"YES Bank Limited Q4 FY19 and Full Year FY19 Earnings Conference Call"

April 26, 2019

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Moderator: Good day, ladies and gentlemen. And a very warm welcome to the Q4 FY19 and Full Year FY19 Earnings Conference Call of YES Bank Limited.

We have with us today from the management, Mr. Ravneet Gill – MD & CEO, Mr. Rajat Monga – Senior Group President; Mr. Ashish Agarwal – Senior Group President and CRO; Mr. Raj Ahuja – Group President and Group CFO, Mr. Rajan Pental – Senior Group President and Retail Head.

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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Rajat Monga: So thanks, Ali. I think we will begin this conference with the opening remarks from our MD and CEO, Mr. Ravneet Gill. I would sincerely apologize for the delay that has already taken place. I believe we have had more than a reasonable delay, but we tried to help that as much as we could, but finally, we are going to start. So I am not going to take more time and I am handing over the conference directly to Mr. Gill. Thank you.

Ravneet Gill: Good evening, ladies and gentlemen. This is Ravneet Gill here. As Rajat said, our sincere apologies for the delay. So, sorry to have kept you waiting for so long. What I can do is start with some initial thoughts around strategy and the way forward for YES Bank. And then I will hand it over to Rajat for the financials piece. And then we can come back for Q&A.

So the question I often get asked is, what was it that excited me about YES Bank and what led to the decision? I think from the outset, there were a couple of key drivers. The first and foremost was in terms of the growth of the bank and the brand that it had built itself over a decade and a half. The second one was the quality of the people, I used to compete with them as part of my previous employer all the time; very driven, entrepreneurial, very gifted. And the third part was, from what I could see, the technology platform that YES Bank has built was effectively best-in-class.

And in this respect, I must tell you that in early February I was in Bangalore on one of my farewell calls, and I met Infosys. And Nandan (Nilekani) asked me there that, "Ravneet, what was it that made you decide in favor of YES?" And I talked to him about the technology bit. And Nandan said, that "I had a ringside view of that. And I have to tell you that these guys have platformized themselves a lot better than any of the other banks have in the country". And having seen it now from the inside, I think that is something that I would fully endorse.

What I can tell you is, having spent almost two months in, all those impressions, if anything, have just got reinforced. And if there is one thing which has got reinforced absolutely on the upside has been the quality of the people. It is an absolutely top class team, very driven, very committed, and very hard-working. And given the fact that banking is a people's business, I think we really do have the building blocks of building an even stronger, better, financial institution.

Talking about some of the themes which will drive our path forward, our growth forward. If I look at ourselves as a private sector bank in this country relative to some of our peers, one of the things which I think which differentiates us is the strong corporate focus. And when we talk about the corporate focus, do remember that over the last 14 to 15 years that YES Bank built itself into the fourth largest private sector bank in the country, it was done in an environment where corporate India was not exactly flourishing and private sector investment actually has been abysmally low in the last seven to eight years. So when you see the bank’s growth in that context, it provides some perspective in terms of just the enormity of the achievement. And think of the times when the CAPEX cycle turns, the investment cycle turns, how well positioned would YES Bank be to ride that crest.

Having said that, one of the key businesses of the bank has been the structured finance business. And given the fact that complex financing typically tends to be a very bespoke business, I think that there remains a perception in terms of how scalable is it, how predictable is it and how sustainable is it? And I think that becomes the first trigger for us to think in terms of building other growth engines alongside the corporate business. And the two businesses, which, obviously, become very relevant from our perspective, are the transaction banking business and the retail bank.

Interestingly, if you look at the retail bank, given that it has flown under the radar for quite some time, the quality of that business is not always fully understood. So if you look at that book which grew from Rs. 45,000 crores to Rs. 64,000 crores during the year, which is almost a 41% increase, it came on the back of very good credit quality. Actually, the credit bureaus tell us that the book is as good as any in the market, and very, very reasonable earnings along with that.

And then if I look at the transaction banking business, which from an asset perspective didn't grow that much, but still from a revenue perspective grew 41% from a Rs. 1,933 crores to Rs. 2,725 crores. And during this period, it also had in terms of RARoC, increase by 51%. And this efficiency came on the back of better product mix, and of course, repricing, and came in in a growth constrained environment, given the fact that we were in need of more growth capital. I think if the opportunity is provided to this business, I would feel very, very enthusiastic and optimistic about its future prospects. It is very technology-lead, very solutioning-led. And these revenues come on the back of the fact that it still is predominantly a non fund-based book, and which, of course, has had some bearing in terms of the NII. But once you get that mix right, and we can put in more growth factors into this business, I think the prospects for it are absolutely outstanding.

Equally, if I looked at the retail business, where we have 1,100 branches, if there is something that we could have done differently to these businesses, run it at an even more granular fashion.

So if I look at the 1,100 branches, only 30% of those currently are profitable. We want to get to a profitability level of about 80% by 2023. And by 2025 these branches should be fully profitable. I think it has come on the back of greater empowerment at the branch level, and of course, more cross-sell.

To be able to facilitate that, two things that we have done: we have really had a devolution in terms of authority, so we are creating more regions, building very strong regional managements in all these sectors and geographies to be able to empower them to drive strategy, drive growth. Equally, we are in the course of hiring people, feet on street, to be able to give more impetus to our liabilities business.

Clearly, if I see in terms of priorities, liabilities remain a big priority. And I do accept that 1,100 branches maybe a little light relative to some of our competitors. But let me give you two cuts to that which will give you a better perspective in terms of the future trajectory of this business.

