“YES Bank Limited Q3 FY-22 Analyst Conference Call”

January 22, 2022

MANAGEMENT: **MR. PRASHANT KUMAR – MD & CEO**
MR. NIRANJAN BANODKAR – CHIEF FINANCIAL OFFICER
MS. ANITA PAI – CHIEF OPERATING OFFICER
MR. RAJAN PENTAL – GLOBAL HEAD, RETAIL BANKING
MR. RAVI THOTA - COUNTRY HEAD, LARGE CORPORATES
MR. AKASH SURI – COUNTRY HEAD, STRESSED ASSETS MANAGEMENT

Moderator: Ladies and gentlemen, good day and welcome to YES Bank Q3 FY22 Analyst Conference Call.

On the management panel we have with us today Mr. Prashant Kumar – MD and CEO, YES Bank; Mr. Niranjan Banodkar – Chief Financial Officer; Ms. Anita Pai – Chief Operating Officer, Mr. Rajan Pental – Global Head, Retail Banking, Mr. Ravi Thota - Country Head, Large Corporates, Mr. Akash Suri- Country Head, Stressed Assets 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. Prashant Kumar. Thank you and over to you sir.

Prashant Kumar: Very good afternoon to everyone. And thank you so much for joining the YES Bank Quarter Three Earning Call. I would like to take this opportunity to wish you and your near ones a very happy and healthy New Year. Of course, the start of the New Year has seen a significant surge in the COVID cases across India and the world. However, importantly as we have seen with our fellow employees and families, the impact has been significantly less severe on the health of the individuals.

In turn, after the blip, we continue to witness resumption in business activities at a reasonably fast pace. We continue to remain optimistic on the underlying economic activities and India's and the Bank's growth prospects.

Coming to the quarter gone by, we are pleased to report another quarter of consistent improvement across all our core operating metrics as well as the strategic objectives. During the quarter, Bank has achieved important milestones which I would like to highlight upfront. After a very long time, actually after September 2019, we have crossed the three lakh crores balance sheet size.

During the month of December, we acquired more than 1 lakh CASA customers and we have also crossed 10 lakh credit cards. Now all of these demonstrates a strong momentum in the franchise build up. We also continue to focus on new customer products and propositions like launch of YES family - a feature packed preposition for the entire family, Digi GOLD which is an instant gold loan overdraft for existing customers. To further deepen the physical presence in newer geographieswe have opened 22 branches and added 492 new YES bankers during the quarter.

On digital payments, we continue with our leading market share position in UPI, Aadhaar enable payment service and NEFT, etc.

Further, during the quarter end the bank was awarded the best ERP integration and most innovative transaction banking solution in COVID-19 at the 'Global Transaction Banking Innovation Award 2021'. YES Bank is now part of the MSCI ESG indices. ESG is an important element of our strategy and the Bank is committed to reduce greenhouse gas emissions from operations across the country to make it net zero by 2030. The above pointers demonstrate that our performance is in line with our strategic objectives as detailed in Slide #4 of our investor presentation and we are on track to achieve 1% ROA by FY23.

Now let me come back to our Quarter 3 Results, we are consistently and sustainably delivering on our earnings and outcomes. And, I won't like to get into too many details in each quarter as we continue to consistently show improvements in our underlying performance. However, it is important to highlight some of the key things like on the deposit side:

We are pleased to report the total deposit which now stands at 1,84,000 crores has gone up 7.6% on Q-o-Q basis and almost 47.5% on Y-o-Y basis. The granular growth of the deposit franchise continues with CASA ratio at 30.4% and CASA growth rate, which is twice the growth rate of the overall deposit.

Saving account balances have grown by 42% Y-o-Y and 7.4% quarter-on-quarter. While current account balances have grown 54.7% Y-o-Y and 8% quarter-on-quarter. And the average current account, average monthly balance have also grown by 74% Y-o-Y and this is mainly on account of our digital solutioning to the e-commerce players and the FinTech partners.

This growth in liabilities has come despite reduction in interest rates, which is a reflection of our superior customer service and stakeholder confidence. Our cost of deposit is now below 5% and currently 4.9% for the first time ever.

