



“Yes Bank Limited Q3 FY21 Results Conference Call”

January 22, 2021



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Moderator: Good evening ladies and gentlemen and welcome to the Q3 FY21 Earnings Conference Call for Yes Bank Limited. On the management panel we have Mr. Prashant Kumar – MD and CEO, Yes Bank, Mr. Niranjana Banodkar – Group Chief Financial Officer, Mr. Rajan Pental – Global Head (Retail Banking) and Mr. Ashish Agarwal – Global Head (Wholesale Banking).

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 opening remarks conclude. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now request Mr. Prashant Kumar to address the participants. Thank you and over to you sir.

Prashant Kumar: So, thank you and very good evening to all of you, who are joining us on this quarterly earnings call. And first, I would like to give you some what we feel on the ground in terms of what is the how they’re improving or what is the attraction. So, overall what we are seeing that confidence coming back there is a gradual improvement in both for the demand for credit and also in terms of improvement on the collection efficiency. We are very near to pre COVID levels in both the cases. But definitely it would take some more time, where there will be say improvement in terms of the jobs and more on the ground level.

On the deposit side, we have been able to increase our deposits by almost 8% quarter-on-quarter and 39% over a period of nine months. For the first time in the last four quarters, there is improvement on the CASA ratio which is at now 26%. And in fact when we have started our drive for customer acquisition. So, earlier it used to be 45,000 and 50,000 accounts per month. Last month, we have reached to almost 85,000 and in fact in December quarter we have opened 2.2 lakh CASA account as compared to 1.5 lakh accounts last quarter. So, we are seeing the momentum on the deposit side and this is despite our gradual reduction in our rate of interest. And because of that our cost of funding and cost of deposit is gradually coming down. We are seeing the same traction on the loan side, there is more traction on the retail and MSME and we have kept a target of 10,000 crores of disbursement on the retail and MSME for the quarter three and against the 10,000 we have disbursed almost 12,000 crores in retail and MSME and on corporate side our disbursement was around 2000 crores. So, in-line with our business strategy to have more focus on retail and MSME. Our retail advances mix has improved to 28% from 24% last quarter and we are seeing during the current time also this kind of demand coming from the retail MSME and on the corporates and we would be very cautious in terms of the risk profile of the customer. But, we would be able to grow in the same way during the current quarter also.

Now coming back on the profitability side. Bank has registered an operating profit of 2286 crores which is a 68% growth quarter-on-quarter and out of this operating profit of 2286 coupled with writeback of provisions, we were able to make adequate provisions in our existing NPA and NPI book and also create a additional COVID provision of ₹ 765 crore. So as of now, the aggregate COVID provision is ₹ 2683. Along with this, because of the provisioning made on the NPA and NPI our provision coverage for NPA has improved to 76.8% and if we also include the technical right of, then the provision coverage is almost 81%. On the NPI also our provision coverage has

improved from 70% to almost 78%. And because of this provisioning our net NPA number has come down to 4% against 4.7% last quarter. So, after making these provisions, it's the third consecutive quarter, where bank has registered a net profit. So, this time net profit is ₹ 151 crore as compared to a loss of more than ₹18,000 crores in the corresponding quarter of last financial year. Net interest income has also grown by almost 30% quarter-on-quarter, the NIIMs are around 3.4%. The non-interest income has also improved by 70% quarter-on-quarter, and there is a significant increase on the retail fee income. Our operating expenses, though, has gone up in the current quarter as compared to last quarter, but still it's a 13% Y-o-Y reduction and because of the improvement in the earnings and the reduction on the cost side, our expenses ratio has improved to 43% as compared to 49% at the end of quarter two.

So, overall if we see the business is growing, very decent business growth and we have been able to reduce our CD ratio 116% from the earlier of 124% at the end of quarter two. There is a business growth, there is an improvement on the profitability side, we have also been able to make a decent recovery from our existing NPA and NPI. So, in the current quarter, we have been able to make a cash recovery of ₹ 1512 crore and for the nine month it was ₹ 2973 crore and the P&L impact of these recovery is ₹ 1283 crores during the current quarter and ₹ 2430 crore for the previous nine months. So, we are continuously going to see this traction where in the fourth quarter also we are expecting recoveries and the business growth are in-line with what we have seen in the quarter three. We have also given a number in terms of restructuring. So almost ₹8000 crores we have invoked restructuring and where it would be implemented during the current quarter or some may slip to the next quarter also because we have a time up to 30th June for implementation of the restructuring.

