



“YES Bank Limited Q3 FY19 Results Conference Call”

January 24, 2019



**MANAGEMENT: MR. RAJAT MONGA – SENIOR GROUP PRESIDENT
(FINANCIAL MARKETS AND BALANCE SHEET
MANAGEMENT), YES BANK LIMITED
MR. PRALAY MONDAL – SENIOR GROUP PRESIDENT
(BRANCH AND RETAIL BANKING), YES BANK LIMITED
MR. ASHISH AGARWAL – SENIOR GROUP PRESIDENT
AND CRO, YES BANK LIMITED
MR. RAJ AHUJA – GROUP PRESIDENT AND GROUP
CFO, YES BANK LIMITED**



*YES Bank Limited
January 24, 2019*

Moderator: Good day, ladies and gentlemen and a very warm welcome to the YES Bank Limited Q3 FY19 Results Conference Call. We have with us today from the management, Mr. Rajat Monga – Senior Group President (Financial Markets and Balance Sheet Management); Mr. Pralay Mondal – Senior Group President (Branch and Retail Banking); Mr. Ashish Agarwal – Senior Group President and CRO; Mr. Raj Ahuja – Group President and Group CFO and other distinct leaders of the YES Bank.

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

I am now glad to hand the conference over to Mr. Rajat Monga. Thank you and over to you sir.

Rajat Monga: Thank you very much and I would like to welcome everyone on the call to the third quarter YES Bank Earnings discussion. Before I get into the details of our financial results, I would like to share some updates upfront, which relate to the board meeting of today.

Firstly, we are glad to announce that the Reserve Bank of India has approved the candidature of Mr. Ravneet Singh Gill as the next Managing Director and CEO of the bank who would now join on or before March 1, 2019. The board has also approved the appointment of two additional directors. The names are Mr. Maheshwar Sahu who is the 1980 batch of the Indian Administrative Service and last retired as the additional chief secretary with the Government of the state of Gujarat. The second appointment is of Mr. Anil Jaggia who is the ex-CIO of HDFC bank and has nearly 3 decades of experience and expertise in the BFSI space. Thirdly, the board has also recommended the name of Mr. Ashish Agarwal who is our current Chief Risk Officer to the position of Executive Director and would be recommended to the Reserve Bank of India for their suitable approval.

I would now move to the financial performance of the bank where I am glad to announce that the bank has once again delivered a satisfactory performance across various operating parameters whether it be income or margins, profitability, capital position, in spite of having to absorb provisioning on account of exposures to infrastructure conglomerate that turned NPA in this current quarter. The last quarter can be characterised largely as having delivered relatively stable earnings. It entailed balance sheet rebalancing. It also saw very much stable funding and generally improving liquidity position of the bank and also witnessed reasonable recovery resulting in the asset quality, though having some headline deterioration but otherwise in the bank's opinion, we feel that the asset quality performance continues to be very robust.

Just to expand on the commentary on earnings first:

The bank continues to report healthy profitability. We are reporting profit after tax of Rs. 10 billion, which is sequentially an increase of 4%. Like I mentioned, this is despite the somewhat

accelerated provisions aggregating to about Rs. 5.7 billion that were required to be taken in this current quarter. The earnings of the bank were quite well supported by net interest income which has grown 41.2% on year-on-year basis and has grown by 10.3% on a quarter-on-quarter basis as well. The net interest margins of the bank have shown an improving trend, though marginally and we are reporting a flat sequential result on the margins at 3.3%. There has been a higher growth in that what we are reporting at the period end on advances, which has reflected somewhat more in the net interest income. It has overall improved the net interest margins by between 5 and 7 basis points, however, not enough to jump to the next decimal, so the NIMs remain constant at 3.3%.

On the non-interest income, on the other hand has been reported lower, which has had some accounting losses on account of the treasury lines up to as much as 2.8 billion, which has been reported as a loss in the top-line under the financial markets or treasury head, has corresponding offsets in the provisioning line in the form of write-backs or reversals. We have provided a disclosure in this regard in our commentary on our financial performance as well. We also saw some dip in our corporate banking fees, which essentially is reflecting both somewhat muted growth on the asset side as well as also factoring somewhat tight credit conditions that were prevalent in this quarter gone by, which also affected somewhat the churn of the bank's book in the form of syndications and sell-downs. It does appear that the credit conditions are slowly normalizing and therefore that should begin to reflect more positively in the near future as well. There has been corresponding improvement also seen in the corporate trade and cash management fees, which went up by 6% on a sequential basis, even though the bank has seen some drop in its non-funding book.

I will get into some more details of the provisioning line for the bank:

We have reported net provisions totalling to Rs. 5.5 billion for this quarter out of which 5.7 billion is on account of provisions made towards the exposures of the bank has to infrastructure conglomerate. The bank also added to its provisions on its security receipts book by an amount of Rs. 1.85 billion. The bank has also taken standard asset provisions of nearly Rs. 1 billion, mainly on account of the exposure to this infrastructure conglomerate, which continues to be standard. The part which continues to be standard has been provided for at the rate of 15% and has been presented under the standard asset provisioning category.

On the other hand, there have been write-backs relating to past investment provisions. There has also been a carry forward requirement of investment provisions from the first quarter where the bank had chosen to defer the impact of the provision over four quarters. Net of the write backs as well as the provision of carry forward requirement, there was 2.06 billion write back on account of investment provisions. Over and above, there was also Rs. 350 million write back on account of other provisions as well.

