



“Yes Bank Limited Q2 FY-18 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Yes Bank Limited Q2 FY18 Results Conference Call. We have with us today on the call Mr. Rana Kapoor – MD and CEO; Mr. Rajat Monga – CFO; Mr. Niranjan Banodkar – Head (IR) along with senior management team of Yes Bank. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Rana Kapoor – MD and CEO, Yes Bank. Thank you and over to you, sir.

Rana Kapoor: Good evening everyone. Apologies for the delay as we just wrapped up our media interactions, only a few minutes ago and as we open this discussion, I wanted to just highlight a few things and some of this you may have picked up already. We have had what we would like to believe superlative performance quarter, but for one significant retrospective set back which in the current effect of which is somewhat I would say moderately large but has been questioned quite adequately with our fairly robust financial performance and which is the incremental provisioning over and above our normal trending provision which is usually between 250-300 crores a quarter. So I just wanted to put this main point because I am sure this is really the crucial issue that is going to drive this conversation. As you would have noticed already that our profit for this quarter for the first time ever in the lifecycle of Yes Bank and this is basically now 52 quarters, 13 years which got over in September end, is the first time ever we have crossed four figures as in like 1000 crores of net profit which is an increase of 25.1% despite of fairly high provision of 447 crores. Net interest income as you would have observed has increased 33.5% year-on-year. Overall, NIMs year-on-year have improved by 30 basis points to 3.7%. Non-interest income is up by 35.4% and total net income is up by 34.3%. Operating profit in fact is extremely encouraging because it is result of both numerator and denominator gains and has improved to 37.6%, so the year-on-year growth is 37.6%.

Cost to income has fallen below 40% with more productivity and efficiency gains around the corner and key shareholder ratios were reasonably satisfactory with an ROA of 1.7%, ROE of 17.5% and a split, further to have split on 21st September, a book value now stands at Rs. 102.2. Similar growth pattern was witnessed in our balance sheet with an increase of 26.7% in total assets. Total deposits grew by 23.4% and crossed 1,50,000 crores mark. CASA ratio was ratcheting up, has been ratcheting up for while. So they are all time high of 37.2% but more importantly has grown 6.9% year-on-year and it represents an overall increase of 51.4%, also year-on-year. So within that, SA has grown by 51.6% and CA has grown by 51.1%. Also reflecting on our overall granularity of our CASA plus retail deposit, this number has gone up to 61.7% which is an increase of 5.2% compared to last year. On the loan side, our advances have grown by approximately 35%, 34.9 to be precise at an overall level of 1,48,675 crores and this is as a combination of both growth in corporate and retail business is more or less proportionate growth with retail banking, the core retail banking businesses, which is a major area of growth for us representing a 78% year-on-year growth, now constitutes 11.4% of

advances which is up from 10.5% at the end of June 17. So in one quarter this number has gone up from 10.5% to 11.4%. So this is really going up quite nicely. The total capital adequacy of the bank stands at a fairly robust 17.8%. Capital funds at the end of the quarter were 35,690 crores and after the end of the quarter, we have raised 6,915 crores of perpetual bonds, tier I bonds as well as some tier II bonds about Rs. 15 billion. So capital funds now in a current context have increased to 42,605 crores. The tier I ratio stood at 13.2% and CET1 at 11.4%, giving us enough cushion especially with retention and robust earnings to be able to grow steadily at least for the next couple of years before we think of another capital raise.

RWAs just crossed 2 lakh crores and RWAs to total assets were at a level of 84.3%. So overall, we have reason to believe that both P&L and balance sheet outcomes this quarter, but for one issue which I will address had been extremely favorable in this quarter akin to the June quarter in all respects.

