



“YES BANK Limited Q1 FY20 Results Conference Call”

July 17, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to YES BANK Limited Q1 FY20 Results Conference Call. We have with us today, Mr. Ravneet Gill, MD and CEO; Mr. Rajat Monga, Senior Group President; Mr. Ashish Agarwal, Senior Group President and CRO; Mr. Raj Ahuja, Senior Group President and Group CFO; Mr. Rajan Pental – Group Head Retail Banking; Mr. Anurag Adlakha – Senior Group President and Head Financial Management and Strategy; Mr. Niranjan Banodkar – Head (Financial and Investor Strategy).

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 now hand the conference over to Mr. Ravneet Gill, MD and CEO. Thank you. And over to you, sir.

Ravneet Singh Gill: Good evening, ladies and gentlemen. Thank you for dialing into this call, and I hope we will make it really informative, incisive and productive. I will talk about certain key issues, which obviously have dominated the narrative around YES BANK, and which we've discussed over a period of time bilaterally, bring you up to speed on those. And then we'll get into a more detailed financial discussion around our quarter 1 results.

If I were to summarize quarter 1, I would say that for the Bank it was a quarter of consolidation. And when I say consolidation, I think there were 3 key attributes to that. The first and foremost was, of course, the ongoing management transition, which I think is now complete. The second part of it was given a CET1 of 8.4%, it was a quarter for capital optimization, and we will obviously talk about that in greater detail during the session of the financials. And the third aspect of this whole quarter of consolidation was that as the macros were fairly challenged, and if we looked at the financial service sector itself, I think it creates unprecedented headwinds.

In a scenario that had a backdrop of that nature, I think for us to be able to return to profitability shows the inherent resilience in YES BANK and we will provide further data points on why we think the quarters ahead look very positive for us. I think it would be only right for me to first dwell on the asset quality, and while you will see that the BB and below book has grown from 7.1% to 9.4%. I think it is very critical to note that this increase has fundamentally come on the back of 2 exposures, two large financial services players who were clients of the Bank even earlier. But their ratings have subsequently deteriorated and now have become part of the BB and below book or the sub-investment grade book. I would also like to mention that the impact of these exposures was finding expression in our treasury income on the mark-to-market, and I think are materially responsible for our profits being far lower than PPOP that we were able to generate for this quarter. Having said that, I think it would be now fair to say that our asset quality has stabilized. And I will provide a couple of data points for you with respect to that.



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The first and foremost is that in many discussions that happened around the whole asset quality issue around YES BANK focuses also on our real estate exposure. And I thought that it would be good to be able to give you a sense in terms of what that exposure is looking like from a performance perspective. So our total real estate book, as we have disclosed in our quarterly results, is roughly 24,000 crores. 25% of this book has been captured and isolated as part of either the sub-investment grade book or then as NPAs. Of the balance, 75% of the book, I can tell you that we have minimal slippages, and if I looked at the overall book, the real estate book, from the point of view of SMA-2, that number is just a little over 200 crores.

Having said that, if I looked at the broader portfolio just to be able to give you a sense in terms of the investment grade book, the entire SMA-2 on the portfolio or entire corporate portfolio of YES BANK is only 404 crores. We do, of course, have the retail Banking and the SME book apart from that. But as you know, the NPAs there are below 1%, and in many ways define the industry benchmark in terms of credit quality. So the book, I hope on the basis of the specific data points that I provided, will give you enough comfort that you know on credit quality, things have stabilized, and our revenues, our operating performance for the ensuing quarters should be a lot stronger.

Let me then talk about capital. I have said this previously, and I would just reiterate one message, which is to say that the capital that we need is purely growth capital. This is not for balance sheet purposes. I am in support of that assertion, what I would say is that if you look at our PPoP, and I would go to the extent of saying, even if you looked at our PPoP in a quarter of consolidation, in a quarter of where we didn't have all the growth capital that we needed, all that we would need is 8 quarters of this PPoP for us to be able to provide for any slippages that may occur in our sub-investment grade book. So I think it is important again to note that the capital that we are looking to raise is purely growth capital and is not capital that is being sought to improve our absorption buffer for provisioning.

Given the franchise performance for the quarter, I think it gave us a lot of confidence, and more importantly, it has given a lot of confidence to the investors who have been engaged with us. We have had very strong institutional investor engagement and interest, both on the private side and on the public side. And investors have now come to recognize that our legacy issues are not granular, but restricted essentially to a handful of names. And each of those resolutions give material upside. So on that point, I would just reiterate something that we have spoken before, that we expect capital raising to be a quarter 2 event.

Let me then move to some information with respect to liabilities. I think, overall, if we looked at our liabilities, we degrew by about 0.8%, and this in a market which has been sluggish, what we saw effectively speaking was that a lot of our SA went into FDs and our TDs have grown significantly during the quarter. But even as we capital optimized, and in some ways, rationalize credit on the corporate side, a lot of our CA which came from the corporate sector, some of that we saw move away. But overall, I think the very fact that our TDs grew is indicative of the fact that depositors continue to have trust and long-term commitment as far as the Bank is concerned.



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The last point that I would really like to talk about before we move to financials, is really around digital and innovation, which is something which I have often talked about to you collectively and individually. I think the digital leadership of YES BANK which we talked about in the last quarter got further reinforced during this quarter. And I will talk about a handful of data points and statistics to be able to give you a sense in terms of how that is manifesting itself.

I had mentioned to you that in all of the previous financial years, the Bank had 1.43 billion UPI transactions. Just in the first quarter of this year, we have seen 768 million UPI transactions. And both in terms of value and volume, we are number one in all 3 of these months of the first quarter. And even if we looked at the Aadhaar Enabled Payments, we continue to command or have grown our market share to 40% by value. And what is very important to mention here is not just the point in terms of how they seep into the data intelligence and the data analytics. But all these businesses are profitable on a standalone basis. Equally I think, the Bank has been on the frontfoot. If you look at the Greenwich survey for the year, you will see that we have gone up many runs across various categories, either in terms of quality of service or area of products, our market share. And if there is something which will reinforce the view that we are not deemphasizing the corporate Bank, far from it and the fact that based on the quality of service, the quality of product offering and the quality of people that we have, our corporate clients continue to report very strong faith and trust in us.