Some more commentary on the balance sheet:

The retail asset's growth momentum continued well in this quarter gone by, however, the corporate business segment went through some amount of rebalancing after having seen 12 to 18 month period of strong growth, which was largely driven by market share gains. As such, the loan book growth ended up at 42.2% for the year; however, sequentially the growth was modest 1.8%. The bank's loan book now totals to Rs. 2.44 trillion. The last one year also has been witnessing increased contribution on the loan book from the retail asset business. That contribution from 11.8% as at December 31, 2017 has increased to 15.2% as at December 31, 2018, essentially driven by 83% year-on-year growth in retail loans. Given the overall muted loan growth outcomes, retail banking also contributed heavily to the new net growth on the bank's loan book and its share in the quarter gone by was as much as 65% of the net growth that our bank witnessed in its loan book. Given the balance of things, the bank was also able to improve its capital position, so its CET 1 ratio has improved from 9% in the previous quarter to 9.1% as at December 31, 2018. This is despite having some injections of capital into the bank subsidiaries during the last quarter. The total capital adequacy also improved to 17.4% and the total tier 1 ratio also improved to 12.0%.

On the liability side:

The deposits and the funding structure remained largely stable. The year-on-year growth of deposit book stood at 29.7% taking it to an amount of little more than Rs. 2.2 trillion. Within the deposit's book, there was a balance growth between retail and corporate term deposits. Retail term deposits grew at 37.2% rate on a year-on-year basis and the corporate term deposits grew at 39.9% on a year-on-year basis. There was also between 5 and 7% sequential growth witnessed in both the retail and corporate term deposits in this quarter gone by.

CASA, however, grew modestly at 13.5%. CASA ratio remained stable at 33.3% on a quarter-on-quarter basis. In savings account, the bank has seen some one-off runoff that have resulted in drop in balances particularly originating from the government sector as some of the expected flows that usually come at the quarter end given the propensity of holidays got pushed to the subsequent month and had resulted in some underperformance in the savings account book as at December 31, 2018. On liquidity, the situation of the bank improved in the third quarter as compared to the second fiscal quarter. Our average LCR improved from 98 to 99% to more like 102 to 103% and the quarter-ended LCR improved to 114%.

Some more comments on the asset quality side of the bank as well:

The bank is now reporting a gross NPA ratio of 2.1%. This represents a growth NPA book of about Rs. 51 billion. The bank is reporting net NPA ratio of 1.18% that is representing Rs. 28 billion of net NPAs. Both these ratios have factored of Rs. 19 billion slippage on account of the infrastructure conglomerate, which has been provided at the rate of 25%. The aggregate provisioning coverage ratio stood at 44.2% excluding this infrastructure conglomerate exposure, which has to the extent has turned NPA. The provisioning coverage ratio would be at 55.6% on the remainder of the NPA book. The reason I am carving out the infrastructure's exposure for a

bit is also to highlight that the underlying trend if we exclude the infrastructure conglomerate was an improving trend. Had the exposure not been downgraded, the bank's gross NPA ratio would have improved to 1.32% and the net NPA ratio would have improved to 0.59%, substantially driven by Rs. 9.35 billion recovery and upgrade performance that the bank witnessed in the quarter gone by. If we look at the total stressed assets, tallying the net NPA, net security received and the standard restructured exposure part of the book, the total stressed assets of the bank now stand at 1.98%, which has including the infrastructure conglomerate exposure worsened from the previous quarter when it was 1.79%, however, it has yet improved from the corresponding quarter of last year position when it was 2.41%.

During this quarter, the bank also saw recoveries from the asset security receipts that the bank is holding to the extent of Rs. 1.15 billion. The bank has incurred a credit cost of 29 basis points in this current quarter taking the total credit cost incurred for the year to 64 basis points. The infrastructure conglomerate contributed to 24 basis points of the 29 basis points of credit cost in this current quarter. The total slippages that the bank is reporting for this quarter will be Rs. 23 billion. As I mentioned earlier, the infrastructure conglomerate had a slippage of as much as 19 billion of this 23 billion. The bank has also taken a small write-off of Rs. 690 million in this quarter gone by.

Just to spend a couple of minutes more on the infrastructure conglomerate where the bank's aggregated fund exposure stands at little over Rs. 25 billion of which as I mentioned between the roads and the energy verticals, the bank has already downgraded the exposure to the extent of 19 billion. About 6 billion remains standard against which the bank has taken a standard asset provisioning of up to 15% of the fund-based exposure. We do believe that the aggregate provisions that the bank has taken on the infrastructure conglomerate that I have been referring on account of the bank's exposure to its operating companies and subsidiary companies. The provisioning would very likely be adequate given the expected realizations that might stack up over the next 3 to 6 months.