I would now like to just comment a little bit on the portfolio and our asset quality disclosures for people who have already received the media release will find that we have done extremely comprehensive asset quality disclosure and have improved this quarter. But before I get down to the disclosures, let me just speak a little bit about the overall composition of our advances. We are fairly steady at around 67.4% in terms of corporate banking and corporate banking in our business is about 8 different corporate businesses which comprise 67.4%. Retail and MSME businesses which we call business banking have improved to 32.6%. This number was 32.1 one year ago and was 31.9 just one quarter ago. So this is showing some steady signs of improvement in its overall composition. And within that, we also have some data in terms of the contribution of medium enterprises which is about 9.9%. MSME is 11.3% and core retail banking is 11.4 adding up to 32.6% of the total advances composition of the bank.

As in the past, we continue with our sensitive structure disclosures. We have reason to believe that overall risk environment of the country, but for maybe 2 or 3 sectors is steadily improving, but the areas of some concern to us is thermal energy, pre and post completion risk for such projects. In our case, we have roughly about 3.4% exposure to nonrenewable power sector and all of this is operational credits, all operational borrowers. We have no exposure to SEBs as reported in the past. Our iron and steel exposure is steady at around 2%, but 1.6% of that is A and better rated than A. Telecom is steady compared to previous sequential quarter at 3.9% and A and above rated of this is 3.7%. So we are actually in the top notch stronger telecom companies and we see the overall risk mitigation in telecom advancing quite rapidly, but for one or two companies which I have shown some signs of further precipitation. One such company we have no exposure whatsoever and in one another company we have exposure to a very large group which has issued public statements that they will support backstop the telecom exposure. And the other three companies are the top three.

So overall, we are quite comfortable with the sensitive sector exposures and our overall corporate portfolio over 75% continues to be rated A and better and for people who have the benefit of

seeing our industry segmentation and exposure chart, you will see is really granular across lot of this sunrise sectors and fairly well spread out across the Indian economy and the GDP.

Moving onto more serious asset quality issues, credit costs for this quarter were slightly heightened at 29 basis points compared to 18 basis points in the first quarter. So cumulatively for the first half year, we are at 48 basis points. Gross NPA at the end of the quarter stood at 1.82% with an absolute gross NPA of Rs. 27.2 billion, 2,720 crores with net NPAs at 1.04% which is about Rs. 15.43 billion, 1,543 crores. We have also commented on the specific reason why there has been a major escalation. So almost out of the 1.82% gross NPA, 0.82 is the result of the net outstandings under the divergence pointed out by Reserve Bank of India for the period ended March 2017 and reflects the current status of this divergence which is the divergence from us was Rs. 63.55 billion and this was communicated to us few days ago in the month of October. So we have been looking at these credits quite closely given the bank's risk behavior driven by going concern analysis. So this number of 6,355 as pointed out as the aggregate divergence by Reserve Bank of India in its latest report has actually come down to just about 1,219 crores, so Rs. 12.2 billion which is 19% of the Rs. 63.55 billion and contributes 0.82% of the gross NPA of 1.82%. We have also made statutory provisions around this number because this is a different frame altogether and this statutory provision for this part of the NPA is approximately 443 crores which is Rs. 4.43 billion and the net NPA as a consequent of this divergence and the net impact of that is about Rs. 7.77 billion, 777 crores which is roughly about 0.52%, so exactly half of the overall net NPA of 1.04. The other half is running slippages which in this quarter were marginally higher. So if you look at overall we had additions in our other running NPAs of about Rs. 7.7 billion, but we also had fairly high recoveries and upgrades of 4.6 billion and write-offs of about 1.7 billion. So 1.5 billion was the gross NPA and the net NPA corresponding to that was 7.7 billion, so almost equal.

So overall if you look at the aggregate picture of the bank as I briefly mentioned, gross NPA is at 1.82%, net at 1.04%, provisioning coverage at 43.3% which is somewhat lower and what we would like to see normally, but there is a fair amount of recovery potential in the recent NPAs as also in the somewhat more detailed NPAs.