We have also steered on the front foot, even though I did mention that this was a quarter of consolidation, and we are now there winning business. And some of those wins I would like to talk about. The first and foremost is, one of the most fiercely competed mandate for API Banking was pertaining to the single largest telecom company in the country, and I'm delighted to mention that YES BANK won that mandate. Similarly, if you looked at the whole BAC stars, mutual funds, cash management mandates, where they collect funds for mutual fund investment, YES BANK won that mandate. In terms of the government Banking piece, based on our digital capabilities, we won fresh mandates from Maharashtra and the Telangana state governments. And if you looked at the rankings that were put out there by Ministry of Electronics, Information Technology, among 56 public, private and foreign Banks for digital payment performance in this financial year 2019, YES BANK came up on top.

I have mentioned this to you earlier as well that and I'm sure that we believe that many of you share that technology is going to play a bigger, stronger role in financial services. The displacement it will cause, the deception will cause will be significant. And I would like to believe that YES BANK is better positioned to benefit from that and to be able to monetize and harness that opportunity ahead of competition.

So overall, what I would say is that we feel very assured that hard yards that we have put in this quarter have firmly put the house in order, if I may use that expression, and we can now start to look for very strong growth in the coming quarters.



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And if I could then finally say one more point, we had talked about strengthening our Senior Management talent. So at the introduction of the call, you heard of Anurag Adlakha here, who heads Financial Management Strategy for us, has had a very sterling career in banking, and many of you would know him. And equally, as Head of Compliance, Governance and Control, we have had Rajeev Uberoi join us. Rajeev, again, comes from a very strong and successful career in Banking across Reserve Bank of India around foreign Banking and then the Indian private sector banking space.

So we will continue to augment our management resources. We will continue to invest in people in terms of key businesses. Given the overall dislocation in the NBFC space and in financial markets, I think the opportunity to grow is very significant. And I would say that YES BANK is uniquely positioned to be able to get this proportionate share of the pie that is now becoming available. And I would like to thank you each one of you for your support and look forward to your continued guidance and backing as we get on to even stronger footing.

I will now hand over to Rajat to go through the financials. And then we are happy to take questions thereafter.

Rajat Monga:

Thank you, Ravneet. I will take these next few minutes to update on the specific financial performance of the Bank in the first quarter for fiscal year 19-20. As Ravneet has mentioned, this has been our return to profitability sort of a quarter. And in this quarter, our net interest income has been reported at 2,281 crores. This, of course, has been somewhat impaired by the impact of about 223 crores on account of interest reversals resulting from slippages that took place during the quarter.

The fee performance on the other hand improved on a sequential basis, and our preprovisioning operating profit therefore grew 48% sequentially to 1,959 crores. We are reporting net profit after tax of 114 crores for the quarter, and this is after absorbing 1,109 crores of impact on account of mark-to-market provisioning relating to investments in bonds of the financial services companies that were referred to earlier in the commentary. The loan book of the Bank stands at 2,36,300 crores as of the end of the quarter, and it has grown at 10.1% on a year-on-year basis.

Internally, the retail advances book has grown at 43.3% on a year-on-year basis and at 7.2% sequentially, and it now contributes 18.3% of the Bank's loan book and this position was at 14% of the Bank's loan book at the same time last year. As such, the retail loan book also contributed to a 60% share of the incremental loan book of the Bank during the last 12 months. So I think the situation on the retail banking side continues to be in good momentum. And it is acquiring incremental, sequential share of the Bank's loan book every passing quarter.

Some more statistics on the asset quality position of the Bank, the credit cost incurred in the quarter gone by was 32 basis points. The Bank is maintaining its credit cost guidance of up to 125 basis points for the fiscal year 19-20. The provisioning coverage ratio of the Bank is also maintained at 43.1%.



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Some statistics on the liability and the funding side of the Bank, the deposit book on a year-on-year basis grew at 5.9%, now stacking up to almost 2,26,000 crores. Internal to the deposit book, there has been very good growth in the retail time deposits category. The retail time deposit book has grown at about 38% on a year-on-year basis and at 8.2% on a sequential basis. And it, as such, is now accounting for 28% of total deposits of the Bank.

The CASA ratio of the Bank is being reported at 30.2%. This has seen a sequential reduction on account of somewhat weaker quarter and flows in the quarter gone by. While the deposit growth has been modest, however, within the internals of the deposits, we are seeing the Retail Banking business take incremental share, so while the headline is a modest 6% growth, the interest rate growth between retail is far higher, and therefore, the nonretail deposit funding share is continuously reducing. The LCR position of the Bank as at June 30, stood at 132.6%, and for the quarter as an average, it stood at 117.3% as compared to 111% in the sequential previous quarter. So the liquidity position of the Bank has also been improving and it was affecting in somewhat in also higher LCR as well as some moderation on account of this into margins as well.

The capital position of the Bank stands at 15.7%. Within the total capital adequacy ratio, the Tier 1 ratio stands at 10.7%, and the CET1 ratio stands at 8.0%. The Bank has taken some charge on account of capital in this current quarter, resulting from regulatory changes on account of unrated exposures. Beginning this quarter, if any Bank is holding unrated exposures, they are required to be risk weighted at 150%, irrespective of the underlying quality of the borrower. So typically, MNCs, some government entities do not readily provide ratings, and therefore, there is somewhat of a penal risk weight that is also to be applied there.

The Bank took a 20 basis point reduction in its CET1 capital on account of this regulation. The Bank also took a 16 basis point correction in its CET1 capital on account of credit rating downgrades in its investment book, particularly relating to 2 financial services companies.

Every year, the capital required for the operational risk also increases as it is linked to the last 3 years of turnover of the Bank's business. And as the years roll forward, there is an automatic increase in capital charge for operational risk and a 10 basis point of CET1 was consumed on account of this roll forward. These 3 developments resulted in the Bank's CET1 reducing by 46 basis points, which is what has been the driver behind the reduction in CET1 headline from 8.4% to 8.0%.