We have also given a number of standstill NPAs, those standstill NPA excluding the restructuring book is ₹ 7058. We have also given a position of overdue advances between 61 to 90 days and excluding restructuring part that is something around ₹ 3430. But both the categories whether 61 to 90 days or more than 90 days, these are those accounts where there is the impact of COVID and we believe that upgradation will be comparatively much easier as compared to the sticky NPA account. But definitely we need to work on this and the provisions which we are carrying for COVID which is ₹ 2683 is sufficient to take care of the provisioning requirement on the restructuring book as well as on the standstill NPA. And still we have the fourth quarter with us to have the recoveries and any operative PPOP kind of numbers. So, I would stop here. And the entire management team here would be very happy to respond to your questions or answer any clarification. Thank you so much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy:

Sir, question on, if you look at page #17, or slide #17 of your presentation, so I just wanted to understand or reconcile whether there are any overlaps here. So, what you're saying is that the total pool is ₹18,551 crores, which is as per 90 days overdue by Supreme Court 61 to 90 day and

COVID-19 restructuring right, ₹18551 and if I were to include 31 to 60 days overdue, excluding the overlap of ₹ 2575 crores, it means another ₹10,000 crores I have to add to this ₹18,551 right?

Management: Right.

Suresh Ganpathy: So, the total number is ₹ 28,551 right roughly?

Management: Right.

Suresh Ganpathy: Okay. And this ₹ 28,551 you are carrying a provisioning of ₹2683 crores?

Management: So, this is something where there is a disconnect, because the provisioning requirement is either for the standstill NPA or for the restructuring. As in if you see any financial institution and if you see the customer behavior, there are a large number of customers who are always 30 days, either more than 30 days overdue, 31 to 60 days and 61 to 90. So, these customers and make new payment maybe on the 80, 90th day kind of thing or maybe around 45 days. So, this is a normal thing which happens even during the pre COVID time. So, it is not like everything is addressed, but definitely standstill NPA is a NPA and 61 to 90 days it is again like everything would flip. Some amount would flip here, some amount would come back and some amount from 31 to 60 days also ultimately moved to the standstill NPA category. So, we have done a very granular analysis and our understanding is that overall restructuring and the slippage would be confined between these ₹18,500 kinds of thing.

Suresh Ganpathy: So, let me hypothetically assume that the total stress book which is more than 30 days overdue without any overlaps is ₹28,000 crore and in general you have got a contingent provision of ₹ 2700 crores which is COVID provision. I don't want to earmark to this book that's the interpretation, I just wanted to reconcile that there is no overlap here right?

Management: Yes, there is no overlap. But only disconnect Suresh when you say that you are having a provision of ₹ 2600 crores for ₹ 28,000, so this is not correct. We are having a provision only for the standstill NPAs and the restructuring.

Suresh Ganpathy: Okay, clear. And there is no overlap of this ₹ 28,000 crores with the ₹ 42,000 crores that you're reporting as of December 20?

Management: Right.

Suresh Ganpathy: Okay. So this ₹ 28,000 is over and above the ₹42,000 crores that has been reported. Okay, this is very clear. Mr. Kumar thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil Dulani who is an Individual Investor. Please go ahead.

Nikhil Dulani: Sir my first question is regarding fundraise. What was the need, we raised ₹15000 crores recently and what was the need for raising ₹10,000 crores more because this could lead to an equity dilution and also could affect current shareholders?

Management: So basically, as of now we don't have the approval of shareholder as a process to raise any equity if there is a need. And getting a shareholder approval takes a long time, which is around 45 days to 60 days. So we have just taken an enabling provision to raise capital from the board and up to ₹10,000. So it is not like to raise ₹10,000. So this is just an enabling provision to raise capital up to ₹10,000 and after that, we will take the approval of the shareholder. So that we have the approvals in place, that in case if we find good growth opportunities, then those should not be missed only because of the lack of capital. So, if there are good growth opportunities we will try to raise some capital also.

Nikhil Dulani: The reason why I asked that sir was, last time during past interviews also, it was mentioned from your end that we won't need any capital and sufficient for two years, including for growth. So, I just wanted to understand what changed lately that we thought of going with it, of actually making a provision of fundraise of ₹10,000 crores?

Management: No, so basically again, like I would repeat it's not a fundraise of ₹10,000. This is just an enabling provision that is there in requirement for growth, then we can immediately step into the market.