On the advances side, we had set out a medium-term target of 60:40 for the retail and the corporate mix. Given our strong underlying performance and corporate de-bulking, we have already reached 57:43 which is 300 basis points higher than the last quarter. An important data point to share on the corporate side is like top 20 accounts contributed more than 50% of the reduction in the gross book over the last one year.

Our wholesale non-fund book has also grown 7% Y-o-Y which is actually helping us generate the annuity fee income.

New business formation has been very strong. So its disbursement across retail which is 9,313 crore highest ever, SME another 4,940 crores and the wholesale banking which is 4,760 crores. All three segments retail, SME, wholesale banking, we are seeing a steady growth, which also augurs well for our growth aspirations as well as our guidance for FY22 and beyond.

On the profit and loss side, our NIMs have moved up by 25 basis point to 2.4% and primarily due to 30 basis point drop in the cost of deposit which is 4.9% as of now. The fee momentum in retail banking, which is the highest ever continues with good growth in trade and remittances and third-party sales.

On the cost side, the credit card business resumed, which leads to increase in cost and also the step up of marketing expenses given the new product launches. We also launched FinBooster credit card in partnership with BankBazaar in October 21. And have started issuing NPCI RuPay branded credit card from December.

On the asset quality front, the slippage have significantly dropped down by 50% to 978 crores as compared to 1,783 crores last quarter. We are seeing an improvement across retail and corporate slippage resulting in GNPA coming down to 14.7% against 15% last quarter.

Retail slippage significantly improved at 388 crore as compared to 888 crore in the previous quarter, while the corporate slippage were lower at 435 crores as compared to 750 crores last quarter. The net credit cost continues to be benefiting from the cash recoveries of 610 crores and upgrades of 573 crores. Overdue loans in 61 to 90 days bucket are stable while in the 31 to 60 days bucket is higher by 1600 crores quarter-on-quarter, predominantly on account of one large infrastructure group, which is fully backed by strong and highly valued collateral. The marginal increase in the total gross restructured loans is on account of DCCO, Covid and MSME-2.0 restructuring during the quarter.

We remain on track to achieve greater more than 5,000 crores of recoveries and upgrades as per our FY22 guidance. And we expect the asset quality to continue to improve. The process to form the ARC and complete the transfer of legacy stress asset is on track and we expect to complete this exercise by March 22 or latest by the first quarter of the next financial year.

On the capital side, we accreted capital by 16 basis points with total capital adequacy 17.7% and the CET at 11.6%. Since March 21, Bank CET has increased by 40 basis points. We have an enabling approval to raise equity capital, but for now capital is at a reasonable level. However, we will continue to evaluate need for capital from a growth perspective.

On the people front Bank has seen a net addition of 1,065 employees during the first nine months of current financial year. To enable the employees to have a say in the future of their organization towards making YES Bank a trusted and successful institutionthe Bank is currently undertaking an employee survey –'VOICE OF YES'. Additionally, we have launched an apex leadership program for top and senior management stressing on the 'conscious leadership'.

Our progress over the last 21 months has been validated by external stakeholders. In addition to CRISIL and Care upgrade last quarter, Moody's has upgraded the credit rating of our Bank this quarter to B2 from B3 and outlook changed to "positive" reflecting their expectation of a further improvement to the banks credit profile driven by cleanup of legacy stress and improvement in capital and profitability.

We can now open the floor for your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: Sir, my first question is on NPL, so could you give some outlook on NPLs as in where you see them, the NPL ratio settles in say one year time whether there are many recoveries lined up in the fourth quarter or any outflow for the fourth quarter or even longer term say one year. Also, any comments on capital raise?

Prashant Kumar: So, Mahrukh the NPA guidance, as you would be aware we are actually in the process of setting up a ARC and we would like to shift our entire NPL portfolio to ARC. So, we would be expecting that once this transition is over, we would be having almost like 0 NPL kind of thing. So, this is something which we are trying to do. The recoveries during the fourth quarter is not dependent on a single or few accounts and recoveries are happening across the different sectors and both on corporate and retail. So, we are going to see good recoveries in the fourth quarter also and we are expecting more than 5,000 crores during the current financial year, we have already done 4,320 crores. So, we would be definitely exceeding our target of 5,000 crores for the current financial year. And there is a lot of opportunities in terms of recoveries from this pool in the next financial year also, which would help us. Second thing on the capital raise, as of now we feel because in the last nine months, we have been able to add 40 basis point on our CET 1 but definitely for the growth purposes we would continuously evaluate and whenever like there will be a right opportunity we would go to the market for the purpose of growth capital.