The first and foremost is that if you looked at the way YES Bank's business operated and the decisioning happened and the way management operated, I think it was relatively centralized. Whereas, by definition, I think liabilities tends to be a more ground-up business and a more granular business. And that is something that we are trying to address through more empowered regional management, as I mentioned to you.

The second thing is that I think there was a single-minded pursuit for fees and then as long as that was getting generated I think the focus on cross-sell, and of which liability could have been one, I think got deemphasized. And that is something that we are correcting, and it is very heartening to see the pace at which it is really gaining traction.

Which brings me into the third part, which I talked about, which was really the digital piece. And just to give you, it is something that I am very passionate about and I could talk about for a very long time. But I would just try to give you some data points to give you a sense in terms of just how much above our weight are we punching right now.

So if you look at just from the point of view of the entire UPI transaction, last year 1.43 billion UPI transactions went through us, which basically were Rs. 235,000 crores in value terms. And in terms of number of transactions, we were #2. And in terms of the volumes, we were #1. Which intuitively, I am sure, surprises many of you, but I will also tell you the enormity of this achievement and the potential that it holds from a monetization perspective. Even if you looked at it from an AEPS perspective, which was the Aadhaar Enabled Payment Services, a 155 million transactions got processed through this medium. And again, the corresponding amounts for those were very, very large.

The key around this is not just the numbers or how impressive it is from a quantitative perspective, it is the data richness this is beginning to create for us. And if you can put good analytics around that, which is something that we are in the process of doing, the monetization potential for this business and the cross-sell that it could generate, could be absolutely enormous.

So what does that effectively mean? I think what that means is, that if somebody wants to route a UPI payment through the YES Bank handle, we get to see a lot of information. We get to see the bank, the bank number, obviously, the transaction, the merchant and if there are repeat transactions, I think it is very possible to build analytics around that. I am a very big believer that in financial services our cross-sell is not a function of pushing products, that is really the job of FMCG. In the case of financial services, cross-sell is really a question about enablement, and I think Amazon is a very good example of that. And I think the analytics that I was talking about, if you could marry that to the pool of data that we are now beginning to build up, the cross-sell that we could do around that, whether it was in terms of personal loans, credit cards, home loans, the whole gamut could be something we could ramp-up very, very quickly.

So when we look at the differences between us and some of our competitors in the businesses that I talked about, at this point in time it will look a little material. But as you would have seen from a couple of data points that I gave you in terms of the payments landscape, basically, it is possible to plug that gap very, very quickly. We could talk about this subsequently in the Q&A as well, but I thought I would give this perspective to you that in an environment where increasingly it is being believed that banks will become technology companies with a banking license, YES Bank is very strongly positioned to be at the absolute forefront of that journey.

Before I do hand over to Rajat to walk you through the financials, a couple of words with respect to the overall credit environment and the asset quality. As we know that over the last six to eight months there have been a significant dislocation in the Indian financial services market, stemming from the dislocation in the NBFC space, mutual funds, and then a lot of related issues, which led to significant risk aversion and liquidity became a major concern.

It definitely had an impact on our credit portfolio as well. And just to be able to demonstrate to the market that we now want to get into a realm of very prudent conservative accounting, you will see that we have taken contingency provisions of about Rs. 2,100 crores this year, which is in addition to the provisions for the quarter of about Rs. 1,200 crores.

In terms of credit costs, our guidance for 2019-20 would be about 200 basis points, of which 80 basis points have been absorbed through the contingency provision of about Rs. 2,100 crores that I talked about. And I would reckon that for the balance year our credit cost could be up to 125 basis points, and then would begin to normalize the year after.

With that, I will now hand over to Rajat, and then look forward to connecting again when we get into Q&A.

Rajat Monga: Thank you, Ravneet, very much. I will take the opportunity on the call to run us through the financial performance of the quarter gone by.

The highlights of the fourth quarter continue to be growth driven, which is central in retail banking. If you look at our year-on-year growth, the overall advances book has grown by a little less than 19% and it stacks up to about Rs. 2.42 trillion. Sequentially, there has been about a 1% fall in the loan book, owing to more sell downs and repayments that took place in the fourth quarter.

As I was mentioning, within the book, the retail continues to be growing the strongest, and it has achieved about 62.3% year-on-year growth and an 8.6% sequential growth, and is now represented by about 17% of our loan book. And this was about 12% last year. So we have seen a 4.5% increase in the retail book share in the last 12 months.

A quick look into the deposit side as well. They have grown 13.4% on a year-on-year basis and 2.2% on a sequential basis. The total deposit book now stands at Rs. 2.28 trillion. We have seen some moderation in our credit deposit ratio as well, which has come down from 109% in the previous quarter to about 106% as of March 31, 2019.

CASA ratio has been more or less flat at 33.1%. However, the granular book, which would comprise of CASA and retail time deposits has improved to about 59% from what was 57.5% three months ago.

Retail deposits, as such, if I may say retail time deposits, grew 40% on a year-on-year basis and 8.3% on a quarter-on-quarter basis. So, our deposit book is moving towards retail quite nicely, though there was some pullback about 12 months ago when our overall balance sheet growth was high. But of late, retail has caught up quite nicely in terms of the deposit mix itself.

Some quick statistics on our liquidity coverage ratio. It has improved to about 111% on an average for the fourth quarter as compared to 102% in the third quarter, and the LCR ended the quarter at 113% as of March 31, 2019.