Some of the other statistics on asset quality, which are helping us keep a stable outlook would include that the bank continues to have minimal exposures to NCLT related accounts, only 1 basis point from the first list of NCLT accounts and only 26 basis points of advances on account of the second list of NCLT accounts as well as little negligible expected impact from the RBI circular released on February 12, 2018. The bank's SMA 2 positions for the quarter gone by rather as at December 31, 2018, stood at 19 basis points of its gross advances. There has been some increase in the bank's exposure to the HFC and NBFC segment given the squeeze that took place to the beginning of the quarter and also had required the bank to step up its exposure to this affected sector. While the percentage ratios are seemingly higher, however, the overall denominator of these ratios on account of some correction in the nonfunded book of the bank has shrunk. So as such, the money exposure may not have increased tremendously, so I would urge you to also compute the numbers before drawing coming to those conclusions. As far as the larger exposure of the bank is concerned, I may say the top 20 exposures the bank continues

to enjoy rating of A or better across more than 90% of the top 20 exposure book, which has also been the same position we reported the last quarter.

The other sensitive sector disclosures, which are accounted for by electricity, iron and steel, telecom, gems and jewellery have seen only minor changes mostly for the better and as we have been reporting earlier as well, the overall corporate portfolio of the bank continues to be rated A or better for as much as 75% of the exposures there, again very similar to our reporting of the past many quarters now. We have also provided our sectoral mix chart and we can discuss more if required on the same. I will spend next couple of minutes on the bank's digital banking outcomes and initiatives as we continued to enjoy some dominance there coming from, for example 30% market share in the UPI merchant payments, which stack up to 360 million transactions that the bank processed totalling into about Rs. 0.65 trillion in the quarter gone by. The bank still enjoys the top remitter status in the IMPS category and the bank also saw 72% year-on-year increase in volumes in this category. The bank has also emerged as one of the leading acquirers under the AePS, which is Aadhar-based payments and within the category, it processed 45 million transactions across almost 300,000 business correspondents in this quarter gone by. The bank continues to see the dominance of usage of mobile by customers increasing. The bank has seen nearly two-fold increase in registrations, transactions and values transacted on the mobile banking platform.

Separately, the bank is seeing strong usage increase in its debit card base as well. On a year-on-year basis, the bank's debit card transactions grew as much as 46% and the spends on the debit cards grew by as much as 50% in the current quarter. The bank also launched industry first offering on its robotic service platform, which is called YES robot wherein now, customers can open term deposits or fixed deposits including recurring deposits on a chat bot technology, which has witnessed over a million transactions in the quarter gone by. The bank also launched an end-to-end acceptance process for NACH debit mandates, which are ECS debits, which are recurring and which one set up as mandate, the customer's accounts can be debited by their sort of lenders or their service providers who need recurrent payments. The bank has for his corporate customers through its net banking created now an end-to-end acceptance of NACH debit mandates, which has come to a near real time setup & has reduced the existing turnaround time by almost 15 days

The bank was given a Silver Award by the IFC Washington's Global SME Finance Awards for product innovation relating to its YES MSME digital banking solutions and YES Bank was the only Indian bank to be awarded among the 100 plus international institutions across the world at this ceremony. YES Bank also continues to work strongly in the government sector to enable more G2C payments as well as digitization starting with cashless solution that the bank has implemented for the Puducherry smart city solution and which is also now being expanded to include up the Bharat QR implementation for the city as well. The bank has also adopted 2000 villages to empower 100,000 lives under its YES Digi Villages program, which is also first of

its kind village adoption program to leverage the SIM se Pay technology and India Stack for instant and paperless servicing for rural customers.

Some statistics on the bank's expansion and knowledge areas, the employee strength of the bank stood at 21,182 employees which is an increase of 158 employees as compared to the previous quarter. The branch network of the bank stands at 1115 and the ATM network including note acceptor stands at 1714. The bank has also launched its first scheme under the YES Mutual Fund, which was the YES Liquid Fund that got launched earlier this month and the bank has also received approval from the Securities Exchange Board of India to launch the second fund, which would be in the ultra-short-term fund category. The bank signed an MOU with the Kia Motors, which is the 8th largest automaker to enter into a strategic financing partnership, making it one of the first Indian banks to become their preferred financier.

Bank also became the first Indian bank to complete first of its kind digital transaction with the bank's client called Welspun Global Brands Limited in the form of an e-presentation involving end-to-end electronic presentation of export documents, creating both seamless and paper less outcome for the bank as well as for the customer. The bank also conducted the finale of India's first, what would be a bank-led Datathon, which was aimed at augmenting the bank's embedded data analytics and machine learning capabilities and this Datathon saw participation from over 6000 data scientists, data engineers, developers who participated in various AI and machine learning challenges, all oriented towards deriving real outcomes, which would be put into production by the bank in short course of time.

The bank has also become the first Indian bank to join what is called the Natural Capital Coalition, which is the global, a multi-stakeholder collaboration. In the process, the bank would begin to integrate the natural capital thinking into its strategy and operations. The bank was also awarded at the 20th edition of what could be the Asset Triple A country awards for 2018 where it received the award for the best new bond from India for launching what would be the largest debut international bond issuance, which was priced at the tightest spread over US treasuries by an Indian bank since the year 2008.

The bank has also won the Golden Peacock Award for sustainability for the year 2018 as well as was the runner up at the 30th Qualtech Qimpro Award ceremony in the category of continuous improvements on quality. The bank won this recognition for the third year in a row this time around. This was the summary of the financial results and some operating outcomes of the bank that I wanted to present and me and my colleagues will be glad to take questions on our financial performance. Thank you.

Moderator:

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

Mahrukh Adajania:

Could you give me the size of the investment book and borrowings?