Ravneet already highlighted the Bank's leadership position in digital payments, I would like to add just a couple of facts there. The Bank has very recently facilitated a first-of-its-kind issuance of commercial paper using blockchain technology. This will be the first-of-its-kind in Asia, where commercial paper issuance has been onboarded on the blockchain platform, which ensures the sanctity of the multiple participants that have to come together to facilitate a transaction.



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The Bank's API Banking platform continues to be a preferred program for clients, and we have crossed more than 1,000 customers that are using the Bank's API Banking platform and the Bank has emerged much of a lead and a Bank of choice across many unicorns in straddling their services with banking using the API platforms.

On the digital banking performance, as measured by the Ministry of Information Technology, MeitY as it is referred for short, ranked the Bank as #1 among 56 private and foreign and public Banks for the fiscal year '19 for digital performance league tables. So as such, the Bank continues to occupy leading or near-leading positions in digital payments, which would be UPI or Aadhaar Enabled Payments or IMPS among others.

Few more statistics on the balance sheet and the mix of the balance sheet. So the total assets of the Bank grew at 11.6%. They now total to 3.7 lakh crores. Within the loan book of the Bank, the share of Corporate Banking has sequentially reduced from 65.6% as at March 2019 to 63.9%. And as I was mentioning earlier in my commentary, the share of Retail Banking has correspondingly increased from 16.7% to 18.3%. On a year-on-year basis, the change is a little bit sharper. So the Corporate Banking mix has reduced from 67.6% as at June 30th 2018, to 63.9%. So there has been about a 3.5% reduction in that mix and correspondingly a 4.3% increase in the retail banking mix has also been observed. And another statistic on the balance sheet side would be the total risk-weighted assets of the Bank, and they stood at 3.23 lakh crores as at June 30, 2019.

Some more data points on the asset quality position reported during this quarter. So while the gross NPA headline has increased to 5.01% and the net NPA headline has increased to 2.9%, the Bank has maintained its provisioning coverage ratio. During this quarter, the Bank has sold one NPA account, which would account for an exposure of Rs. 4.11 billion or 411 crores. This is to sold to an ARC.

During the quarter, the Bank experienced slippages of 6,232 crores. However, owing, there were some technical downgrades and upgrades which accounted for 1,678 crores. The net slippages during the quarter would stack up to 4,554 crores. The slippages from the corporate book were entirely from the accounts which have been previously disclosed as BB and below. On the asset quality front, the credit cost guidance is reiterated up to 125 basis points for this current year and 32 basis points have been utilized in this current quarter.

Our press release and investor presentation also have the disclosure on sensitive sectors, so you can go through at your leisure, there has not been much changed as such between the last disclosed to this particular disclosure, and more or less stable.

And lastly, some statistics on the Bank's employees and branches as well as some mention on the recognitions that the Bank received in the last quarter. So the Bank's employee strength as at June 30th 2019, stood at 21,745 employees, and the Bank is operating 1,122 branches and 1,220 ATMs, and note-accepting machines.

The Bank was recognized 5th year in a row by Asian Banker, as being the best trade finance Bank in India. In the same award, the Bank was also recognized as having executed the best corporate trade finance deal in India, the best financial supply chain management deal in India. The Bank also saw its transactions get recognized at AAA Asia Infrastructure Awards where it received the best deal in India award for transportation sector, for the utility sector, as well as renewable energy sector. The renewable energy deal was also highly commended.

The Global Finance Magazine also highlighted the Bank as being among the “25 Best Financial Innovation Labs in the Fintech space” as well as it being among the “Innovators in Trade Finance”. The Bank also maintained its leadership position in the debt capital market space. In the quarter gone by, it was ranked among the top 3 arrangers in the first quarter in the private sector manufacturing category by Prime Database. The Bank executed transaction across sectors, which will include renewable energy, both solar and wind, engineering, transmission and InvITs. And the Bank has also started to gain traction in the offshore debt capital market business. And in this quarter gone by, it also acted as a joint team manager to 3 high-yield offshore USD denominated bond issuances, which were largely done in the airports and the renewable energy space. And the Bank also was ranked as the #3 MLA in the local currency syndication for the first half of the calendar year for sell down and refinancing of loans.

And this was the summary of both the financial highlights that we wanted to communicate upfront as well as some operational and recognition outcomes that the Bank saw in the quarter gone by. We will be happy to take questions here.

- Moderator:** Thank you very much. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.
- Mahrukh Adajania:** I had a couple of questions. Firstly on the G-Sec. So there is a transfer between categories and also there's been a sale of HTM. So what are the G-Sec gains? And if at all there's a write back in provisions on G-Secs as well?
- Rajat Monga:** So the gains on account of G-Secs, in general, if I can say, treasury gains, Mahrukh was Rs. 4.5 billion or 450 crores.
- Mahrukh Adajania:** Okay. And was there any write back of provisions on G-Secs or on any other corporate bonds? I mean there was a further write-off MTM on NBFC. But was there a write back also?
- Rajat Monga:** Well, there might be some minor write ins or write backs, but nothing of consequence.
- Mahrukh Adajania:** Okay. And my second question was on the stress book. So on the watch list of 100 billion that was talked about last quarter, how much of that would have slipped?