Nikhil Dulani: Okay. The second question is, in recent interviews you said that, previously we had considered that there might be a recovery from the old NPA will be close to, LGDs will be close to 70%. But, recently in one of the interviews you said we could have a recovery of 50%. So, basically that means, I am just assuming that means, the interpretation of that is that 50% could be LGD. So, does that still stand, or are we still at 70% LGDs from the old loans?

Management: So, if you feel at low point of time, we have said that LGD would be 70% this was the estimate made by the external agencies, that on the stress asset pool, they have calculated that it basically from their part it was something around 60% and we were saying that we have made a 75% provision. So, which is sufficient to take care of even a recovery of 60%, but what we have seen and again, I would like to repeat those numbers in you see the recoveries which we have made almost 3000 crores in nine months, there the P&L advantage is almost 2430 crores out of 3000. So, if you see overall our recovery is much better than this. So, when I said 50%, 50% was on the aggregate basis, because we have some asset where you don't have the security is the recoveries would be lower, but on aggregate basis recovery of 50% is something which we are quite hopeful.

Nikhil Dulani: Okay. And sir my last question is on proforma gross NPAs. As you had mentioned before this during press release that you, not press release but while press conference that, the proforma gross NPAs are close to 20%. So, what are the proforma net NPAs, considering the provision we have taken, if you could share that number?



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Management: No, so this is only a gross GNPA number so question was that as of now we are having a 15.5% So, if we also consider the standstill NPAs, then the gross NPA percentage would begin around 19.5% to 20% kind of. Only thing is.

Nikhil Dulani: In similar way, would it be possible for us considering the provisions we've taken to come up with a proforma net NPA, I am just.

Management: So if you see our net NPA ratio as of now is 0.4%. So we will see how much provision we make but we'll make adequate provision, so that the net NPA ratio remains within the acceptable.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: In your proforma NPAs on the corporate side, how many accounts would that be roughly?

Management: So, you were talking of number of returns?

Mahrukh Adajania: Yes, sir.

Management: We will come back on this.

Mahrukh Adajania: Okay. And sir any sectoral flavor?

Management: Not a sectoral kind of thing but definitely the impact of COVID is more on the travel tourism, hospitality industry, real estate, entertainment. So basically, these are the sectors which have been severely impacted because of the COVID and the current standstill NPAs are mostly from these sectors.

Mahrukh Adajania: Got it sir. Sir and would you be in a position to quantify the collection efficiency end December or?

Management: So, on the retail side our collection efficiency has improved to 96% and pre COVID level we were 97%.

Mahrukh Adajania: Got it sir. Sir and there is also a lot of discussion around a bad bank you want to float would you have any comments on that?

Management: So, we want to set up a ARC kind of a structure. So, only thing is that we are waiting for the regulatory approvals for that.

Mahrukh Adajania: So if the regulatory approval comes that will be formed soon?

Management: Yes.

Mahrukh Adajania: So, how will it work you will transfer all your, what proportion of GNPA's would be transferred, how will it look like?

Management: So we would like to transfer the entire stocks of the NPAs to this entity as a fair market value.

Mahrukh Adajania: Okay, and you will have SRs in return something like that?

Management: Yes.

Mahrukh Adajania: Okay. And who will manage the ARC?

Management: So, this is something which depending on the regulatory approvals we need to work whether, definitely the management would be as an independent body. But depending on the regulatory approval, we were to take who would be having the control in the stake.

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

Mahesh MB: Just one question again, extending Suresh's question earlier. When we look at the presentation for 2Q and you will see the numbers there, the summary of the labeled exposures that you have seem to have given there has seen a very, very sharp jump. So just trying to reconcile what happened in this quarter that you saw such a sharp jump?

Management: So, Mahesh one, we've seen approximately ₹1400 crores of book in which the date of commencement of operations has been deferred by one year and we were made the commensurate provision required as well. So that is one piece, the second is what we've also done is we've also disclosed the exposure where you will have the June 7th, circular application so even that we have brought into the disclosure.

Mahesh MB: How does that change so much in terms of. If the June 7th circular how does it change?

Management: Okay. So for example, in case there is any particular let's say default in any particular account, there is a certain timeline with which, within which you are supposed to follow the implementation of RP. Now, it is possible there is servicing the debt, but technically, they have not cleared the debt across the banking sector. There could be some provisioning requirements so we have also brought that into the disclosure.

Mahesh MB: Okay, and is it a fair assumption to say that the probability of slippage is now seems to be extremely high given that there, the corporate has exhibited a default. Just trying to see, the basic idea Niranjana here is that the numbers suddenly have shot up to a little over 28,000 crores. So we are just trying to kind of figure out as to what should we look at in terms of gross and net NPAs in the coming few quarters?