To give you a little bit more elaboration on this divergence number of 63.55 billion, we have a small breakup of this. 47% of this number has been upgraded. There were 19 accounts across 7 medium-sized groups. So out of the 7 groups, 19 accounts, 4 constitute these NPAs of 1219 crores, 3 have been sold to ARCs which is the net number of approximately 440 crores approximately and 12 have been upgraded given their no overdue and current interest position as on March and June as well as September and as approved by the statutory auditors as well as the board of Directors in a meeting held earlier this afternoon. So these are upgrades which constitute 47% of this Rs. 63.55 billion number. The ARC sale is all of 7% and as I mentioned to you, only 19% of this 63.55 billion is outstanding as reflected in the gross NPA and 27%, I do want to highlight that 27% of this number of this 63.55 billion has been fully repaid. So it is important to see that the overall nature and the probability of repayment of this portfolio is high

that literally between March and September, 27% as it has been repaid and we have reason to believe that a very significant portion in due course will also be recovered. So in totality out of the total exposure observed as part of the RBI-RBS process, 81% of the exposure has been repaid, resolved or classified as substandard on account of satisfactory conduct.

There are some other aspects of asset quality which we have dealt with. Security receipts have gone up to 0.94% to a level of Rs. 14.12 billion. We do expect some redemptions in the short medium term on this portfolio. Standard restructured advances were very small at only 0.08%. Standard SDR exposure is also fairly small at just 0.32%. 5/25 refinance exposure is also tiny at 0.15% and S4A exposure is all of 0.01%.

We have also added one more table to our reporting to stakeholders which is the NCLT overall dispensation which has been forthcoming from Reserve Bank of India as we know in the first round, I think on June 13 if I recall, RBI had identified 12 accounts which were publically announced and we had only exposures to 2 out of those 12 accounts which we dealt with very promptly in the June quarter itself by proactively providing 50% provision against those 2 accounts. So we had only 2 out of 12 and against those 2, we had made 50% provision. So that is on one of those two accounts has become an NPA as reflected in the September quarter and the balance additional list of NCLT which will be subjected to NCLT and I think RBI has given a window till middle of December. It is estimated that there are somewhere between 28 to 30 such accounts in the system. At our bank, we have just about 7 such accounts beyond the first two out of these additional 28 to 30 accounts and the picture is as follows. In the supplemental list, we have basically overall exposure of 1,992.8 crores. So the total NCLT, position NCLT one number of which has been admitted to NCLT and NCLT two where no account has been admitted yet into NCLT, but potentially may go there. So our aggregate position is 1,434.5 crores. Out of which, 1,267 crores is already NPA and the standard amount is a relatively smaller 168 crores out of this total of 1,434 crores.

Moving onto a different subject, liquidity coverage ratio of the bank continues to be very satisfactory. So our average daily liquidity coverage ratio was 90.6% in this quarter, well above the 80% regulatory requirement. Risk rating profile fairly stable. Social media, the bank continues to grow fairly rapidly into global leadership and foremost in our own country and in digital banking, we have had sustained success and significant increase in the market share particularly in UPI, IMPS where we have grown over 350% over the last one year to a level of almost 6.27 million compared to about 1.44 million one year ago. Further, BHIM YESPay is also now powered with India's tax APIs and NPCI, so most of our products are now enabling services like BBPS which was Bharat Bill Payment System, Bharat QR, RuPay card, IMPS, UPI and the Aadhaar KYC. So we are creating digital extensions in a very frugal manner on the back of the public stack and commanding and gaining more and more market share with excellent alliance partners like PhonePe, more recently even Hike Messenger and we also targeting 3 or 4 other top names. So there is a lot more to comment on this including RuPay, Classic Kissan Card, our tie-up with Ola Zipcash, the mBot for consumer retail assets which is the first of its

kind we like to believe. SmartCity solutions for the number of smart cities to pay at a less cash driven economy and we have tied up with a number of these emerging smart cities to be their payment's bank as these brownfield, greenfield smart cities emerge.