Mahrukh Adajania: Got it sir. Sir, and when do you think will the ARC structure be fully approved and ready for transfer?

Prashant Kumar: So, we are trying to say do it by March end but because of the Covid uncertainties and regulatory approvals, it may slip to the next quarter ie the first quarter of the next financial year. But we are trying to conclude it by March end.

Mahrukh Adajania: Got it. But you already have a soft nod from regulator right?

Prashant Kumar: Sorry can you repeat your comment again?

Mahrukh Adajania: You already have a soft nod from regulator correct?

Prashant Kumar: So, that is something we would say share at an appropriate time. So, I would not like to make any comment on that.

Mahrukh Adajania: Got it sir. And you also have mentioned that your SMA-1 has risen because of an infrastructure group backed by good security. So what kind of infrastructure is that, would it be power, road or just multi?

Prashant Kumar: So the way we have worded it, we basically did not wanted it to be recognized by anybody. So let it remain like this. That would be better, but it is important that this is a single account, single group and it is backed by the adequate collateral.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, I have a question on your labeled exposure. So, if I were to total your labelled exposure, the slipped one already so NPA plus NPI. And if I were to include technical write off it would be around 55,000 crore, 28 plus 9 plus 16,000/17,000. Now on that 55,000 already NPA/ NPI, what you have done in the last, let's say last year you also did some 5,000 and maybe this year, you will also do 5000. But even that number is only let's say 10% only. So, that would still mean that un-provided stress would still be a bit higher. Request, if you can suggest over the next one year, or maybe one and a half year how much is the recoverability because 5,000 number looks good. But when you see in context, it is like 10% only. So how should we look at the recovery from this extended stress?

Prashant Kumar: I would agree with you that 5,000 if you see in isolation is a good number. But as compared to 50,000 or 55,000 crores it would look small. But Jai at the same time we also need to appreciate the challenges which we face as a Bank, we face in terms of legal resolution or the recovery through the legal means. So, keeping in view those kinds of constraints which the entire banking sector faces this immediate recovery of Rs 5,000 crore that too despite Covid, you need to give some credit to us for this. But definitely, another part there what we need to see, that the entire pool if we see the entire pool together, it's a coverage of 78%. So, it means and if you see our track record on the recovery, we have been able to recover something around say 50%, 55% wherever we have done the recovery. So, seeing this kind of a trend line, there is a lot of opportunity for recoveries in this pool, which would definitely happen over a period of time within the constraints which we face in the system.

Jai Mundra: So, I take your point sir, that you have already provided 80% what I was trying to understand, do you think that this pool considering the recovery run rate that you have had, do you think that you don't have to provide any new provision here at least on this 55,000 crore is that what you're saying?

Prashant Kumar: The only thing would be, there are certain regulatory guidelines in terms of provision. So, some of the provisions would come because of the aging part. Only thing would be timing. So, if the recovery and the aging would coincide with each other, there would not be any provision further provision. Only thing would be if the aging provision comes first and the recovery would come subsequently, then maybe for some time, we need to make some additional provision. So, this would be something which would be difficult to anticipate, but the way we are seeing the recovery coming up I really don't see any challenge in terms of making any additional provision.

Jai Mundra: And, if you were to name or provide a sector wise kind of an allocation of the top five accounts with the recovery in absolute amount is likely to be the highest, that will help us understand the progress because in this quarter the corporate recovery is almost negligible. So, just to understand which are your five corporate exposures sector wise, which can give you the maximum amount of recovery, if that is possible like maybe some diversified conglomerate, maybe some?

Prashant Kumar: No, we would not like to say, put in the public domain may not be correct.