- Rajat Monga:** So about, let's say the net slippage if I may address, which is about 4,500 crores, while 2,500 crores is from the identified book. And the balance is from the BB and below book. And I'm excluding retail and SME for this math.
- Mahrugh Adajania:** Right. So the BB and below book is the 9.4% of the corporate book, right?
- Rajat Monga:** That's right.
- Mahrugh Adajania:** And just one more question again on stress loans, that there is likely to be a regulatory change in AP, which is one of the biggest or the fastest growing market for renewable energy, and there were investments after FY '17 in AP. On the renewable front, yearly rose sharply. So what would be your renewable exposure to AP and in general, the quantum of renewable exposure? And do you see any risk?
- Rajat Monga:** So AP is not a risk in our portfolio. I mean it will be a small minority proportion, maybe single-digit percentage of our exposure to AP as such from our renewable energy portfolio.
- Mahrugh Adajania:** Okay. Well, what would be the size of the renewable energy portfolio?
- Rajat Monga:** Renewable energy portfolio as a percentage of a loan book, I will repeat the number later when I get the exact number. It will be about 4% odd of the loan book. A lot of the renewable energy is routed. You should understand via the intermediate. So AP, for example, in this instance is also it is negotiating with the intermediate entities, which are the offtakers from the power producers. So there is a buffer in the middle as such. And I am sure there is a little bit of politics in play here. So contracts will be upheld finally.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** This 1,600 plus crores upgrades, all are from the technical slippages or there are some genuine updates also?
- Ravneet Gill:** They're all technical slippages. All of them, the entire 1,600 crores.
- Amit Premchandani:** And 25 billion from the 10,000 crores which slipped from BB and the rest, how much slipped from BB and below?
- Ravneet Gill:** About 2,100 crores.
- Rajat Monga:** If you exclude the retail and SME slippages, all of it.
- Amit Premchandani:** And what is the retail and SME slippage?
- Rajat Monga:** A little over 100 crores.



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- Amit Premchandani:** Okay. And the revised watch list is this 10,000 crore and reduced by 2,500 or it is 29,000 crores of roughly the BB and below?
- Ravneet Gill:** No. The watch list remains at 10,000 crores even though just 2,500 crores has slipped out of that. We continue to watch the 7,500 crores very closely. But in terms of the overall composition and the size of that watch list, nothing changes at all.
- Amit Premchandani:** And what is the meaning of this watch list if 2,100 crores slips from outside this watch list?
- Ravneet Gill:** So I think when we put out the watch list, we were very close to or rather we were just initiating the whole process with respect to equity rates, and we thought that we should proactively be able to tell investors of where the potential slippages could occur. These were accounts in which there were repayments coming up and where we didn't think that the cash flow really would be in a position to support for them to be able to meet those liabilities. Eventually, the slippages didn't occur. So I thought maybe we were a little bit more conservative. But the balance that you talk about, I mean, I think I would tend to look at them more as slippages in the normal course of business, even though they came out of the watch list but very much from the BB and below book.
- Amit Premchandani:** And sir, how do you rate the overall risk management function in the Bank when BB and below book has moved from 2.5 to 9.5 in 2 quarters?
- Ravneet Gill:** So I think what needs to be really clearly understood is, and we have mentioned this in the last quarter as well that the increase in the sub-investment grade book came essentially on the back of 3 very large exposures. And even if that book has increased in this quarter, it comes on the back of 2 of the investments that we had, again, to these very entities, which as I mentioned earlier during the call, during the last quarter was still investment grade. So I would again like to emphasize this point that this is not a large granular book, which is the sub-investment grade. It is concentrated, it's a handful of range. And so to use these as a reflection on the overall risk management function in the Bank, to my mind, would be inaccurate. If it was a very large granular book, I would have definitely seen substance in the point that you just made.
- Amit Premchandani:** And sir, how much of this 9.5% BB and below was originated or sanctioned in July to September 2018?
- Rajat Monga:** That will not be a significant amount, Amit. I mean we will not be able to say that it was zero because we will have to go back and double check that. But I don't think it'll be a significant amount in terms of sanctions.
- Amit Premchandani:** And finally, this 125 bps, does it include the NBFC mark-to-market hit which you have to take from the bond portfolio, right?



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- Rajat Monga:** No. It does not because it's not being classifying the MTM provisions in credit costs because they could also be simply on account of interest rate movements. And it is not, I mean, we can discuss and argue that, but it is not easy to delineate how much of that is credit cost and how much of that is relating to interest rate yield movements.
- Amit Premchandani:** And how much hit have you taken to the bond portfolio of these 2 NBFCs?
- Rajat Monga:** So in this quarter 1,100 crores.
- Amit Premchandani:** I mean in terms of percentage, it is 50% or 25% or?
- Rajat Monga:** It will be between 20% and 30%.
- Moderator:** Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.
- Sameer Bhise:** So I wanted to ask, within the BB and below pool, are there any loan exposures which are also there in the bond portfolio we just got downgraded in the quarter? Or is it just bond exposures and loan exposures are not there?
- Rajat Monga:** So theoretically, if there was a loan exposure, it will also be there in the BB and below category. But in terms of just my quick recollection, there might be a small loan exposure. It's mostly bonds.
- Sameer Bhise:** So effectively, none of these 2 entities were in either BB and below or any of the watch list discussions that were there last quarter. Is that a fair assessment?
- Rajat Monga:** That's correct because their credit ratings, which were available at that time; in one case at investment grade, and the other case far above investment grade, yes.
- Sameer Bhise:** Yes. Fair enough. And any specific sectoral buyers to the slippages this quarter?
- Ravneet Gill:** No. We don't see any particular sector which dominates the slippages in this quarter. No, not really. And just to come back to the point that the previous question that you asked with respect to the bond portfolio. While one of the entities was not captured because like we said, it was investment grade during the last quarter, the second is part of a group which is very much present in our sub-investment-grade book where the entire funded, nonfunded exposures were captured. But since the bond portfolios were, at that time, investment grade, that was not included.
- Sameer Bhise:** Okay. But is there any entity which was slipped from the group, otherwise which is obviously not the financial services entity?
- Ravneet Gill:** So one entity which was part of the watch list from that group has slipped.