On expansion and knowledge initiatives, overall headcount at 20,932, very marginal increase over June, but overall increase of 2,400 compared to last year. Branch network is going through a period of consolidation stands at 1,040 branches, an increase of 20; ATMs, BNAs around 1800 or so. Overall, strategic borrowings from American government, OPIC, private arm was raised to 165 million dollars syndicated loan aim towards MSMEs and another 150 million dollar syndicated loan to support women entrepreneurs and SMEs in low income state also raised from OPIC and Wells Fargo combined. We also 3 years in a row continue to be on the Dow Jones Sustainability Index which is a part of the Emerging Markets Index, 3 years in a row and we are also selected as an index component now which is fairly significant for an emerging market bank and that to the only bank in India which reckons in this particular industry.

The bank also launched very high end private, the Yes Private Credit Card which is part of the MasterCard, World Elite Platform and this is first time it is being launched in India in alliance with MasterCard and we consider ourselves privilege to be the first one to launch this in India. We are also deepening our strategy of art which is alliances, relationships driven by technology and in this respect, more recently we are partnered with Microsoft to deploy Office 365 and Microsoft Kaizala which is a favorite with Satya Nadella and Microsoft Kaizala is a product designed for large group communication in a chat interface and work management which integrates with Office 365.

Awards and recognition have been fairly significant in this quarter. Asiamoney Corporate Client Choice Award for the best bank in India, global winner in the supply chain finance category by the banker as part of the Banker Transaction Banking Awards, awarded the best bank in India and CSR in Asiamoney, Country Awards in Hong Kong recently, Karlsruhe Sustainable Finance Award which is I think for the fourth or fifth time for building a very frugal low income blended finance facility for livelihood management for women salt farmers in Gujarat, was ranked as the Best Digital Payment Systems Bank for Smart Cities by Smart City Conclave and a few other things to add on to it.

With this, we finish the text of our media commentary. We have annexure as part of the analyst review and also part of the statutory review stand to the exchangers and to the regulators as well as to the media. This is annexure in conformity with Reserve Bank of India's circular dated April 18th and so much as divergences need to be disclosed in the entirety retrospectively as also amplified by SEBI by the circular dated July 18th. So in compliance with both these circulars, we have mid way in the course of the year, although this is a requirement towards the end of the year, fiscal year ending in the annual financial statements, will take in a conservative view and we have given a full blow on account as per disclosure requirements of RBI and SEBI as part of our annexure. So it shows you the full impact of this disclosure. I do hesitant to add that the full impact of this divergence has been absorbed in September quarter results itself despite this

divergence coming to our attention just about a few days ago and we have naturally given a management table to demonstrate the current status and the current net impact of this divergence and how this stands, some of which I have already spoken about.

With this, I as a management team, Rajat Monga, our Group CFO; Ashish Agarwal, our Group CRO; Pralay Mondal, our Group Retail Banking Head and many other leaders in this room will take questions. Thank you please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: In terms of sale to ARC, would you be able to disclose on what discounts these were sold and in terms of the total divergence of 64 billion, what would be the industry exposure of all these accounts, 19?

Rana Kapoor: The first point on ARC sale, we have had 3 sales which the net amount of that is approximately 440 crores for Rs. 4.4 billion approximately and two of them are basically small real estate accounts and one of them is a paper account and these have been sold at face value and naturally there is a 15% cash recovery as part of the sale and the reason why it has been sold at cash recovery is because we have underlined collateral which is land and building collateral in all 3 cases which is valued currently in excess of the face value of this security receipt. So that is as far as the ARC sale is concerned and as far as the other NPAs are concerned, these are predominantly in infra related sectors. I cannot be specific beyond that, but largely in infra and adjacent sectors which are on the rebound and none of these frankly are part of any steel industry exposure or telecom or power sector because that in itself is a comment that we have addressed in terms of sensitivity. So basically these are fairly infra related sectors.

Moderator: Thank you. We will take the next question from the line of Veekesh Gandhi from Bank of America. Please go ahead.