Jai Mundra: Okay, understood. And second question is on your standard investment which are BB and below. So, is there any reduction in this pool maybe you would have got something from a stress telecom entity, erstwhile stress may not be now. So, did you get anything from that exposure and how do you assess the riskiness of this BB and below pool of corporate investment which is roughly around let's say some 1700 crores, 1800 crores?

Niranjan Banodkar: Jai hi, this is Niranjan. So, that also includes the NPI pool. In addition to that there is one exposure in the telecom space, which we've seen already redemptions happened in that particular space over the last two months. So, we are quite confident of the redemption.

Jai Mundra: Assuming that were to happen, Niranjan how much would that be, so this riskiness of this entire pool should reduce very materially that is how one should understand?

Niranjan Banodkar: There is no incremental provisioning risk that we anticipate from this particular BB & Below account.

Jai Mundra: Understood. And the third question is on DTA sir, so on your capital slide we have mentioned that some 6,000 crore, you are carrying some 6,000 crore of DTA and that would run off as and when Bank sustains the profitability. So, just to understand let's say hypothetically you make Rs.100 PAT this year for next year, because you have carrying DTA and you'll be paying tax, accounting tax but your capital should be improving by not only PAT but also the DTA reduction in a way which is equivalent to your tax outgo. So, your capital should increase by PBT is that the understanding because of your DTA?

Niranjan Banodkar: Your last statement was correct absolutely spot on. To the extent you will have the profit before tax, you can assume that, that you will keep accreting that straight into statement of the capital without deducting from a tax perspective, because to that extent you will have a relief from the DTA.

Jai Mundra: Right, understood. And last data keeping question. If you have the ECLGS number, what is the outstanding disbursement and is there any NPA out of that pool?

Niranjan Banodkar: So, the outstanding book there should be about 5,500 crores, we would have had some cumulative disbursements in the range of 7,500 crores. And the behavior of the book has been quite resilient and quite good. Thank you.

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

Kunal Shah: So a couple of questions, sorry again to touch upon in terms of the provisioning. So standard asset provisioning has actually come off and towards the NPA also it's relatively low. So we had seen some flow through on the restructured side even 31 to 60 days. Now the infra account we don't know maybe how it would behave in the next quarter, but would that call for a relatively higher provisioning because when we look at in terms of the credit cost, in fact that hardly anything, whatever is the provisioning almost 300 odd crores is towards the investments. So it would have been better to make some provisioning on either the restructured or this pool of SMA-1, which is going up because there is hardly any provisioning which is there?

Prashant Kumar: So, Kunal if you see in terms of our SMA-1 and SMA-2 and this is what we are seeing over the period. These are the account which remains in this category, but they don't slip. So that's why we are not making any provision and we don't see that possibility of those accounts slipping into the NPA category, that is one part. Second thing in terms of restructured book, so on the restructured book we already have a provision as per the regulatory guidelines. But we are very closely watching this pool. And we are not seeing this restructure pool appearing either in SMA-1 or 2. So, the behavior of the restructured books so far, has been quite good. And we are carrying a provisioning of something around 13%, 14%, kind of around this. So as of now we don't see that requirement of making higher provision either on the restructured, or on our SMA-1 and SMA-2 book.

Niranjan Banodkar: Also, Kunal we can add, what you do see is provision for NPA at a net level, some of the recoveries that we've had or the upgrade that we've had, effectively have meant that there's been some release of provisioning there which has been used to make more provisioning in the NPA pool. The net is 225, but that's essentially what we have been saying that if you look at the stock for us of the provisioning that will come in you will continue to have support from the recovery income through the course of the year. And that's something which will continue to play out, the good part that we've seen after the elevated let's say post Covid slippages that we had in June and September, both on corporate and retail the new formation of NPAs has now come down very meaningfully. So, that's also kind of very promising from our vantage point.

Kunal Shah: Sure. And secondly, in terms of fee income so there is maybe a better disbursements which are there but when we look at both retail as well as corporate on a quarter-on-quarter basis, in fact that's pretty flat. So, just want to gauge as to how the trajectory on the fee income overall should be?