As Ravneet was mentioning, we have taken a one-time proactive, what we are calling contingency provisioning, of about Rs. 2,100 crores, which has been accounted for in the results of the fourth quarter. This contingency provisioning essentially relates to our assessment of the bank's credit portfolio, which is predominantly centered in the below investment grade rating horizon and should be constituting about 20% provisioning equivalent of the loan book that we are watching for in terms of the risks in the part of the credit portfolio. And after the contingency provisioning we should be looking at up to 125 basis points of credit cost being factored for the fiscal year 2019-20.

Just to add to some of the statistics, which Ravneet mentioned on the digital payments, we continue to command the highest market share in the UPI person-to-merchant payment transactions. And we have seen an eightfold growth in volumes in the fiscal year gone by. We have also been ranked #1 Remitter Bank on the IMPS platform by NPCI in our peer group for the last year. The reason I mentioned these two modalities of payments is because both of them happened to be real-time settlements and are touching hundreds of millions of customers through the year.

We have also been very excited about our API banking platform, which is continuing to grow exponentially. And we now have more than 850 customers on-boarded on the API banking platform, wherein customers can safely integrate the banking that they want to derive from the bank account with us, with the services that they are rendering to their customers, respectively.

A couple of corporate actions also that have been decided in today's board meeting include a payment of dividend of Rs. 2 per share, which will be subject to shareholder approval. And also a renewal of the capital raising request to shareholders for raising up to US$1 billion and limited by a 10% dilution, which has also been approved in the Board today and will be recommended to shareholders in the ensuing AGM.

I will come to the few statistics we want to share on our profit and loss statement as well. We have seen growth moderation in the last six months, particularly, where we have had, let's say, changed management that the business was undergoing, and some of the outcomes have been somewhat affected, including the net interest income, which grew 16.3% on a year-on-year basis. The net interest income for the quarter gone by does have about Rs. 1 billion of one-offs on account of interest reversals relating to NPA recognition, and I will give the NPA statistics also in a short while.

If we compare the NII growth on a full year basis, we have seen a 27% growth in net interest income for this year ended March 2019 as compared to the year ended March 2018. We are reporting a net interest margin of 3.1% for the fourth quarter, which is somewhat affected by the interest reversals. And net interest margin of 3.2% for the full year ended March 2019.

We have also seen some correction in our non-interest income. This, again, has elements of one-offs and I will also describe them as we go. Our total non-interest income stood at Rs. 532 crores for the fourth quarter and Rs. 4,590 crores for the full year, which was a 28% full year growth in the non-interest income. The contribution by corporate trade finance, cash management fees has been steadily growing, it grew 24.4% on a year-on-year basis, and there has also been equivalent growth in the retail banking fees.

This quarter we have also taken some reckoning of our underwritings and commitments, and we have also looked at the large exposure framework that has got introduced on the 1st of April. And as a consequence, have taken some underwritings withdrawals and therefore have reversed corresponding income, or have also taken the decision to syndicate some of our exposures to reduce the exposures entailed under the large exposures framework. And therefore, have also taken a provisioning for syndication for such loans.

So these two elements contributed to about close to Rs. 3 billion or Rs. 300 crores of reversals in the current quarter, and you will see that, therefore, we are reporting a negative line on corporate fee. So the corporate fee, otherwise, stacked up to about Rs. 1.75 billion, and it was also adjusted for about a Rs. 3 billion reversal, and the net number is about Rs. 1 billion plus negative in our statements.

Our operating expenses have grown at about a little less than 20% on a year-on-year basis in the quarter. All told, the pre-provisioning operating profit has taken a hit on account of reversals as well as some moderation in the corporate fee, as a consequence of which, the operating profit grew 5% on a year-on-year basis for the full year.

Some figures on provisions. We have already highlighted that there is a contingent provision of Rs. 21 billion or Rs. 2,100 crores, which relates to the below investment grade, but standard, part of our loan book. Other than that, we have also taken Rs. 1,270 crores or Rs. 12.7 billion of specific loan losses provisions during the quarter. We have also taken Rs. 2.43 billion of mark-to-market provisioning and about Rs. 0.5 billion of other provisions. So, total provisions stand at Rs. 36.6 billion for this current quarter, including the contingency provisioning.

Given all of this, predominantly if I have to highlight interest reversal of Rs. 1 billion in the net interest income line, moderation in corporate fee topped with some write backs or reversals, the incremental provisioning that we have taken, we are having to report a net loss of a little over Rs. 15 billion for the fourth quarter and a net profit of Rs. 17.2 billion for the full year. So our return on asset and return on equity for the year stand at 0.9% and 11.4% prior to taking into consideration Contingent Provisioning.

The book value of the share is being reported at Rs. 116.2 per share as of March 31, 2019.

A few items of reporting under capital also would be for total Capital Adequacy, Tier-1 capital and CET1 ratio, respectively, would be 16.5%, 11.3%, and 8.4%, respectively. Our CET1 would have been closer to 9% had we not taken the contingency provisioning that I mentioned of Rs. 21 billion.

A quick look into our segmental split of business across corporate, SME and retail units. So we have seen increase in share of retail and SME business mix in the quarter gone by. So what was a 32% mix has increased to 34.4% mix on both a year-on-year basis as well as on a sequential comparison basis. Within the retail and the business banking space, we have seen a flat performance in the medium enterprise space; we have seen a 70-basis point mix improvement in the small and micro space, and a 150 basis point mix improvement in the retail banking space. And as a consequence, the share of corporate banking has come down from 67.8% as of December 2018 to 65.6%, which is about a 220-basis point reduction in the mix for corporate banking, which goes along with the direction that the bank is anyway taking to be able to diversify its asset mix.