Veekesh Gandhi: Just wanted to ask question as in with this divergence of 63 billion, is there any overlap of accounts between this and the last divergence?

Rana Kapoor: Vikesh, thanks for raising this question. First and foremost, I wanted to confirm that there is not a single account because these two divergences are almost like back to back, almost practically speaking in the same fiscal year in terms of its impact. So March 17 impact was imbibed in April and then this is like September data which has been imbibed in September results as well. So there is not one single account which overlaps between the RBS for fiscal 16 and now RBS 17, the inspection gap between the two is approximately only 6 to 7 months. So not a single account that overlaps. In fact, I take the liberty of sharing with you that what exactly is even happened over the last three, this is very important because this is a very important stakeholder meeting that in 2015-2016 if you are in RBS and then RBS 2016 which was finalized in March-April

2017 and RBS 17 which has been finalized in October 17, let me share with you some interesting information and this is the first time we have compiled it. In the year 2015, so fiscal year ended March 15 and this is not in public domain, but I share it with you now, we had an aggregate overall divergence of 2,820 crores. Almost year after that, we had a divergence of 4,177 crores and now our divergence which is ballooned to 6,355 crores. So the total divergence across one AQR and three RBSs in two years, please remember that this was happened in 2 years, 24 months, 4, one AQR and 3 RBSs, the aggregate of this is 13,351 crores. I am very happy to report to you that none of these accounts overlap these 4, the AQR plus 3 RBS, so not one single account overlaps. On three when I aggregate this number of 13,351 crores, 41% of this has been fully recovered. So 41% which is 5,435 crores out of 13,351 crores of divergence has been fully recovered over these 2 years. Number two, the second most important data point out of this 13,351 is 4,035 crores of this is actually standard assets now which was 30%. So 71% of 13,351 crores, even though this 66,335 is a fresh number, 71% in a way is recovered. Only 13%, 1,734 crores of this has been sold to ARC, so it is only 13% and the NPA amount that is outstanding out of the total of 13,351 crores is on of 2,147 including the current number which I have shared with you and that is only 16%. When we look at the last 2 years and four inspections of RBI and I can tell you that this is the culture of the bank, this is a reflection of the risk, architecture of the bank and a track record which time and again not only in this four inspections, but since almost March of 2008 since the global crisis started, 9 years and 6 months to go, the bank consistently sequentially year-on-year has consistently proven despite these 2-3 blips as a consequence of recent divergences and one or two blips in the past has consistently proven its ability to solve problems in a timely way and not permit any dormancy or stickiness of its NPAs. So this is a very important chart our chief risk officer has compiled, he shared it with me a little while ago to show what is the trending of what happened in 2 years ago, one year ago, was not one year ago, actually only 6 months ago and then what happened like a week ago.

Vikesh Gandhi:

Fair enough, sir. So you mentioned in your remarks that for this particular divergence, you have had auditor sign off and the board of Directors approved, so for the resolutions or the upgrades that you have had of that 63 billion outside of the ARC sale, can we assume safely that it has also got the RBI understanding behind it? Or how does it work?

Rana Kapoor:

The way it works as in the past because the past is I think enough proof that once accounts become standard, naturally these accounts are approved by statutory auditors and now we have taken additional action by making sure that it is also approved by the board of directors and at least the past is proven that these standard accounts demonstrated standard as in normal performance and so far we not had a single case in the last 2 odd years of any of our standard accounts precipitating into a NPA all over again. I am keeping my fingers crossed, but that has been the nature of the beast so far and that is happily reflected on the data points I just shared with you for the last four inspections, but mainly 3 periods gone by.

Vikesh Gandhi:

Sir, two small questions. I do not know if you can answer specifically, but we have had couple of instances with 2 banks reported, JSPL. I do not know if you guys have that exposure and if it

is part of this entire process, if you can make that clarification that will be great and third thing is on the credit cost, we have had now 18 and 29 which mix up 48 and your full year guidance is 50 to 70. Does that get revised or you are confident that your pool of NPLs that stands up right now, you will see a lot of coming back and hence you keep your credit cost guidance similar?