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- Sameer Bhise:** Okay. And I think that would be a reasonable proportion of the 6,200 crores of gross slippages.
- Rajat Monga:** Yes, if you don't mind, let us not speculate in terms of single account will not be right.
- Moderator:** Thank you. The next question is from the line of Saurabh Das from Franklin Templeton. Please go ahead.
- Saurabh Das:** This is to Ravneet. My question is on capital raisings. So if you can share with us any visibility on timelines, first. Second, that in the event of a delay, are you looking for aggressive sell-downs? And isn't it already high time that we aggressively do that? I was hoping to see some of that in this quarter itself. And lastly, do you envisage any regulatory actions since we are already at 8? Any further drop from the CET1 levels will possibly trigger from term corrective action?
- Ravneet Gill:** So if you look at the fact that churning of the balance sheet, I mean, when I talked about capital optimization, churning was a very big element of that. In the last quarter, what we had said was that we will look to granulize the balance sheet. And due to that, we were able to churn our corporate portfolio and grow the more granular retail portfolio. I think if you see, not just for the previous quarter, but even on a more long-term basis, the Bank has demonstrated the ability to be able to churn its portfolio to be able to optimize capital and I think it was no different from in the previous quarter. And we continue to do that regardless of any concern that we may have with respect to the timing of the capital raise. So that is something which is a very high priority. And when I talked about capital optimization, that's what I essentially did allude to. As far as the capital raise is concerned, the interest from investors has just grown over a period of time, both public and private, which has opened up multiple options for us. And as I mentioned earlier in the call, that we continue to see it as very firmly as a quarter 2 event.
- Saurabh Das:** Regarding any regulatory actions you foresee?
- Ravneet Gill:** I think we maintain a very close dialogue with the regulator and very openly and constructively shared all the developments with respect to the Bank operations, balance sheet, etc. and I don't see any of that being on the anvil at all.
- Saurabh Das:** But will the dialogues help if we go below CET1, I mean, does the regulator have that leeway to?
- Ravneet Gill:** No, obviously not. But the point I am making is that in terms of the Bank's performance, that is very transparently communicated to the regulator. So there is nothing that should surprise the regulator. And we don't see frankly a situation arising wherein we will drop below the regulatory threshold. We think we have multiple levers. Again, I will just put this on record. We think we have multiple levers to ensure that we don't get into that territory at all.
- Saurabh Das:** Yes. Because Ravneet while on one side, we are trying to keep the loan book static. We are trying to optimize within that to bring granularity. Certain events like NPAs are beyond our



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control. And just in 1 quarter, a few NPAs resulted in 20-30 basis points of capital consumption, which we can't afford, any further if we are already at 8. So that's where the sense of urgency and the question.

Ravneet Gill: Yes. I completely agree with that, and the sense of urgency is not lost on us. I think 2 points I will just make over here that I think there was a concern that the market did express sometime back in terms of whether we would be able to meet our credit cost guidance. If you see the complexion of our portfolio, specifically the portfolio which was sub-investment grade, which is part of the watch list, do bear in mind, all of that was front-loaded. And despite all of that being front-loaded and there being no recoveries from any of those names in this quarter, we only just consumed 32 basis points of credit cost. So we feel completely confident in terms of being able to meet a credit cost guidance of 125 basis points. But more importantly, the point that you made that slippages could erode capital and then take us into dangerous territory is fully understood, and we are very cognizant of that.

Moderator: Thank you. The next question is from the line of Henrik Milton from Coeli Asset Management. Please go ahead.

Henrik Milton: This is Henrik here. I have 3 questions. The first one is to Rana Kapoor. And I'm just wondering, to what extent is he still a part of the Bank except for being an owner?

Ravneet Gill: So the clear answer to that is that other than the fact that he is the largest shareholder of the Bank, he has no involvement, executive or nonexecutive, direct or indirect.

Henrik Milton: Okay. And he will not be a part of the Bank for the next couple of quarters. I think that for now, he is still out of the picture?

Ravneet Gill: Yes, that's correct. Unless something else changes, but that's the base case.

Henrik Milton: Okay. Now the big picture of the nonperforming loans, just to be simply clear, regarding the NPL trend, if it's improving, going further or if you see something else coming on the next quarter?

Ravneet Gill: So as I mentioned, that we think that our sub-investment grade book has now completely bottomed out. I gave you a sense in terms of what the real estate portfolio looking like given the fact that, that is a question that often comes up from investors and analysts. And I also gave a sense in terms of what our overall corporate book looks like. So I would say that when I look at the near to medium term, I think it looks very promising. And I don't see any material slippages outside of what has been already indicated and clearly put out there in the market.

Henrik Milton: Okay. And then you have some promising statements on the retail side. I'm just wondering, when you grow on retail, is it better pricing versus competitor? Or is it better services? What is it that makes you taking market share on the retail side?



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Ravneet Gill: I think there are a couple of very clear factors. It's definitely not pricing because we will not compete on pricing. I think the performance of retail, which has been very impressive, comes on the back of a couple of things. First and foremost, I think they have been very solution-driven, and they have come up with very specific solutions for certain industries, which has given them a market leadership position over there. Second, I think if you look at it from the point of view use a technology and use of a customer usage, I think they are setting the benchmark across the board. And the third is that the whole usage of data analytics in terms of pitching the right product to the right client, pricing it correctly, setting the right limit is something which is now beginning pay off in a big way. Also, I think what the business did was that out of 1,100 branches, the strategy is now absolutely aligned branch by branch based in terms of what is the business potential of the catchment area of that particular branch, what kind of product we should be offering there and what kind of people should be managing those branches. So I think a combination of very a solutioning-based approach, great data analytics and, third, products which are suited to specific industries are the real factors behind the very impressive growth of retail. I can promise you, it's not being driven on the back of pricing.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: So if you look at this 294.7 billion of BB and below, right? That's what the number is, right?

Rajat Monga: Go ahead, yes.

Nilanjan Karfa: So 25% of that is investments?

Rajat Monga: Correct.

Nilanjan Karfa: Right. And the annual report of March '19, if you look at that, the disclosure of..

Rajat Monga: Subsequent to March '19 downgrades.

Nilanjan Karfa: Correct. And that's a pretty large number. It goes from like 5.5 billion to about 75.

Rajat Monga: That's correct. Again, those are concentrated across 2 financial services groups.

Ravneet Gill: Just two names, as I mentioned earlier, that this entire migration to the sub-investment grade book has come from just 2 financial services names.