- Rajat Monga:** Mahrukh, the investment book size is 83,000 crores and I will give you the borrowing in a moment. Total borrowing base would be Rs. 1.07 trillion.
- Mahrukh Adajania:** And also in terms of savings, what would be the growth in non-government savings, say sequentially and year-on-year?
- Rajat Monga:** Sequentially, I know it is flattish. On year-to-year, I should be able to get you the number. Year-on-year, it would be give or take 20% growth category.
- Mahrukh Adajania:** The non-government savings, so this is your retail-retail savings?
- Rajat Monga:** That's correct.
- Mahrukh Adajania:** And just in terms of the treasury losses that you have booked in other income that would be on what category of investment? Corporate bonds, G-Secs?
- Rajat Monga:** It is mostly on account of swaps, the hedges that run counter to the investment positions because the interest rate fell in the quarter gone by, so there were reversals of provisioning on account of corporate bonds that we took in the previous quarter, however, in this quarter, the hedges were mark-to-market lower, which has resulted mainly in the loss on the treasury line. We also sold a proportion of our corporate bond book in the last quarter, which had already been provided in the previous quarter, however, the accounting writes the provision back, but we have to take a sale on loss from the book value into the top-line.
- Mahrukh Adajania:** So a part of write back of investment, the depreciation is also because of this?
- Rajat Monga:** Well, they are concurrent, in the sense that if I am holding a bond and I have a hedge against it, so if rates go up, my bond will throw provisions and my swap will create MTM gains in the top-line. Unfortunately, the accounting is such that I have to report the MTM performance of the swap in the top-line; however, since they are hedging the corporate bonds, I will report provisioning in the provisioning line which was the last quarter. This quarter was the reverse, so provisions got return back; however, the mark-to-market gains became losses. There is also a translation loss that we also have to provide, now that we have an overseas book and the profit of that overseas book is also subject to dollar rupee movement. So as the rupee depreciated, in the second quarter, we had to recognise a small gain and as the rupee appreciated in the third quarter, we had to correspondingly recognise a loss. So all of this adds up to, there is a note in our notes, which is also giving out the breakdown of this loss.
- Mahrukh Adajania:** And just one last question that what drove the huge growth in retail banking?
- Rajat Monga:** The retail banking growth on year-on-year basis was at 82%. I think we have been growing in this ballpark for few quarters now. I remember the March 2018 number also was close to 100%, so this has been the rate at which we have been growing for some time now, so it is nothing

particularly in addition, but within the retail, in the last quarter, I think the highest growth came from the auto loan product.

Mahrugh Adajania: And there was nothing to do with buyouts, right, this is your own growth?

Rajat Monga: No, we are not including buyouts in this. Buyouts have been mostly in the form of investment, so they would be in the investment category, so it has not been included in the loan category, so that is over and above.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of this interest income reversal on IL&FS exposure, so it would be only with respect to the exposure which is NPL or even on this tender since we have provided 15-odd percent, the entire exposure we are not accruing interest now?

Rajat Monga: No, the reversal would be only on the NPL account.

Kunal Shah: And if we look at sequentially in terms of interest on advances, is there any kind of one-off in it, maybe yields, definitely in terms of the reported yields that is still almost flattish kind of a number, but on the calculated that seems to be slightly on the higher side, so does it contain any element of one-off despite?

Rajat Monga: There are a few one-off Kunal because of the NPA ins and outs, so wherever there have been recoveries, we have recognised interest on those counts. Wherever there have been downgrades, we have also reversed interest which has been accrued. So there have been a few in and off because there have been fair amount of movement on the NPA upgrade, downgrade as well. I think the only other fact that I can relate here is that are during the quarter, loan book has been a bit higher than the end of the quarter loan book because our efforts of sell downs and all usually culminate towards the end of the quarter only, so we were carrying a larger loan book for the quarter.

Kunal Shah: But besides that otherwise may be the period and then the average balance, otherwise there would not be any significant amount of one-off or in this recovery, was there we recovered something extra which has got into, maybe there was a booking of interest?

Rajat Monga: Yes, there would be. When you recover a loan, there is a portion depending upon your outcome of recovery. There would be some credits which will go into interest line as well, provided you have recovered the overdue interest.

Kunal Shah: And that would be a higher sum, may be more than 200 crores?