Rana Kapoor:

Vikesh, let me first inform to you that Yes Bank has no exposure to JSPL. So we have no exposure to JSPL. On the other important observation on credit cost, yes, the first half has consumed the lion share of our forecasted credit cost of the upper end of 70 basis points. So 48 has been utilized. We at this stage have reason to believe that we as demonstrated in the past should be able to contain it around 70 basis points and all I can say is last 2 years if you recall that for 2016, we had given an overall guidance of credit cost of 60 to 80 and we were able to contain it at 50 basis points. For fiscal 17, we had given a credit cost guidance at the beginning of the year of 50-70 basis points and we were able to restrict that to 53 basis points. This year 17-18, our guidance has been at the inception of the year at 50-70 basis points and we were doing our utmost to ensure that we contain in at around 70 basis points.

Vikesh Gandhi:

So it is safe to assume that as of now you stick to the 70, upper end of the guidance?

Rana Kapoor:

Well, yes, you could say that. And I think I want to also couple that with an additional response. But I think we also have to see this in relation to the overall growth the bank is achieving and you know this has been like a beautiful quarter but for this one sore item it has been a very good quarter in terms of growth, advances growth, CASA growth, NII growth. If you look at we have had fairly spectacular NII growth at 33.5%, non interest growth of 35.4%, operating profit growth of 37.6%. So I do want there to be some co-relationship that the bank's P&L despite this extra ordinary provision in this quarter have still been able to achieve a PAT of 25.1% and cross a magic number of 1,000 crores quarter PAT for the first time in its lifecycle of 52 quarters and I think somewhere there is a co-relationship between the two and I would request important stakeholders on this call to look at the co-relationship because the bank is also capturing market share, is gaining mind share and this is an opportunity that we don't want to miss. So yes, we are fairly committed to 70 basis points varied cost but at the same time we will not slow down on growth because there is an opportunity. We are seeing a turnaround in the economy in some respect. We are seeing a de-risking in some of the conventional sectors. So there is some co-relationship I would request that we look at in terms of the credit cost to the income growth of the bank as well. So sometimes credit cost and the asset quality overshadows what is the otherwise very strong P&L performance as in this quarter.

Moderator:

Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani:

Just on the upgrade of the divergence, the Board approved the accounts in FY17 and that statutory auditors approved the accounts and the upgrade is also based on the Board and statutory auditor's approval. Is it fair to take their approval in upgrade and is it not appropriate to actually take the regulatory approval?

Rana Kapoor: Well, you know the statutory auditors, the Board, the management is naturally accountable for what it reported on March 31st, 2017 because these accounts were performing accounts. There were no over dues and they were current accounts. They are the main current at the end of June, they are the main current end of September, in fact as I even mentioned a little while ago that there has been a very significant repayment on some of these accounts. So I think if you look at the trending of what is happening on some of these accounts, overall the repayment is as much as 26.6%. So 27% of the same exposure has been fully repaid, right? So there is a track record. Then 7.3% is actually sales. So the 12 accounts which have been upgraded are justifiable upgrades based on evidence and deep dive of that evidence naturally by the statutory auditors, KPMG in this case, and comprehensively presented and reviewed by the Board and as you can fathom that management cannot afford to take risk of playing around with these and therefore the accountability and responsibility remain intact to our regulator on these accounts being classified as standard. And I also want to add that there are certain accounts which management statutory auditors have also not upgraded and that number is not a small number, it is 19.2%, it is 1,219 crores which is 82 basis points of the total GNPA of 1.82. So it is not like it has been across the Board.

Moderator: Thank you. We will take the next question from the line of Dhaval Gala from Birla Sunlife Asset Management. Please go ahead.