Rajat Monga: Just to add, there will be about approximately Rs. 15 billion or 1,500 crores provisioning also on those exposures. Maybe a little bit more than that. I don't have the exact number.

Nilanjan Karfa: Rajat, I kind of lost you there. Sorry, what is 1,500 crores?



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Rajat Monga: Provisioning. So this is the gross exposure. It has also been provisioned. That is what I was just highlighting to you.

Nilanjan Karfa: And did you also mention, Rajat, that corresponding to these bonds, the loans are probably not there at all. Is that what you said to an earlier question?

Rajat Monga: That's correct.

Nilanjan Karfa: And you also said that these downgrades in the bonds are not part of that 10,000-odd crores that you had mentioned last quarter?

Rajat Monga: The BB and below book of last quarter. That's correct. Because at that time, all these bonds were investment grade or better.

Nilanjan Karfa: Not the BB and below but in the 10,000 crores that you had mentioned.

Rajat Monga: They were not even there in the BB and below. 10,000 was the subset of BB and below.

Ravneet Gill: Yes. So 10,000 crores was actually cut it out of the BB and below book. These are not 2 independent numbers. The 10,000 odd crores were drawn from the BB and below book of 21,000 crores or 23,000 crores.

Nilanjan Karfa: Sure. Well understood. And Ravneet in your opening remarks, I might have misunderstood. But did you say you need 8 quarters of PPoP of similar kind of a PPoP that we delivered in Q1, which will be sufficient for provision of that entire book? Did you say something like that? Because that's a pretty large number.

Ravneet Gill: So what I was saying was that it was said specifically in context to the capital raise. So the question that very often comes up is that do you need capital to be able to absorb more provisioning? Or is it actually growth capital? And I was just highlighting the fact that our PPoP is enough to be able to provide the provisioning on our BB and below book, and for that, we don't need incremental capital. The incremental capital that we're looking for is really more from the point of view of fueling growth.

Nilanjan Karfa: And just one probably last question. The SMA-2 that was disclosed was 404 crores and that's entirely corporate, but is it a like-to-like comparison of about 2,400-odd crores that we disclosed in the previous quarter or that 2,400 included, everything put together?

Rajat Monga: 2,400 crores was the full bank at that point in time.

Nilanjan Karfa: Do we have a comparable number of this 404 please, or either way?

Rajat Monga: No. That number is not readily available. But the 2,400 was a full pool Bank-wide when we had disclosed that number.

Moderator: Thank you. The next question is from the line of Adharsh Parasrampurua from Nomura. Please go ahead.

Adharsh Parasrampurua: I have a question. Can you lend a little bit more credibility to the watch list that you have discussed? The reason why I say that is even in April during our first quarter results with additional amount of certainty you could have said some of these investment markdowns and recognition that you have done in BB and below. Could have at least been considered into the watch list, right because watch list simply denotes what's probably with reasonable certainty, decent problem set, which will require provisioning and NPA recognition right. So the first question is like just because it was not BB and below but decent certainty there is stress around, why would the watch list not have it? And two is, now the difference between BB, book BB and below, and where the watch list sits, what is your comfort qualitatively, quantitatively, whatever you can kind of add some credibility to that, please.

Ravneet Gill: So as we mentioned previously, the watch list was actually derived from the sub-investment grade book. So it's not as if that these are 2 separate pools of asset that we were looking at. Now if you see historically for the Bank, what we do provide is a sub-investment grade book only. We don't provide a watch list. As I mentioned to you, in the spirit of transparency and being more proactive, within the sub-investment grade book, we identified a pool of assets where like I mentioned earlier, there were repayments coming up and where we thought that cash flows may not be sufficient for the companies to be able to meet those obligations. And there could have been potential defaults. And at that time, we had said that even though we took a contingency provisioning of 2,100 crores on that watch list, when we declared the results at that point in time, that entire watch list was actually current. I mean, there were no slippages in that watch list. But those were potential slippages that we had anticipated and in the spirit of transparency, had gone out there and flattening to the market. The slippages that have occurred outside of that watch list have occurred from the BB and below book itself. They haven't come from other parts of the portfolio. So whatever slippages have happened may have not been entirely captured in the watch list but have come entirely from the BB and below book, of which the watch list was only a subset.

Adharsh Parasrampurua: So given that your slippages are coming from if I take the full number coming from a larger pool, what comfort should one draw? And this is not like just a quarter or 2, but say in 18, 24 months through the cycle kind of recognition that the Bank will do. Between that 30,000 crores number of BB and below and the 10,000 or whatever 15,000 crores of watch list including some of these downgraded investments, what do you think comfort on that 15,000, right, when you try and cull out that book, what is the comfort that you have there, not just for like a couple of quarters but if I take an 18-month horizon?

Ravneet Gill: So again, like I mentioned to you, that the watch list of 10,000 crores doesn't change. That watch list was put out there for a very specific purpose. And like I said, that even though only 25% of that watch list slipped, we continue to monitor the balance 75% very closely. As regards the sub-investment grade book is concerned, what I told you was that one of the parts of the portfolio which often comes up for discussions is really the real estate book. And in the real estate book, I provided very specific data points to be able to provide comfort that, that book is not stressed away, sometimes real estate is currently perceived. So I gave you a sense in terms of the 5% to 25% of it was provisioned already in the BB and below book. And for the balance 75%, there are hardly any over dues or SMA-2. Similarly, if I look at the overall corporate book, I give you the sense that we would have roughly about 404 crores of SMA-2. I think that should give you a fairly good sense in terms of the ensuing quarters being relatively stable from a provisioning perspective.

Adharsh Parasrampur: Okay. And the second question is, can you just talk a little bit about more like normalized fees and margin especially corporate fees and margins, where do you see? What you have reported vis-à-vis how things can pan out basis? You had a bit of fall in CASA, but obviously, now your liability side can consolidate. So some sense on visibility around margins and corporate fees.