Niranjan Banodkar: So, look, in fee income you will see a very strong momentum that will play out, in fact there has been an increase in the retail fees quarter-on-quarter and there has been some pull back on the corporate trade and cash management but that's because of some sluggishness that we had on the bullion, but this momentum you will see in our next quarter itself the momentum will be quite good.

Kunal Shah: Okay. And lastly with respect to this entire ARC structure, so whenever it would happen, maybe on the fair value assessment basis, whatever would have been the provisioning required we would have already done it. And maybe either in terms of the additional provisioning at the time of a transfer or so, do we see that happening at one go. And maybe we are just awaiting the fair value assessment for that point in time. And at that price maybe there is not the provisioning buildup which is happening towards distressful?

Prashant Kumar: Kunal, it would depend on the fair evaluation of that stock. But, in our understanding and the assessment on the basis of the individual loan, we have more than the adequate provisions on this. So, even in the worst case, there would not be any requirement to make any additional provision, whereas the whole transaction would be the capital accretive for us.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: On the margin front were there any one offs in this quarter with respect to the recovery that you may have made because it's now seeming as though you've reached a steady state and incrementally depending on the yield and cost moment, your margins will evolve?

Niranjan Banodkar: So Karthik there is actually no one off, so what you see as a 20-25 basis points bump up is actually a reflection on the improvement in the cost of deposits that we have seen which has fallen below 5%. So that's the reflection of a core margin performance into the NII.

Sri Karthik: On the other opex front Niranjan, we see a sharp jump on a Q-o-Q basis, is that a function of the disbursements for this quarter or is there any other additional investments that are going into the franchise there?

Niranjan Banodkar: So, actually multiple reasons. One is incidental expenses related to the resumption in the credit card. So, for example, some network charges, those flows through the that line item, the deposit insurance will flow through that line item, there have been couple of campaigns that we've run during December which were for the various product launches. So, it's a composite function of business that has grown, which might explain about 50% of that. And there have been some specific one offs that have also played out, including for example we did subscribe to a Covid insurance policy for the employees that itself was about 13 crore, 15 crore kind of an insurance cost. So, that's what explains the buffer.

Sri Karthik: A couple of slightly more medium term questions, one is on the liabilities front, as we get into this calendar year potentially looking at a yield and tighter liquidity scenario. How do you see the cost of deposits evolving from here on, are there more levers for you to further reduce this even despite let's say some amount of near term increases by the larger systems?

Prashant Kumar: So, even the reduction on the deposit side which we have done in the past, has not been reflected fully so far, because it would happen only at the time of the renewal of deposits. But, going forward though like if you see one year fix deposit rate, the difference between us and the larger Banks has already come down to 65 basis point. But we expect there is still some opportunities for us to reduce both on fixed deposit as well as on savings. So, this would be a very, very calibrated journey. But there is a lot of opportunities available for us to reduce that.

Sri Karthik: Thanks. And sir there's a last question from my end. While you mentioned restructured book behavior from a collection point of view is performing well. What I'd be keen to hear is as we get to Q1, Q2 of next financial that is the June and September quarter, both for the restructure and the ECLGS portfolios, which are currently under moratorium what will be the cash flow reset, so would the EMI increase by 50%, would the EMIs increase by 30% and what will be the additional strain on cash flow from an underlying borrower perspective as these moratoriums come to an end. That will be my last question, thank you.

Prashant Kumar: No, the way the restructuring has been done and if the ECLGS has been done, we have been very, very conservative. That is one part, we have not given like has to be given to all the customers. So it was mostly on the need based. During the third quarter, we have also seen a lot of improvements in terms of the cash flow of the customer. And in large number of cases, they have also not used the dispensation and they were actually servicing our interest from the cash flow. So, we don't see that kind of thing where the repayment obligation of the customer would go up during the first or the second quarter of the next financial year. And if there is no further impact, because of any other thing like the fourth wave kind of thing, and we have not seen that impact during the third wave, so we don't see that possibility where the cash flows of the customer would be impacted.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Prashant Kumar for closing comments.

Prashant Kumar: I would like to thank each one of you for taking time out for joining this call. And wish all of you again and your families a very good health and prosperity. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of YES Bank, that concludes this conference call. Thank you for joining us and you may now disconnect your line.