- Management:** No, what we need to make a distinction Mahesh, that when we are talking of ₹ 28,000, we are taking overdue of more than 30 days, which is a normal thing for any way to have the overdue position like if suppose if this kind of situation that not been there then having always the exposure which are between 31 to 60 or 61 to 90, which actually does not slip to NPA. So there are customer who always pay after date.
- Mahesh MB:** Okay, as per your expectation you say that things may have not changed too much as compared to 2Q or do you see that there will be in a much situation, because this update that you have given today appears to be lot more stressed for the bank.
- Management:** So, naturally like from the very beginning what we are saying that there is a COVID related stress on some of the factors and that kind of stress we are seeing is getting along with it because like that is that there hospitality even SGA we are still not seeing they have come back to the new norms of situations. So, definitely for initially if a person is say 30 days overdue and if you don't see any improvement in that sector the 30 days would become 60 days or 90 days that may happen.
- Mahesh MB:** Sure. Sorry, just one corresponding question to this, you couldn't have moved this export through the ECLGS 2.0?
- Management:** Yes.
- Mahesh MB:** Sorry, I'm just asking the question, you couldn't do it or?
- Management:** No, emergency credit line there were some eligibility criteria, so everything would not be eligible for emergency credit line. So that is one part, and then second thing that we were also very careful in terms of using the emergency credit line only for genuine needs, not for postponing the problem.
- Management:** Just want to add one point, which is very important you were talking about 30 +. So normally you would always see in any running portfolio a cheque bounce of in the best of the portfolios may be anything between 6% to 8%, we are seeing some elevated levels with the industry in stock over a period of time. But the resolution also is around 97%, 98% with the best of the things. So, you should segregate these and then, look both of them separately that is the way to understand it better.
- Mahesh MB:** We were here asking is that look, there is an accounting provisions which the P&L has to take and it has a consequent impact on capital as compared to the recoveries that you are talking about or resolutions that you're talking about here. If there is a timing mismatch between the two, then it creates problem on the stock price. So just trying to understand how do we see this entire movement, that's the whole point of this entire exercise of asking this question.

Management: Absolutely, but basically in our own estimate, the book at risk is around this ₹18,000 including a restructuring book of around ₹ 8000.

Moderator: Thank you. Next question is from Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir could you share the disbursement under ECLGS 2 and the total under ECLGS 1 so far?

Management: So, total disbursements this quarter is approximately ₹1000 crores and cumulative disbursement would be about ₹3200 crores, including, this quarter 1000 crores.

Mahrukh Adajania: Okay. But how much would be ECLGS 2 out of that?

Management: The ₹900 to ₹1000 crore that I mentioned would be the easiest to do.

Moderator: Thank you. The next question is from Utsav Gogirwar from B&K Securities. Please go ahead.

Jay: This is Jay here. Could you share the corporate exposure in the restructuring where they have been invoked?

Management: So, restructuring as long as the loan has been invoked. If you see that, Slide 17 from our presentation so from ₹8000 crores we have invoked.

Jay: Right sir, the top three sector in that, or the top three account actually.

Management: That would be between the real estate and hospitality sector.

Jay: Sorry sir there is some disturbance, so one is the real estate?

Management: Real estate and the hospitality sector.

Jay: Okay, sure. And second sir if you have shared the collection efficiency for corporates I missed that number actually?

Management: So, the connection efficiency always works for the retail part which is 96% on the MSME and corporate we always see in terms of how the throughput is there and how the utilization for the overdue. So, what you have seen throughput has improved where there is a challenge in the portfolio and even the utilization of the limit is still not improved so that gives us a single in terms of a very prudent utilization of existing lines.

Jay: Okay. And sir in fortunate restructuring the number that you have given is the proposal that you have received and at least on the larger proposal how confident are you in terms of it getting invoked, sorry implemented because it seems that the restructuring would have to be passed through ratings the rest to be find IP, et cetera. So, do you see that at least the predominant

restructuring year marked in corporate should at least, a large part of it should get restructured without any hurdle because otherwise it would have to go through the down gradation part.

Management: So, I would agree with you, when we have done the invocation it is like we have seen overall whether it would qualify or not, but they have to get a rating, they have to get their financials in place and we need to do it, due diligence on them and unless it would be able to clear all these filters, the restructuring would not be implemented.

Jay: Right. So these accounts should be restructured right without any much of a hurdle?