We continue to moderate our risk-weighted asset proportions as well. So the reported risk-weighted assets stand at Rs. 3.06 trillion and as a proportion of total assets, this mix now is at 80.2%, which was about a 150 basis point reduction from the same period last year.

Some more statistics on the asset quality side. I will start with credit costs for the quarter, which stacks up to 137 basis points, including about the 92 basis points of contingency provision that we have made for the year. And for the fiscal year 2019 gone by as a whole, the credit cost, including the contingency provisioning stands at 209 basis points.

We are reporting gross slippages of Rs. 34.8 billion in the quarter gone by, which includes about Rs. 5.5 billion on account of an airline company exposure as well, which has been recognized as NPA that, otherwise, could have been considered not 90 days overdue as at March 31, 2019. As well as a follow-through, Rs. 5.29 billion crores of recognition on account of stressed infrastructure conglomerate, which as you will recall, we had taken about Rs. 20 billion of the stressed infrastructure conglomerates to NPA in the previous quarter and had about a Rs. 6 billion exposure that was still standard, which has been predominantly recognized in this quarter, prior to when the NCLT ruling was imposed on this particular account. So we still have about Rs. 0.8 billion equivalents of loans, which continue to be classified as standard, pursuant to the NCLT ruling. However, we have taken a 15% provisioning against those accounts, which continue to be classified as standard.

As a result, we are reporting a gross NPA ratio of 3.22%. The absolute amount of gross NPA is Rs. 78.8 billion. We are reporting a net NPA ratio of 1.86%, which is about Rs. 44.85 billion, a PCR of 43.1%, which is just about lower than what we were reporting same time, rather last quarter. We have made one sale of an NPA in the quarter gone by, which was done to an ARC on an all-cash basis. So we have been able to recover Rs. 117 crores in cash as against Rs. 1.95 billion exposure, and the difference has been provided for or written-off in our books. Our standard restructured exposure continues to be very modest number of 8 basis points, and this is just legacy and which will keep running down.

Just for abundant measure, I also got to highlight the outstanding funded exposure to the stressed infrastructure conglomerate, which stands at Rs. 25.28 billion, of which Rs. 24.42 billion has been classified as NPA. As I mentioned a bit earlier, about Rs. 0.86 billion continues to be classified as standard and is carrying a 15% standard provisioning.

A few quick statistics on our sectoral position as well. On our top 20 individual borrower accounts, 90% of those continue to be rated A or better by external agencies. Our SMA-2 position has been reported at 98 basis points of advances as of March 31, 2019. Our exposures to NBFC stands at 2.9%, which are 70% of those by value rated A or better by an external rating agency. Similarly, on housing finance companies, our exposure position stands at 3.5% and 88% of those are rated A or better.

Our commercial real-estate exposure stands at 7%, of which about 0.27% are in the SMA-2 category. And also for good orders sake, we have also highlighted that as far as the disclosures for divergence is concerned, given the RBI's annual review from March 18 has been completed, and we have received their findings, the bank has no disclosure requirements under those regulations.

We are also highlighting exposure to some of the other sectors, which include electricity in the nonrenewable category, where our position as of March 31, if we exclude the renewables, is about 1.9%. We have no exposure to state electricity boards. Our exposure to the EPC borrowers is about 10%, of which about 67% of that book is rated A or better. Similarly, we have an exposure of 3% to iron and steel, of which about 70% is rated A or better. A 2.5% exposure to telecom, of which about 90% is rated A or better. And about 1.2% to gems and jewelry, of which about 60% is rated A or better.

We have also presented our pie-chart of the total sectoral exposure, which you can go through that at your convenience.

As you go through our press release for the financial results, you will see several highlights of the work that the bank has done on the digital front and the outcomes thereof. I will not go through each one of them, and we possibly just would like to highlight some of the remaining statistics. Our employee strength is standing at 21,136 as of March 31, 2019. We have 1,120 branches. We did receive a stabilization note on our rating outlook from Moody's in the quarter gone by. Earlier they had a negative outlook, now they have revised that to stable outlook.

We were also recognized with the position of Best Technology Bank of the Year, with the Best Use of Data and Analytics for Business Outcomes, and with the Most Customer-centric Bank using Technology awards in the medium-sized banks category at the Indian Bank Association Banking Technology Innovation Awards. I think they should have considered us in the large size, but we will leave the judgment to them. We were also applauded as winner in the innovation in Data Science at the ninth edition of the Aegis Graham Bell Award 2018 for the Industry First Project, which is YES-EEE, which expands to engage, enrich and excel, we using the data and data science to come to the ability of engaging and enriching the customer experience, and of course, trying to excel at it. We were also selected by the Global Finance Magazine as the Best Debt Bank in Asia Pacific for deals announced and completed in the year 2018.

So that was a summary that I wanted to present on the bank's financial performance. I did try to highlight some of the one-offs and onetime sort of changes that have taken place in our financials. And of course, we will be happy to take queries and questions on the same.

As some of you will know, we are also meeting with analysts at 8:00 p.m. So we will try and answer most of your questions and queries on this call. We will be discussing more of the go-forward strategy in the meet, and if you could save your questions to financials on the call, we could answer these strategic questions during the meet as well. We leave that to you. And we are open to questions now. Thank you.

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

Mahrukh Adajania: The provisions of Rs. 2,000 crore, which would be roughly on a portfolio of Rs. 10,000 crores, would you have a sectoral breakup of the portfolio, like what some other banks give? Say power promoter groups?

Rajat Monga: Mahrukh, I think the portfolio is basically, the situation that you will be well aware of, which are being discussed in the press also off late. So it is predominately around the situations which are well known to you. It will include real-estate, it will include media and entertainment, it will include infrastructure as the, let's say, the highlights there.