- Rajat Monga:** I think, give or take, all of this will net to between Rs. 300 and Rs. 400 million, so 30 to 40 crores would be, I mean these run-offs will also come again, so if I have to isolate, let us say, the net, it would be tantamount to about that amount.
- Kunal Shah:** And secondly in terms of divergence, obviously you have highlighted you have not received the report, so what is the status, may be inspection is definitely done and is there something which has come from RBI and there are representations or we have not heard at all from RBI in terms of what the divergences are?
- Rajat Monga:** So, let me say we have been keenly following up with them to issue the report, but we have been unsuccessful.
- Kunal Shah:** And no change in credit cost guidance as such, I don't know if you have highlighted that?
- Rajat Monga:** Like we had discussed in the last earnings call that the credit cost guidance may be a little variable subject to how the infrastructure conglomerate outcome comes through. So the last time when we were talking, we were discussing whether or not the exposures will survive on their own but it was then learnt that the servicing will be stopped across the group. Then, there was an attempt to see if because there is a legal stay on the bank's proceeding against these companies can there be a dispensation on recognition, so those are the variables, but they have mostly been sorted. There is no dispensation, there is no wait, so we have to recognise the entire exposure as NPA and therefore, like we discussed at that time that if that worst happens, then we have to look at credit cost going up to 80 basis points and I think that continues to be our current position.
- Kunal Shah:** So the guidance continues including that since it is now almost done and we have provided for it, guidance would still be like 80 on basis points.
- Rajat Monga:** That is correct and the last time also we had factored RBI divergence in this guidance and we continued to do so even now.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Just a question on what is the status of the two the ED proposed earlier with RBI?
- Rajat Monga:** The status is still pending and thank you for your congratulations. The status continues to be pending and we are now hoping that it should since the CEO matter has been dealt with which was very likely would have taken upon priority, now the second priority items also should logically follow.
- Amit Premchandani:** And just on the treasury part, I heard what you said, but generally in a quarter where treasury or G-Sec yields have fallen significantly, even on a net basis, you are reporting a loss, why it is so? What are we missing?

- Rajat Monga:** No, you are not missing. It is not very complicated. Our position starting the previous quarter was corporate bonds long and OIS paid, so as we were wrapping up the previous quarter, we had provisions that we were taking on account of corporate bonds and we had gains that we were writing on account of OIS, overnight index swap. This quarter has been bad for that rate because corporate bonds have not rallied as much as OIS has fallen. So while we have write backs of about Rs. 3 billion on corporate bond provisioning, but we also have a billion and a half of loss on the OIS position.
- Amit Premchandani:** And on the corporate fee income front, is this the new run rate we should expect?
- Rajat Monga:** I would say, I think the quarter gone by had various peculiarities, so one peculiarity I was discussing earlier was there was a credit squeeze, the second peculiarity was that we had our own change management to be dealing with and therefore we did have to among others also slow down our net growth. If net growth remains at the same slower rate, I would say that yes, the corporate fee income possibly, I don't really want to comment that it will go higher or lower, but there would be, I would say a step down from the previous quarter when everything was normal, but this is something we can also revise. If we boost our capital resources, if our management structure and board structure which is already nearly fully re-established and we give it sometime to just settle in, I think we should also be able to potentially get back to what we were delivering earlier.
- Amit Premchandani:** And finally on the IL&FS exposure, the downgrades have been in the holding company of the different businesses or in the SPVs also of power and road?
- Rajat Monga:** Both, in the holding and subsidiaries in both the verticals, so I must mention we are not in the ultimate holding company, but the SPV exposures have been downgraded, so have been the asset holdco as we call them.
- Amit Premchandani:** So the SPVs have actually not paid or is it because you think that because of the escrow getting moratorium, you are kind of proactively downgrading it?
- Rajat Monga:** It might vary from situation to situation, but everything leads back to NCLT.
- Amit Premchandani:** And do you think 25% is the loss given default or the loss given default could be much higher?
- Rajat Monga:** Well, our assessment is that we may be more than covered across the exposure as at 31st December, so there would be parts, while we may have taken uniform 25% or 15% provisioning, but there could be parts where we would have less LGD and there could be parts where we will have more LGD, but on aggregate we think it is adequate.
- Amit Premchandani:** And finally on the upgrades, does the upgrade include the last quarter's large downgrade of 650 crores?



*YES Bank Limited
January 24, 2019*

- Rajat Monga:** Yes, it includes the remaining part of the loan which was part of the loan has been repaid and the remainder of the loan has been upgraded, that is correct.
- Amit Premchandani:** And what would be the amount if you can quantify?
- Rajat Monga:** So I don't have the amount, but there would have been a 20 to 30% repayment, give or take.
- Moderator:** Thank you. The next question is from the line of Suresh Ganpati from Macquarie. Please go ahead.
- Suresh Ganpati:** I have some questions on the board composition. Right now, Ashish Agarwal has been appointed as the ED?
- Rajat Monga:** Not appointed, we have proposed his name additionally also for a whole time director, that is correct?
- Suresh Ganpati:** So there will be 3 EDs is what you are proposing to Reserve Bank of India, right, two pending and one Ashish Agarwal?
- Rajat Monga:** That is correct.
- Suresh Ganpati:** So Pralay Mondal still exists because there were speculation about him leaving the firm and stuff?
- Rajat Monga:** There continues to be speculation, but he is sitting in front of me.
- Suresh Ganpati:** Okay, fine, cool. Now, between January 31st to March, right obviously is the board thinking about appointing an interim CEO, who takes the transition? What exactly is the thought process of the board?
- Rajat Monga:** So Suresh, this exact matter is actually due for a discussion where up the board is meeting again on the 29th of this month.
- Suresh Ganpati:** The other aspect I wanted to know is that Rana Kapoor as a non-retiring board seat, so on 31st January when he ceases to be the CEO of the firm, will he be on the board and if he is on the board, does he need an RBI approval to be on the board and does he want to be on the board?
- Rajat Monga:** I am afraid, Suresh, again 29th January is subject matter.
- Suresh Ganpati:** So this issue of Rana Kapoor, whether he is going to be on the board or not, again going to be discussed by the board on January 29th?