Management: Sorry can you again repeat?

Jay: Sorry, so I am saying the bank is confident that these accounts will get restructured without any hurdle, procedural hurdle?

Management: Right.

Jay: And sir the FITL amount if you have for the bank as a whole where the FITL money which is outstanding at a bank level?

Management: We don't have that number at this point of time.

Moderator: Thank you. The next question is from Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, maybe just to once again clarify last time what you have highlighted in terms of 31 to 90 which was ₹6700. Now, it is fair to assume that amount is ₹19,000?

Management: Yes.

Kunal Shah: ₹12,000 plus ₹6,500?

Management: Right.

Kunal Shah: And when we look at in terms of the interest treatment for this entire pool of ₹18000 odd crores maybe in terms of the standstill plus. So, we are seeing that this is the pool which is at risk, plus when we look at it in terms of the GNPL the other accounts which are there in terms of the standard restructure which are again not the part of asset restructured on Slide 16 and restructured on slide 17 there is no overlap, so then what would be the overall interest treatment on this entire pool which is at risk?

Management: So, only thing is that interest treatment for the standstill NPAs and they would flip into that category after the verdict then we need to reverse the interest on debt book from the date of the NPA. But whereas in case of restructuring, it would not be reversal it would be more in terms of

how we take it, how the repayment would happen, what kind of treatment we will give for the interest but everything would be as per the RBI guidelines.

Kunal Shah: Yes, but as of now we are accruing the interest on this entire ₹18,000 crore and it's there in our margins as of now?

Management: Absolutely.

Kunal Shah: Okay, and lastly in terms of retail also, okay when we look at it in terms of the standstill accounts plus maybe the overdue so, almost like ₹1600 odd crores coming in from retail and maybe ₹800 odd crores coming in from the SME as well. And last time maybe we highlighted that maybe we are not seeing such a stress on the retail and the SME portfolio compared to that of, the reported GNPL and incrementally there are still disbursements going on. So, would that be more worry in terms of the further stress flowing on to the retail side or maybe this 4% ,5% of retail and SME which is currently getting reflected that seems to be more or less the same given the kind of growth which we had seen?

Management: So, for the retail side if you actually break it, so first of all there are segments which will take little longer to come back in the normal business cycle and we have an exposure on the commercial side of the loans. But having said that, most of them majority of them, which we had explained last time also, we are actually never into 30+ before. So, there would be, we have given a guidance that possibly from retail it can actually go to 3.2% and similarly, for MSME can also go up to 3.5% But, that would be a temporary phenomenon and we are already seeing that lot of corrections happening, we are seeing the limit utilization still hovering at around 70% to 75% we are also seeing the collection every efficiency actually going back to the normal level of 95%, 96%. So, if you look at these indicators then possibly for the entire industry and now that you are getting comparative data also. There is definitely a increase, but this increase is temporary and within one year's time, this would actually start leveling down, both for retail and MSME. The second part is on the 30+, see normally what you see in the industry is the typical right off on six months basis we carry it till 12 months. So, the overall stock is very, very high but our initial bounce rates have, which had picked up around 18% are actually now down to around 9% with the best thing at 7.6%. So, we've seen in the next one or two months, it is actually trading back towards the normal levels. So, this is absolutely going as per the guidance and not anything away. As far as the new business is concerned obviously, in-line with the industry and particularly we are in to the safe zone market space with our presence, we have made some changes, but then we also in the criteria to tighten it, but then we are also seeing our demand pick up and most of it is whether it is internal or it is the business is sourced through the dealers, et cetera. Those are the businesses which are seeing an upswing so both commercial vehicle and auto industry have actually seen an upswing. And even LAP there is a lower LTV of hovering at around 60%, 65% there is a good demand coming from (700+) scores. So which are good customers to attain, so the entire basis on which it is growing also is in the safer zone only.



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- Kunal Shah:** Sure. And just a regard, so there is no overlap between the restructured on Slide 16 and Slide 17 right, it's altogether a different ₹8000 and whatever you see restricted and so, they are like over and above that?
- Management:** Kunal, slide #16 we will have restructure that has been fully implemented, 17 is which has been invoked but not.
- Kunal Shah:** Okay and this is invoked and which will get implemented over the next few months.
- Moderator:** Thank you. That was the last question, there are no further questions in queue.
- Management:** Okay, thank you.
- Management:** Thank you very much.
- Moderator:** Thank you. On behalf of Yes Bank Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen you may now disconnect your lines.