Mahrukh Adajania: But any breakdown, like quantitative breakdown?

Rajat Monga: Well, I would say it is roughly well distributed. I don't think there is something which is standing out per se. They would be roughly balancing 20%, 30% would be what a single sector might be occupying there.

Mahrukh Adajania: Okay. Got it. And the other question is that if you take the example of other private banks that went through an adjustment period in their asset quality or in their fee income, it was never a one quarter thing. Like the fee adjustment took four to six quarters of growth, it took that much time to revive; and likewise for credit costs. So how do you see it phasing out in your bank now?

Rajat Monga: So Mahrukh, I think if you look at, firstly, the last quarter was particularly peculiar for us. we were going through a fair bit of change at the leadership situations. And we have had, let's say, only a month each with CEOs in-charge in this last quarter. So there was a little bit of, I would say, therefore a decisioning slowdown. We do believe that the business momentum, now that we are relatively more back in shape, we are also taking preemptive sort of provisioning, that we would get back to getting the feedback. However, we are also going to be taking accounting changes in our fee recognition, particularly corporate fee. So we will follow a mix of recognition and a deferment. So any fee, which is above a threshold, let's say, 1.5% or 2% will be deferred over the period of the loan. So that we will not be able to get back quickly, but as Ravneet was mentioning, that we still have a fairly functional corporate business, and I think we will have to recognize the incidence of fee more on account of conservative accounting that we are going to be taking going forward.

Mahrukh Adajania: Okay. And just a follow-up question on the stress portfolio, that there are stress companies and stress groups. So is there likely to be additions? Because what usually happens is that one company of the group goes under stress, and then rating downgrades happen for many other companies of the group. I mean it's happened before in many groups. So do you see the stress portfolio increasing? Or you have now done a thorough study and, I mean, does it increase from here on? Or how does it...

Rajat Monga: So let's say, I don't think the group issue predominates. So, though I did not highlight that, but if you go through our investor presentation, we have given a rating breakdown of our exposure, like we give every time. There has been increase recently in the below investment grade portfolio. And we do believe that there is very little of group interaction happening between the below investment grade and the above investment grade. So it's mostly, let's say, normalized. So if a part of the group is below investment grade, the other parts of the group is also falling in the below investment grade category. The book that you will look at is not necessarily… you should not look at that as the stress book because not all below investment grade is stressed. A lot of small companies tend to be in below investment grade even just because of sheer size. So it is the part of the book, which we believe, needs active monitoring from our side is what we are highlighting, and taking provisioning against that.

Mahrukh Adajania: And it should remain pretty stable?

Rajat Monga: Well there will be ins and outs. I think the book is also, let's say, if it slips, it will also be ripe for recovery because our collateral position continues to be good. Some of these cases might have liquidity events towards resolution. So there would be a fair amount of recovery as well. So I think, but if you combine our contingency provisioning and the guidance for next year, I think we are factoring a little bit of ins and outs already in that.

Moderator: Thank you. The next question is from the line of Abhishek Mehta from Asit C. Mehta. Please go ahead.

Abhishek Mehta: My first question regards to corporate banking. The share has fallen from 67% to 65%, 250 basis points as you mentioned. Just wanted to know that further going down the line, is this share going to come down? What is the target? Or there is no specific target in mind?

Rajat Monga: Abhishek, we have, let's say, a medium long-term target which will be retail plus SME 50 and corporate 50.

Abhishek Mehta: Okay. So maybe if 15% will more come down, corporate lending side?

Rajat Monga: Yes, progressively. Yes, so that is more or less a five, six-year target. I mean we also don't want to grow the retail and SME businesses that far that we have other issues that might come up. So we will smoothen the transition but we will have a plan which we're already working on.

Abhishek Mehta: Okay. Sir, one more thing regarding, I think the NPA issue is [there] a bit. Now recoveries, what is the idea? Because I was just wondering that is recovery possible? But one thing that came to our mind is your recurring dividend year-on-year yet there are losses. So are you hopeful for recovery? So if dividend payouts happen, then on one side you are paying dividend and on the other side you have losses regarding your assets. So that is what I was wondering why. I was just trying to link it.

Rajat Monga: Yes. So we of course believe that there will be recovery, and I think we will have a fair amount of recovery. That recovery sometimes has to be looked at with some patience in terms of time. The adjustment that we have taken in this quarter, Abhishek, is also one-time. A lot of them have one-offs. Some of this part will not repeat. It could be that there is normal course of gains and losses in the business that we will have to deal with in course of time. But this is not something that we're going to do on a recurring basis. Clearly not.

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

Adarsh Parasrampuria: Sorry, I joined a little late. Just want to clarify, you said the Rs. 2,100 crore of contingency provision is against a Rs. 10,000-odd crore stress book that you would identify, is it?

Rajat Monga: That is correct.

Adarsh Parasrampuria: Okay. And does it kind of take care of the BB and below book that has seen an increase? Like, why did that happen? Why did the marking suddenly happen in a single quarter? And...

Rajat Monga: So we have seen, let's say situations that have evolved, Adarsh, in the last three to six months. I mean the last three to six months, Ravneet was also highlighting in his commentary, have had a element of financial stress that has been added. I am sure you have been reading the news and the press, and there have been downgrades, there have been, let's say, asset value erosions. So it has been something which has a reason, and we have to recognize that, and we have to talk to you about that. And this is what we are making. So I would still caution that you should not assume that all the BB and below is a problem because there would be normal-course BBs Bs also. The worry happens if typically, I am more concerned if there is a move from a BBB to a BB because that is where there is deterioration which is being evidenced. So which is what we are trying to kind of preempt and protect ourselves from.