- Rajat Monga:** See, provided that becomes the priority, so if you look at the timelines, after the board meets on 29th January when Rana continues to be the MD and CEO, the next board meeting very likely might only be in April.
- Suresh Ganpati:** So then, what will happen after 31st January, say 29, is it an agenda of the board to discuss Rana Kapoor's board seat due on 31st of January?
- Rajat Monga:** I haven't seen the agenda Suresh, but it is quite likely to be on the agenda and I was saying is that if it is not on the agenda, let us look at just the circumstances. One is that the articles do allow a non-retiring seat for Rana Kapoor and the bank's board, which means that he can have a nonexecutive director position. The nonexecutive director position does not require RBI's approval.
- Suresh Ganpati:** Though he might be a dependent director, still it doesn't require an RBI approval, is that the case?
- Rajat Monga:** Yes, that is correct. RBI approvals are required for MD, CEO, whole time directors and chairpersons.
- Suresh Ganpati:** So he will be what? A dependent director, but not a whole time director?
- Rajat Monga:** We call that a nonexecutive director who is non-independent.
- Suresh Ganpati:** And that doesn't require an RBI approval?
- Rajat Monga:** On paper, it does not. The appointments of nonexecutive, whether independent or not has been delegated to the board of the banks, so therefore it is also premature for me to be able to comment on what the board will decide on this matter, so therefore the 29th board meeting, whether the board will decide or may be think it over for more time because this does not come for reckoning till April because the board does not function in the interim.
- Suresh Ganpati:** But then you are saying that RBI's approval is not required, so he can be on the board. That is the interpretation that we should take?
- Rajat Monga:** Not necessarily. Like I said, that is just the fact pattern, but what will Rana want to do, what will the board want to suggest.....
- Suresh Ganpati:** The other aspect is on the deposit, just last question. So your deposit growth is Q-o-Q flat, I understand that there has been some government savings deposit which has gone up, but have you seen because of all these issues, I would not say bank-run that's a strong term to use but any general withdrawal of last deposits, which explains why you have Q-o-Q flat growth or assets you have not seen any abnormal outflow or incident, whatsoever?

- Rajat Monga:** Let me just tell you what has been the change in terms of drop in the form of deposits. The largest drop that we have seen is in our certificate of deposit book. So let me just give the big picture in terms of numbers, so deposits are flat at about Rs. 2.2 trillion, but we have reduced our CD issuance from Rs. 130 billion to Rs. 6 billion and certificates of deposits get reported as deposits in the total 2.2 trillion. We have reduced about Rs. 70 billion of certificates of deposits and we have replenished them with both retail and corporate deposits, so that the net deposit book is flattish. If you look at the corporate term deposit, let me keep CASA aside for a minute, corporate term deposits have grown 8% sequentially and retail term deposits have grown 5% sequentially.
- Moderator:** Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.
- Nilanjan Karfa:** Two more questions. Specifically on this retail, if Pralay could comment on the development on the accounts, how salary deposits are performing in terms of both accounts and value that will be the first one. Second one is to understand of the total loan book which is say, about 32% is probably the granular one, 8% is the offshore book and the balance is corporate, how would the contribution on the NII line would look for this quarter or for the 9 months, whichever you all prefer and the third question is would you have a guidance on ROA for FY20?
- Rajat Monga:** So you want me to tell you our profits for next year?
- Nilanjan Karfa:** If you can.
- Rajat Monga:** Right, I wish I knew. So ROA, I think we will have to wait possibly when we ourselves ballpark or next year, maybe we will be able to at least lay that out for you, maybe not tell you how our profits will work, but at least what will ride them up or down. I will also try and take the second question which is on account of NII and contribution of retail versus the contribution of others. So I think if you allow an error of 25 basis points, for the bank the earning yields on corporate, retail and SME are give or take similar, so contribution therefore on NII will be determined more by the liabilities than by the loans because retail also contributes into the low cost deposits, so when we look at the retail business banking profitability, we give them a cost for booking assets and return for booking liabilities. So as such, if I have to allocate all of that to retail, retail will be the highest NIM business already because there is value in liabilities as well but if you are looking at purely from the asset side, I would say give or take 25 basis points, we are little bit indifferent currently between corporate, SME and retail. Overtime, as we build more sophistication in retail, my expectation is that retail income will increase because our share of, for example, unsecured lending is very low. We don't do entry-level vehicles in auto, we don't do second-hand vehicles which also are high yielding. We are also very low key on microfinance, so the high-yielding businesses, we have not yet taken up the sophistication, but that will progressively be developed as we get more comfortable and more confident and more established in the various supply chains. I don't know if I have answered your NIM related question before I hand over to Pralay.

Pralay Mondal:

In addition to what Rajat said on the name related, I will just add one more point here which is not only we are billing the retail assets franchise pretty fast, we have been progressing primarily on the good quality assets there and hence our loss ratio, NPA, whichever you look at it, (+30), (+90), whichever early mortality whichever we look at it, it is not only the best in the industry by our margin. We had recent meetings with some of the credit bureaus, they have actually confirmed because what they give you is you versus the rest of the industry versus and also informally figured out we versus the best and that is as a strategy because I have always said that till 2020, we need to be very carefully building because we want to see there is a retail cycle or not and then we will build it up, so all the businesses which Rajat was talking about, used vehicles, used commercial vehicles and some of the unsecured businesses, credit cards, etc., those are the businesses which we will take the next level of risk only after 2020 because right now the return on riskier assets is very poor in the industry and hence the reward on that is extremely poor, so we will take that call after 2020. Given that perspective, we are focusing more on quality of portfolio rather than the NIMs at this stage. Having said that incrementally things are getting better on the retail asset side as well, especially in the last quarter we have seen that.