Ravneet Gill: So as far as the fee part of it is concerned, one of the things that we had changed from an accounting standpoint in the last quarter was that we would, going forward, amortize the fee over the life of the loan rather than recognizing it upfront as was the practice previously. Having said that, that is not the only reason for the decline in fee. I think the main reason is that we were in capital optimization mode, and in that environment it would have been unwise, imprudent to be able to go out there and do some very large underwriting, which would have generated the fees. So we decided to take a pause on that. And like I said, more churn the portfolio to be able to invest and create capacity for some of the other businesses that we want to grow more aggressively going forward. I would say that for post that capital raise, you will see a lot more intensity with respect to fee. Obviously, the fee has 4 elements to it, one is the corporate finance, second is retail, third is transaction Bank and the fourth, of course is financial market. If I look at it from the point of view of this year, the fee on retail was up almost 23%. If I look at it on the transaction bank, it was up almost 6%. But given the fact that we did not do any of the large underwritings on the corporate finance side, that number came off. I do not think it is really representative of us discontinuing a business or deemphasizing a business. It really is a timing issue. We think that the market opportunity for that business today is stronger than ever given what has happened to the broader financial services industry, the tightening of the credit market. I think, today, there is much better opportunity for that. But like I said that, that really is a function of capital and post capital, you will see a lot of aggressive growth over there. The second question was around NII?

Adharsh Parasrampur: Yes. On margins, yes.

Ravneet Gill: On margin side, one of the things which we of course saw really was or rather what I articulated in the last quarter was that from being almost single-mindedly asset-led, we would become a lot

more liability-led. A lot of our retail strategy, a lot of our transaction banking strategy is in terms of growing our liability business. On the back of digital, I think we have been able to make significant headway there in terms of the entire government banking business, which is, obviously, the highest liability contributor as far as the country is concerned. And even in this quarter, where I think we had headwinds in terms of news or in terms of operating environment, I think the retail part of it grew quite significantly. I think where our cost of funding got little impacted was, like I mentioned, that some of the corporates who maintained CA with us, we saw a little bit of depletion in that on the back of rationalization of credit, which was part of our entire capital optimization strategy. I think once we go back to being at full throttle in terms of corporate credit, I think that piece will come back, bring down our overall cost of funding, which of course retail is working on as well. And I see that normalizing and actually increasing fairly soundly in coming quarters.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: On the BB and below exposure, if you can give some color like in terms of sectoral, which sector they come from that will be helpful.

Ravneet Gill: Again like I mentioned to you that if you really were to look at that sub-investment grade book, it actually comprises of essentially a handful of names. It's not a very big, granular book, which is suffering from stress coming out of the cycle, which could be an industry cycle or whatever else it is. This is not a concentrated sectoral exposure and this is just a handful of names, one of which is diversified, other could be in businesses which are entertainment, financial services etc. So no, there is no sectoral color to the sub-investment grade book.

Anand Laddha: Okay. And if I believe within the sub-investment grade book, a lot of exposure, there are a lot of M&A deal or resolution are likely to happen. If you can give color, suppose a deal happens in the media industry, what sort of book reduction can happen or a deal happens in a diversified conglomerate, what sort of book reduction can happen?

Ravneet Gill: So I think we are very well collateralized in these exposures and if a resolution was to happen. And you mentioned 2 of those names, I think a resolution is very eminent in the third large exposure also. And I think if these resolutions were to come, I think, I just mentioned at the beginning of the call that investors are not beginning to realize that it's just a handful of names and if there's even a single resolution, the upside is material. I would chip that even from a credit standpoint that if resolution was to happen in these names, then we definitely expect some of these resolutions to happen in this quarter. It would lead to a material reduction in our sub-investment grade book, material reduction.

Anand Laddha: But at this point of time, you don't want to quantify what number that can be?



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- Ravneet Gill:** The only reason I don't want to quantify it is that these resolutions are underway. We would like to see them play themselves out. Some of these have got reported in the media, which I can tell you are exaggerated. I think these resolutions are going to be a lot friendlier to lenders, to investors. So I don't want to hazard a guess, but what I can definitely say with great certainty is that it will lead to a material reduction in our book.
- Anand Laddha:** Okay. Since the bank has been doing a lot of structural finance, also holding company level sort of lending. If you can say, what could be the rating of those lending? Is it a part of A or a part of BBB book?
- Ravneet Gill:** So first and foremost, one was holding company, what was the other part that you talked about?
- Anand Laddha:** I said structural lending or a promoter level funding or a holding company level lending. If I had to look at rating of those lending, it will be a part of what, BBB book or A rated book?
- Ravneet Gill:** So actually, if I look at a majority of our holding company financing, it is part of our BB and below book. I don't think there is anything of any substance outside of that.
- Anand Laddha:** Okay. So like, typically, a Bank does a stress test. So you could have done some stress test on your BBB book. So is there any probability that some part of that can fall into BB book or below over next 2 to 3 quarters or next 12 months?
- Ravneet Gill:** Given the fact, that some resolutions now look eminent, I would think that going forward, actually our sub-investment grade book should fall considerably.
- Anand Laddha:** No. My question was on the BBB book. So is there any probability if you do a stress test, some part of that BBB book can fall into BB over the next 2, 3 quarters? How comfortable you are in that?
- Ravneet Gill:** I'm reasonably comfortable that, that won't happen.
- Anand Laddha:** Perfect. And lastly, on the margin side, if you can give some color like what sort of margin do we expect? And what are our lending rates on the corporate? So what is our yield on advances on the corporate side and what is our yield on advances on the retail side?
- Rajat Monga:** Anand, the yield roughly stacks up to, I would say, maybe corporate yield would be 9.75 to 10 range in terms of averages. The retail yield would be between 10.25 and 10.75. SME yield also will be in the 10-10.5, the averages. Of course, the range of corporate yields will be lot higher. Let's say, the AAA yields will be closer to, let's say, 7%, 8%, and some of the structural deals or real estate transactions might also be 12%, 13%. So the spread is higher. The spread in SME and retail will be narrower, but the averages would be, like I was saying, about a little less than 10 for corporate, a little more than 10 for SME and above 10.5 for retail.