Adarsh Parasrampuria: And the Rs. 2,100 crore of contingency plus 125 bp of credit cost, right, that is another Rs. 3,000-plus crores. Does this Rs. 5,000 crore, the provision, consider the collateralization that you have? So broadly, that is an estimate of, say, a loss given default you may have? Or like what went into saying that 125-plus, say, Rs. 2,100 crores that we have made? I am just trying to understand, I know it's a little too early, it's been only like a couple of months. But I just want to understand the adequacy of putting these things, both these things together in the context of collateral you may have on these loans?

Rajat Monga: So let me break this answer into two parts. It does not factor LGD directly. It factors LGD because we maybe assuming, let's say a base case of 50% PCR, give or take. It does not factor that if I have a view you that I will have 20% LGD so I will take only 20% provisioning, not really. It factors only if there are recoveries. So I hope I am able to clarify the position. So it is more an accounting judgment. It is not a collateral judgment that we are taking. Having said that, we still believe that we have very strong collateral values, and we will get the recoveries over time. And from LGD perspective, we will be sufficiently covered between the contingency and the expected credit costs in terms of the guidance. LGD is sufficiently covered. But accounting does not work like that. I hope you are understanding my point that if it slips I have to take add-on provisioning irrespective of LGD. If I have to keep an average 45%, 50% PCR, I have to take 45%, 50% provisioning on the incremental slippage also.

Adarsh Parasrampuria: Understood. And last question on the income side, both on NII and fee sir. Now if you kind of change the structure in which the business was being done on the corporate side, obviously there are some one-offs and corporate fee but that will grind down to a significantly lower number than the usual run rate. Any sense now, this quarter would have been exceptionally poor as you mentioned, but any sense there? And the second question related to income again was on the NII, you still have a large pool of asset which looks stressed, which may have a default situation or at least an NPA marking, though you kind of will provide for it. That does have income effect in terms of NII, right? So we have seen for corporate banks the way our NIMs kind of have come down. So if you can just address both these NIM and corporate fee kind of both the lines?

Rajat Monga: Yes, sure. So let me start with NIM because that has an element of both a gain and a loss. So we are also ballparking, Adarsh, a growth, let's say, outcome which is more reasonable more in the, let's say, early to mid-20s, at best. Of course, within this, there would be possibly a retail, which will outdo the average and maybe the corporate book will have a more moderate outcome. Of course, we will have to support the corporate book outcomes with a lot more churn in the strategy implementation and not just adding to our balance sheet. The reason I was making this point is that this also relaxes our liability side a lot. So we are also expecting gains to come in on account of the liability side as our book is moving now to retail very, very quickly, which is also bringing us gains in terms of relative advantage on cost of fund side.

So there would be, I would say, a 50 basis point cost gain on an as-is where-is basis that we will be baking in, in terms of our near to medium-term outcomes, which is quite a substantial amount, I mean it actually does about a 15%-plus to our NII on an as-is where-is basis let's say keeping the growth aside. So there is cushion as far as the loss of NII on account of slippages if there are, and gain back on account of cost of fund advantages. But for timing differences, I would trade them off more in favor of liabilities at this point in time.

The fee, however, on the corporate fee side will be a more durable change. So I don't think we are suggesting a sharp bounce back. Also, throw in the conservative accounting that we are going to add to that. So that will basically make us follow a strategy where we will have to make up the lost fee across transaction banking, retail banking and the financial markets businesses. And there is scope. Of course, we will not be able to make that up in 1 quarter but we are gunning for making that up in 12 or 18 months.

Our transaction banking fee is up 32% on a year-on-year basis, and our retail banking fee is running up at 37% on a year-on-year basis. So pretty good momentum, in my opinion. And with the, let's say, the highlights of strategy that Ravneet had indicated earlier in the call, this is something for which we have the platform. We just have to make it fire more, but we will need some time to be able to make this adjustment.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: I just need three answers. So first is what is the normalized corporate fee that we should look at? So it has come down from Rs. 600 crores, around Rs. 650 crores per quarter for Rs. 470 crores if I remember correctly in last quarter. And it's because of reversals, it's nearly Rs. 11 crore this quarter. So what would be the number going forward on a normalized basis? I am not asking on a quarterly basis but even in an annual basis, will it be Rs. 1,000 crores or what will be that number roughly?

Rajat Monga: Yes, so it will be closer to that number, definitely. I mean this should do better than that. And I think we will see what happens. That really depends on what kind of business you want to do on the corporate space. I will just take a little bit extra minute here. So let's say, I have a fixed resource which is my credit appetite, and liquidity and capital, which all I have to add up to make loans. Now if I make term loans, hypothetically, I usually, get underwriting fee then there is not much to earn other than interest income in the course of the loan. But as we are now flipping our strategy, we will do a lot more working capital-styled, let's say, allocation of resources. The moment I do more working capital, I also go more into LCs, guarantees, hedging, cash management. So while the work we have been showing you under corporate fee will fall and maybe it will bounce back to only to half its peak. But because of the underlying change in strategy, there will be, let's say, fall through into other lines of fee business as well, which we were also discussing just a bit earlier I was also highlighting on the call that our transactional banking fees is up more than 30% despite what the balance sheet has gone through in the last six to nine months, particularly. So we will get back. But I don't think we are now designing ourselves to match the peak. We will want to push the income into more annuity style of earnings so that we are also delivering what we believe are more sustainable form of earnings.

