which was I think not too far back, it was only April. So there has been a downward revision on this pricing as well which is also driving a part of that, not all of it, because base rate still dominates and we have not taken a base rate action. But there are customers, good customers who will continuously try to reprice their loans, it is happening in retail as well, it is happening in SME because where we want to retain customers we will have to give some relief on pricing as well. So I will not be, let's say, as long as the call is along with the call in the cost structure we are happy to tolerate it and we want to retain the



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benefit of improvement in CASA mix into our margins and we want to retain the benefit of lower SA pricing going forward as and when we look at lower our pricing into our margins.

**Nilanjan Karfa:** And any color on the slippage breakup between let's say the SME or the ME business?

**Rajat Monga:** So we usually have and we have been saying that our slippage struggle has been in the mid-corporate, mid-market space. And if I have to look at our headline for this particular quarter, since I have the luxury of the names with me I would possibly place most of it in the mid-corporate, I mean these are one, two, three, four or five names, they all will qualify as a mid-corporate in general and they will add up to about 80% - 90% of the headline. So SME will be there but there will be one odd one to name here and there, retail will have its own small share but not notable.

**Nilanjan Karfa:** And is this because of, I mean, what is driving this in last couple of quarters right, two-three quarters, maybe a bit more?

**Rajat Monga:** Well, I think I would say since 2009 with a little bit of release in the middle I think we have seen, I think it is also reflecting in our business mix if you will see over a much longer period since 2009 our mid-market exposure is only looking lower and lower and lower. I think among the reasons would be because these are standalone companies, possibly there is no mitigate to our problem, there is no hedge to our problem because it is a single company, single business, supplying to maybe a large corporate somewhere, also subject to the working capital cycle of the large corporate and with less means. So I think this is a segment which has been, let's say SME has some government policy support, it has statutory, regulatory, legal support as well, but the mid-corporate is little bit in that sort of middle where it does not have systemic support or statutory legal support, plus the structure is also not very best if you look at them from a credit standpoint. In SME we can still imagine a large part of the portfolio will be property backed, so there is a non-correlated collateral coverage as well, you cannot begin to imagine that in a mid-corporate. In a large corporate you can look at a whole lot of cash flow trapping, in any case the financing is well diversified, in a mid-corporate you will be one of the main bankers, you will have to be doing a little bit of everything, not a whole lot to choose. So I can go on, but the segment has its inherent weaknesses and we are seeing most of our outcomes relating to a good majority of what we report in our slippages is from the mid-corporate sector.

**Moderator:** Thank you. With this, we conclude the conference call. I would now like to hand over to Mr. Rajat Monga for any closing comments.

**Rajat Monga:** Thank you. I think we had a long call, so we are happy to be given the opportunity to speak about our earnings and we look forward to catching with you sometime soon. Thank you.

**Moderator:** Thank you very much. On behalf of YES Bank, thank you for joining us and you may now disconnect your lines.