Coming specifically on the deposit side of the business, while last quarter, Rajat has already shared that the deposit growth both on retail and wholesale and everything, but let me give you a colour to the trending of it. Trending of it is much better in the last month of last quarter which is December and what I had seen in the first month of this year, things have only improved better which is basically the confidence of people on the ground and the kind of excitement and things like that. We had a little bit of a slowdown in October and mid of November, but mid of November onwards, things have picked up reasonably well and I think if all goes well, both on the retail fees and on the retail liability, this Q4 should be a reasonably good month for us, definitely much better than the Q3. Because retail is about execution, excitement and customer engagement that part is going on pretty well, so I am pretty happy the way things are happening right now, but yes, we had a little bit of slowdown that happened and I think this is industry-wide phenomena, but we also had our share in that. And that is where, we are right now on the retail side.

SME side of the business, I think it has not grown as much as we have grown in the retails of the business because the book is also between the two businesses. Now it is larger than the retail first of all and it is more vintage book and also given the commentary which other players are giving, we have turned even more cautious in that business and we are focusing on that business also because it gives us the PSL part of the business pretty well. So overall, I think the flavour is quality, next comes name and growth, obviously we are doing what builds the long-term franchise right now.

Nilangan Karfa:

Just a question on SME, are we focussed more on the manufacturing side or the services side of the SME piece?

- Pralay Mondal:** On the manufacturing side, we don't do much but on the supply chain on manufacturing we do a lot because manufacturing can be divided into two parts. Supply chain is extremely good business because that is where quality is extremely good and you have better controls and you exactly know what is coming from where. Of course, services side and it also depends on which part of SME. When you look at the entry-level SME, which is up to 15 crores of turnover on that segment that is more on the trading and servicing side. As we go into medium to large SME, there you will go gradually more towards the manufacture and supply chain and things like that.
- Nilangan Karfa:** Rajat and on that ROAC, for example, in 9 months, we are roughly averaging about 1.3, even if I kind of let us say gross it up with the additional provision we had to take this quarter, may be will be at 1.4 or probably a little higher than that. I still want to get some sense, will we be at similar levels or do you see a potential of this number coming down by at least 10 to 15 basis points?
- Rajat Monga:** Levels from?
- Nilangan Karfa:** The ROA levels next year.
- Rajat Monga:** Both these last quarter have had some externalities, last quarter we had fairly high provisioning, also half driven by interest rates. This quarter, there has been some relief but has been more than taken up by the infrastructure conglomerate downgrade, so I think these last two quarters we have been somewhat depressed by the externalities and then we have had our own change management to sort of be dealing with, so I would expect that we should be able to do better than what we have been doing in the last couple of quarters and to do that, we also have to resurrect like I mentioned earlier, we have to get back to our management frameworks that we have been operating with and start focusing back on business and not necessarily on the one-off changes that we have been doing. So I think I would reckon that we are not at our best right now.
- Nilangan Karfa:** Sorry to prolong this, but would you expect complete turnaround in the way we do business today or?
- Rajat Monga:** I am also little somewhat reluctant to answer that question if you will appreciate because this is something which ideally our next CEO should answer in terms of how he would want to take the business forward, so I don't want to speak for him in the sense that if he says that no I have a particular bias in which I want to take this bank forward, then he has to express it, advise it and we will be able to suggest you whether that increases or decreases our financial performance outcomes. If you can give us a couple of months, we should be able to, like I was saying earlier that may be the full year financials when we discussed, it will be a good platform for us to be able to discuss if there is any change in strategy though the bank is the same, whether there is a change in direction, though our execution continues to be what it is and through thick and thin, we have tried to deliver, so it is somewhat of reasonable unknown even for me, so therefore somewhat of a reluctance in terms of being able to take firm position because that might change as soon as in three months.

- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Sir, first on this infrastructure conglomerate thing, so I believe you mentioned that you have downgraded part of the subsidiary, but is it safe to assume that the subsidiaries which have been downgraded, they were 90 days overdue and which are not downgraded they have still not passed that threshold, so necessarily, I mean...
- Rajat Monga:** That is the correct assumption.
- Jai Mundra:** And the one which has been downgraded, they were past 90 days, it was not done on potential basis?
- Rajat Monga:** We have followed the RBI rule exactly as far as asset qualification is concerned, which is predominantly the 90-day rule. You could be looking at more accelerated downgrades in situations which are extreme, which could be, if there are industry frauds that have been evidenced, but that is not the case that we are dealing with here. Otherwise, we just follow those rules as far as NPA classification is concerned as well as minimum provisioning.
- Jai Mundra:** And sir, secondly on SA growth, SA part, balance part, part of it you have already answered that there was one-off rundown in the government savings balance, but if you can provide how is the retail or granular part moving, just because one part could be government, one could be nonretail.
- Rajat Monga:** I mentioned that the retail part if you cut over from previous quarter, it was nearly flat. If you compare it with year ago, it would be give or take 20% up.
- Jai Mundra:** And the last question sir, you mentioned a bit about corporate fee being lower because of the one related to the bank and one related to the systemic credit, so can you elaborate the second part sir, I mean how was the systemic credit was not conducive for the fee growth?
- Rajat Monga:** Basically, if I have to summarize the credit conditions have worsened in the third quarter, which can relate to available liquidity, even though there have been a lot of OMOs, but OMOs take away government bonds from banks. If I am holding government bonds, I can get financing against that anytime, so it does not give me lendable resources as the banking sector has been crunched for lendable resources, which are also being freed up through SLR cuts, for example, but the SLR cuts are coming over the next 18 months. Then there were externalities which were coming also from the funding crunch faced by certain nonbanking sectors. So the housing finance companies, mutual funds, nonbanking finance companies also created a semblance of a credit crunch, is what I was referring to, so the decisioning in that time across the banking sector including which has affected our sell-downs, for example. So RAC and PFC are consolidating. They also, for example, would slow down. There are three banks that are consolidating. Those will also slow down. So there has been a general adverse credit sentiment that got started during