Pranav Tendulkar: Right. So that is one. Second is that in this period of transition, that is 1 or 1.5 years, what kind of loan growth and slippage rate you are visualizing? So I am not going to hold you accountable for that number, but roughly you would have something in mind, right?

Rajat Monga: That's a very good question which I can answer but not be held accountable for.

Pranav Tendulkar: Yes.

Rajat Monga: Okay. So slippage is a tough one in the sense that I mean because it involves estimating risk of timing so it's hard. So therefore, I would rather not guide or misguide you at all from that. But I think where we are a little bit clearer is on the credit cost and how that will pan out in this respect. As far as our growth is concerned, I was just mentioning a bit earlier in the call, I think we are gearing up for a early to mid-20s kind of a growth outcome but with a lot of churn thrown in. So even in the year gone by, we have seen a churn of about Rs. 20,000 crores to Rs. 30,000 crores in that loan book. Though this loan book did grow about 0.5% to 1% sequentially but there still is a fair amount of churn. The repayments that keep coming through, so we also re-lend, we syndicate, we sell down. So, all of that will become more prominent in terms of the corporate strategy, particularly. As far as the retail side is concerned, the growth will nudge 30s, 40s in the near term on a year-on-year basis, maybe even higher if the markets are good. We do see that there are, let's say, the nonbanking lenders, which are not all as well-oiled as they used to be. So the retail markets are also opening up for more conventional banking players, including us.

Pranav Tendulkar: Right. So even this Rs. 2,100 crore contingency provisions that you have done accounts for how much percent of the slippages associated? I guess if 50% of the slippages are...

Rajat Monga: No, 20%, not slippages. We don't know if they will slip. We do believe there are risk situations where some of them you are reading in the press as well. So to be able to cover ground on that, we don't know whether they will slip. We are purely taking a preemptive provisioning. We are calling that contingency provisioning.

Pranav Tendulkar: Right, right, right. Sir, last question from my side. So there are a lot of technology initiatives that you have taken on the retail banking side, and the productivity and fee income is actually showing a very great growth. So is the transition period kind of neglect that smooth engine that you have built up, because it is very difficult to invest it when capital is constrained?

Rajat Monga: No, even if we do a lot of investments, it will not be a burden on capital. Our capital is consumed by lending by far.

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

Rakesh Kumar: Yes. So the first question is related to on BB and below book. So what kind of slippage we are expecting from this book every two years, one year down the line?

Rajat Monga: So, I don't have a perfect answer there but I will try. So we are assuming in our, let's say, both micro as well as macro balance of that book that we are preparing ourselves for half of that book to slip, which is also gone as a input in terms of our contingency provisioning.

Rakesh Kumar: Correct. So in case of other private bank in the last eight quarters, the average slippage rate was close to around 85% or so. So does that number which we have estimated and put is enough?

Rajat Monga: Well, in our judgment, yes. The number that we have put, and including the credit cost for 12 months that we have taken, it should be good for and more than what I have described to you.

Rakesh Kumar: Okay. And this 125 bps credit cost number, like, would that lead to higher provision coverage which is now around 43% by the end of next year?

Rajat Monga: So we are also giving up to 125 guidance. So I am leaving the room open for it to be little lower depending about how our recoveries also pan out. We have also taken a substantial slippage in this quarter gone by as well. So which also gives us, let's say, a bigger room for recovery outcomes also. The reason, therefore, we are giving an open guidance is because we will use the benefit to also up the provisioning coverage if the benefit comes to us. So you have to assume that we will want, let's say, if not 12, maybe 18 months, that we should take our provision coverage to 60%. And we are factoring that the upside if we get from our guidance will also be looked at actively for increasing PCR.

Rakesh Kumar: Okay. And what is the plan we have to raise equity capital?

Rajat Monga: So we have also taken a renewed approval from the Board to raise equity. So we are also in a time where there are elections around the corner. We are also in a context that we are discussing with you today where we are presenting, let's say, a little atypical outcome. It's all for the good in our opinion. But we still needed time to communicate that to you, to the investors. And I think only if our message is being well understood, we will be able to discuss the opportunity of raising capital. So in our judgment currently, I think we are good for that. So we should be looking at capital-raising options the moment we are able to come to conclusion that our message is being well understood.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: Yes, just a data-keeping question. Could give us a break up of reduction in GNPAs? So break it up to recoveries, upgrades and write-offs.

Rajat Monga: Yes. Just bear with me for a few seconds.

Pranav Gupta: Yes, sure. No problems.

Rajat Monga: Are you online?

Pranav Gupta: Yes.

Rajat Monga: So there is a 1 billion to 2 billion, approximately, I will give you the final numbers if I get hold of them. But 1 billion to 2 billion of each upgrade and recovery.

Pranav Gupta: Okay. By the time you pull the numbers, just another question on your real estate piece. So the CRE exposure amounts to about 7%. Could you give us some color on what the book comprises of, the number of borrowers, what kind of transactions you have there and what kind of stress is from that book?

Rajat Monga: So let's say, a 70-30 split in that book, give or take. It will be 70-80: 20-30 between residential and commercial. So commercial is generally, let's say, doing okay. The residential, particularly the luxury end of residential is the one which is, let's say, currently facing illiquidity. And there is not enough, let's say, of the assets translating into sales and therefore, liquidity. So we have, let's say, predominantly addressed, if you allow me, I would say, almost entirely addressed stress book either in Q4 gone by, or in the preparation in terms of contingency provisioning that we have taken. So our entire, let's say, real estate exposure, which we believe, either is already stressed or may be stressed which can be imminent, has been addressed either in the fourth quarter slippage or in the contingency provisioning. And therefore, the ballparking of the below investment grade book that we were discussing earlier.