- Anand Laddha:** And the outlook on the margin side?
- Rajat Monga:** So Anand, actually frankly speaking, core margins are running at between 3.2% and 3.3%. However, the interest reversals on account of recognition and non-accruals are the ones which are largely impacting. So if resolutions, as we are expecting, work out, they will also have a corresponding beneficial impact on margins. So the core margins are already at 3.3. So some of these one-offs, which have been, let's say, we've been observing them for the last 2 quarters, possibly there will be 3 quarters as well, we are having to report lower margins in terms of the disclosures. And the other part is the activity on CASA. While first quarter I will not attach too much of trend because it's seasonally usually weak as far as CASA is concerned. Our average CASAs are maintaining or give or take they're there, even though the headline CASA is little lower from the sequentially previous quarter. And there is room to improve. Retail share of funding is going up. The CASA that we have, let's say, relatively lost is not the retail CASA as much as the other retail CASA. So the prognosis continues to be, I would say, as it has been that we should be looking at improvements coming on the liability side impacting margins for the better. However, currently we are hurting on the asset yield side because of interest reversals and non-accruals resulting from NPA recognition.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.
- Manish Shukla:** So when you guide for a 125 basis points credit cost, what is the coverage that you're assuming, either on the incremental NPA or on the stock of NPA by the end of the year?
- Ravneet Gill:** So again, I think our current PCR, there is very clearly an intention on our part to steadily take that up to 60%. But for this year, we will maintain PCR at about 43%.
- Manish Shukla:** Okay. Fair point. Coming to the BB and below, the size of the BB and below at the end of last quarter was about 180 billion, am I correct there?
- Ravneet Gill:** 230 billion which has gone up to 290 billion.
- Manish Shukla:** So that essentially means that if you assume 45 billion of slippages or 110 billion addition during the quarter? Is that the right number? So you said 45 billion slipped the NPA during the quarter? And the stock is now at 295. That means Rs. 110 billion of addition?
- Rajat Monga:** I have not done that maths, but I'm assuming you've done the maths correctly. So the slippage has from the...
- Manish Shukla:** BB and below.
- Rajat Monga:** Say the question again.

- Manish Shukla:** So the slippage from BB and below you said is Rs. 45 billion as of last quarter. So that was 230 minus 45. And now the stock is 295, so that delta is 110.
- Rajat Monga:** Yes, that's correct.
- Manish Shukla:** So 110 is downgrade to BB and below in this quarter.
- Rajat Monga:** So give or take, yes. 110 billion, yes.
- Manish Shukla:** Okay. And as we see daily in the news reports at the pace of rating downgrades as far as the rating agencies are concerned that continues. So between December and now, only 5 accounts have led to BB and below going from 2.5 to 9.4. So just wanted to understand, just going back to your comfort on not much further addition to this pool from this going forward.
- Ravneet Gill:** Like I mentioned to you that if I look at our portfolio, which typically tend to be sensitive, and which attract attention from asset quality standpoint, I did mention that our total SMA-2 book for the corporate side is 404 crores. And for the real estate side is 255, which is part of 404 of course. 404 is for the entire book. So we think that the exposure that we have now from portfolio perspective, from individual counter-party perspective, in the foreseeable future we don't see any slippages into BB and below book.
- Manish Shukla:** Okay. And lastly, on capital, the resolution was \$1 billion, a 10% dilution, does the 10% dilution still hold?
- Ravneet Gill:** So no. So, like we had clarified the last time around, the 10% was not something that was self-imposed by the Board or by the Bank. That was the advice that we have got from proxy advisors that if you go for an enabling resolution then investors typically don't agree to more than the 10% dilution, but if you have a specific deal, price, size, all in place, then they will give approval for more than 10%. So the option to go beyond 10% is very much on the table.
- Manish Shukla:** Was today's Board meeting attended by the RBI nominee deductor?
- Ravneet Gill:** So Mr. Gandhi was in California. And he was in VC for the entire Board meeting.
- Moderator:** Ladies and gentlemen, due to time constraints, we will take the last question that is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.
- M.B. Mahesh:** Just a couple of questions. One, if I look at the ALM table which you've reported on March 31, there it shows roughly about 25,000 crores, which was up for maturity for a period of 90 days. Just trying to understand you guys repaid this much amount of money during this course of this quarter because the loan book seems to be flat?



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Rajat Monga: So I don't have the table you're referring to right now in front of me, but yes, the funding continues to be on an ongoing basis.

M.B. Mahesh: No. I'm just talking about the loans. The loan shows roughly about 25,000 crores which are up to a maturity over the period of 3 months?

Rajat Monga: Some of that could also be behavioral classification on account of overdraft and CC facilities because a part of our loan book does not have a set maturity, so we look at the observed behavior of that book, and we ascribe that to the future. But usually, those loans will also be, let's say, a rollover or those companies will also continue to have working capital requirements. They will keep the money utilized.

M.B. Mahesh: Okay. And the second question on the retail side, was there any direct assignments on the back of which the growth in retail has been much faster because we are seeing a fair amount of securitization which has happened in the market?

Ravneet Gill: No. I think the entire growth has been organic. It has not come on the back of buying out any portfolios.

M.B. Mahesh: Okay. And final question, what's the definition of retail term deposits today?

Ravneet Gill: So the brand banking deposit is what we classify as retail term deposits.

M.B. Mahesh: Is there a quantum under which you...

Rajat Monga: 2 crores is the RBI threshold in any case.

M.B. Mahesh: Maximum?

Rajat Monga: Maximum, yes. So it used to be 1 crore, but RBI has lifted the definition of retail to 2 crores.

Moderator: Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Mr. Ravneet Gill for closing comments. Thank you and over to you, sir.

Ravneet Gill: I would once again like to thank you all for dialing into this call. As I mentioned that this was really a quarter of consolidation. And I think, the way we had been able to navigate through that gives us a lot of confidence in terms of our performance going forward. Thank you once again for your support. And hopefully going forward, we can surprise you on the upside. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of YES BANK, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.