the end of the second quarter. It was at its worst in the middle of this quarter, but it has become better since then which is what I was referring to being the credit crunch.

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

Manish Shukla: While we discussed sir, sequentially there is a bump up in current account, is there any one-off there?

Rajat Monga: There would be one-off, yes Manish, even last quarter there would be one-off, this quarter there will be one-off. Current account always has quarter-end one-off bumps here and there.

Manish Shukla: If we were to look at average CASA this quarter versus the previous quarter, could you give a rough retail and wholesale mix?

Rajat Monga: We would be marginally higher, average CASA this quarter mix.

Manish Shukla: Marginally higher in favour of retail?

Rajat Monga: Relatively definitely because we have been impacted a little bit on government SA, so on the averages, we would be higher on aggregate and in that we should have a bias for retail doing better than the nonretail.

Manish Shukla: Next is on growth, is it sad to assume that till such time that we raised equity capital, sequential growth run rate might be in this 1.5 to 2% region?

Rajat Monga: Before you judge the run rate, let me also tell you also we in this quarter have booked 20,000 crores of new business which is basically, what I am showing you is only 3 to 4,000 crores net growth, but the gross growth would have been close to 20,000 crores because there are run downs of loans, there are sell downs of loans, there are premature payments on loans and therefore the business of the bank runs on, the implications on fee, the implications on cross-sell also come from the front book that we have built in the quarter, so there is plenty to still work with the churn thrown in into the banks for overall balance sheet strategy, but that will keep the net growth under check or not just loan growth, but the risk weighted assets growth under check. We might also do more business in lending, but we may want to do less business in investments or less business of balance sheet or vice versa, so depending upon the sensitivity of capital resources, the outcomes will be appropriate, but yes, there would be sensitivity in terms of not overreaching on the capital resource currently, still we have firstly stability at the top and also some more time that the top has been able to spend with the bank including the changes that are happening at the board and then subsequently there will also be a question on raising capital if and when.

Manish Shukla: Lastly, the way you split the MTM corporate bond and the swap impact, could you do the same for the previous quarter, in the sense that what was the impact on the swap book and what was the impact on the corporate bond book in the previous quarter?



*YES Bank Limited
January 24, 2019*

- Rajat Monga:** Yes, so we have given the numbers. If you read the note which is relating to the fact that there has been a 2.8 billion top-line sort of reduction, which corresponds with the provisioning write back, we have also given the position of each of those for the last quarter.
- Moderator:** Thank you. Due to time constraints, we will take the last question from the line of Parmeshwaran S from JM Financial. Please go ahead.
- Sameer:** This is Sameer here. If I look at the slippage excluding the infrastructure conglomerate, it is probably lowest in reasonably long period of time, so how do you look at this going forward?
- Rajat Monga:** I think if I also leave aside the pendency of the infrastructure conglomerate, there may be the remainder of the exposure also that might downgrade. I think we should be looking give at possibly a similar number in the near term, give or take. It is too early to say because there are still 3 months, all three month ends have to be tested, so it is quite early to be able to come to that conclusion, but the visibility doesn't look too difficult.
- Sameer:** Secondly, if I just look at the real estate book, you have said that none of it is SME2, but it is now comprising almost 10% of the exposure, 6.5 and then there is LRD, non CRE which is another few percentage points, so how do you see this composition moving?
- Rajat Monga:** So the composition, I don't think is moving higher from here in my opinion, though sometimes it is relative, for example, at this time around while the growth on absolute rupee terms has not been that much but the overall base of exposure has shrunk given that we have also been working on optimising capital, so if you look at the absolute numbers, the numbers might have gone up by couple of 1000 crores, because of the base having shrunk, the proportions look higher, but the absolute exposures have not really done much. Because of that for me to forecast our proportion is not that easy because the denominator is also a little bit variable right now but as such I don't think there is a flip side to it, there are also exciting opportunities in that space because not all lenders are looking at the sector equally. There is a class of lenders who are particularly holding back because they may have their own funding compulsions, so it is still mixed. I think we will continue to remain opportunistic in this sector because we might get some very good transactions to see also.
- Moderator:** Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.
- Rajat Monga:** Thank you very much everyone for patiently listening to us on this call and we look forward to speaking to you again or reporting to you at the next quarter now. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of YES Bank Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.