Moderator: Thank you. Due to time constraints, we will take the last question from the line of Harish Kapoor from IAFL. Please go ahead.

Harish Kapoor: Could you just first, just help me understand on the growth side. You mentioned that growth rate will be early to mid-20s. Is that what you just mentioned for FY20? Or moving forward also we will be in that range? And because you are kind of trying to build a retail franchise or any other thoughts on that. Second, is to Ravneet, if you could just kind of highlight in terms of any other personnel additions that you are trying even in terms of the retail piece. If any of you are kind of making any hiring or are looking at someone internally. And any other key functions where you really want to strengthen your team.

Ravneet Gill: Sorry, this is Ravneet. Was the question directed at me?

Harish Kapoor: Yes, yes.

Ravneet Gill: Okay. So, again, a couple of points with respect to that. I think there was a newspaper article, if I remember correctly yesterday, with totally speculated in terms of the hires. We are making some very senior hires but those are really more in terms of the control functions. To get our operations, back end, governance, compliance sort of those completely up to size. One of the big things that we have embraced as an objective as a management team here is to comply with the highest standard of governance. We want to be able to be on the side of Reserve Bank of India and we would like that validation coming from them. And I am sure that in short order, we should be able to achieve that. So that is as far as the hiring goals. On the business side, the quality of talent that is available in the bank is just off the charts, I mentioned that right at the beginning. On the retail side, clearly, we gave you some of the numbers in terms of the growth, and what we didn't talk about actually was the credit card business, which, again, is off to an absolute quickest to 500,000 cards. And in terms of spend, etc, absolutely at par with the best.

What we have decided is that given we want to focus now so much on liabilities and given that we will, at the same time, grow the retail asset book so strongly as well. So Rajan will look after quite clearly the retail asset business. We have Rajnish who looks at the credit card business. And we are on the lookout now for somebody to come and drive the retail liabilities business as well. In the normal course, I think Rajan could have done both those businesses. But given how strongly ambitious we are with regard to our retail assets book, we thought we'd bring in somebody then to be focused full-time on liabilities. To be honest, I mean, I will just make two more points. Bringing somebody to your heads-up business in the sense is not the answer. I mean, clearly, we're changing KPIs at an individual level in terms of what will constitute the performance and operating metric in these branches. I made the reference to the regional management teams. A lot of technology going in. So for instance, we have a very interesting product offering, which is a Spartan bot, if you will. You go in there, type in your details and if you want, somebody calls you right away. We prequalify you on the basis of just the data that you input, and that has also given us a great database in terms of our cross-sell, it's that nobody else in the industry is doing yet.

We are hiring about 2,600 people feet-on-street to be able to really gain a lot of momentum as far as the liabilities business is concerned. But equally what I would say is that if you see the work that we are doing now for the various Governments, so we work for the Maharashtra Government, for the Haryana Government, for the Tourism Department of Pondicherry and a couple of others, what they are doing is that in terms of fee governance they are tying up with various fintechs, and we are basically embedding our payment systems into those fintechs. And given what a large liabilities business the government banking piece constitutes, I feel very enthused that through a combination of people and technology, we will be able to grow that business very quickly. But having said that, there was a previous question which talked about whether we will be contained in terms of technology for our retail businesses. All that I would say is that our technology is not just geared for retail. If there is one business or if there is an approach which is slightly differentiated from competitors is that we will actually use technology for convergence between our wholesale and retail businesses. So our wholesale businesses, the transaction bank for instance, is very, very much technology driven. So yes, so those are the plans in terms of investments, in terms of people. Overall, like I said that we want to strengthen certain functions in the bank wherever we feel that we have a capability gap, we plug that. But just go as we back to the article that was there in the press yesterday, I mean there's absolutely zero desire or zero need to destabilize management.

Harish Kapoor: Yes. Just coming back to this 1 question on the growth side, I think I just kind of missed some part of that. So you obviously mentioned, I think Rajat mentioned that early 20s to mid-20s is the growth rate. What I understood is that, that might be for next year. But how do you look at a three year cycle and if we are kind of seeing some different strategy. Could you just comment on that part, I might have just missed it if you mentioned something more?

Rajat Monga: No, I think this year we grew around 17%, 18%. But what we want to do is, we want to go and stabilize at, let's say, 20% to 24%. We don't want to chase a 40%, 50% growth strategy that has been there in the past. We just want a much more calibrated growth model. And quite clearly as a bank, our aim is to be generally consistent long-term-sustainable ROE in the vicinity of 1.5%. So obviously, that is a long distance away at this point in time. But all our efforts are really going to be geared towards achieving that in the journey ahead.

I will give you just a small data point in terms of, again, growth and revenues, et cetera. If we look at our cost of funding, I think we are well wide of our peer group in the private banks sector. And if we want to come down to the same cost of funding, quite clearly, I think there's a need to build more sustainable, more predictable revenue streams and more granular businesses. And unless we do that, I don't think our cost of funding comes off as quickly as we'd want it to. And when you look at the size of the book, I mean just think that every 25 basis points, what it does to our profitability. So you have to go back to the point, we want to stabilize at a growth rate of 20% to 24% and ROE which is in the high-teens.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to the management for their closing comments.

Ravneet Gill: Thank you, Ali, and thank you, everyone, for your patience. And I have to apologize once again for the late start of this call. And we look forward to meeting some of you personally now in the Analyst Meet. Thank you.

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