Dhaval Gala: Couple of questions. First, could you talk about the sectors and the mix of the accounts in the divergence? Means, you mentioned about 13,500 crores in the last two divergences. You very well given a breakup of recovered assets and sold assets etc. but maybe the mix of sectors and also how many of these accounts we had maybe not part of consortium at all. Means your sole bankers or we had a direct one-to-one with the borrower?

Rana Kapoor: Maybe Ashish maybe comment a little bit on this part. This is a fairly complex question. But all I want to mention is that when you look at the overall number and this is not over two divergences, I repeat this is over four divergences. There were two in one year, 15-16 for the year ended 15 which included the asset quality review & RBS 2015, RBS 2016 and RBS 2017 aggregating to 13,351 out of which 41% has been fully recovered. 30% have become standard assets. 13% sold to ARC and 16% only of this cumulative number including the latest number when you look at the overall, so you can see the standalone Rs. 63.55 billion actually is 19% to the outstanding but overall for the previous two years when you combine the cumulative it is at 16% of the overall. And the sectors all I can add is that number of these have been infra related. We don't have, only one exposure to iron and steel which is an NPA and that is about Rs. 3.5 billion and infrastructure overall has been the main issue and Ashish you want to take on the rest?

Ashish Agarwal: Just on you know the upgrade bit, effectively essentially the issues which were raised during March 2017 divergence, this is whatever happened in the last 6 months, the statutory auditors were convinced that those issues no longer exist and that has been one of the main reason why the accounts have been upgraded and on the sector as Rana mentioned I think it is effectively

infrastructure related structure which had been the sectors where divergence has been seen over the past two years.

Dhaval Gala: And what was consortium and what was divergence, I mean...

Ashish Agarwal: It is actually a mix. Largely as a Bank we have not been in consortium lending. Few of these accounts in the past have been consortium but I think that would be a very low number across the number of accounts which have been market divergence over the past two years. So most of these would be either multiple banking or core banking relationships, consortium would be very few.

Dhaval Gala: Last question Rana sir, was regarding how do you reduce these volatility or the strenuous exercise with the perspective of divergence. So we had few divergence activity, or it's done by the RBI. There were few large numbers which came out versus how we thought the account was NPA or not NPA, even the auditors thought the same. So what could be the right mitigation strategies or what is the key challenge that there is so much of difference when it comes to what we call NPA and what RBI calls NPA?

Rana Kapoor: See, this is intellectually very challenging question because we are really struggling with an answer.

Dhaval Gala: Every year there could be some divergence related audit and there could be some different number cropping up. There has to be some way why RBI classifies some accounts as NPAs and why we don't. I understand it has been a phenomenon with lot of other banks as well and it could be due to the structure which we would have and the better collateral we could have but the intention to ask this question is why or what steps we could take that this could mitigate or reduce the difference between what we report as slippages or what RBI tells all the banks or in at least for our case what could be the likely slippage?

Rana Kapoor: See, the way I want to answer this is that the banks has got a credit and very simplified policy of looking at 3 forms of risk management. You know, we look at risk management as primary cash flows, secondary asset monetization as in asset sales and tertiary enforcement of personal guarantees etc. So that is one model. The second model that we have is ring fencing of credits to ensure that we capture the collateral and cash flows. And the sigma of this is really called what we like to believe that risk is related to structure, which is why on these last 3 years of divergences and I shared with you our track record of recovering these accounts. There is something that we are doing right in our analysis and I call that going concern assessment of companies and borrowers. I don't know how else to put it because when you examine a company as a going concern to see a lot more in a company's ability to repay and therefore time and again we have proven that our going concern analysis of these companies seems to be largely correct, not 100% correct but largely correct. And otherwise we would not have had the kind of recoverability as demonstrated over the last two years cumulatively and even over the last 6 months and two large divergences which we have to deal with in April this year and now October

this year. So, our growing concern assessment is not entirely offtrack, it is not offbeat because it has given us consistent result, a track record which I have already shared with you, which has proven time and again and a retrospective analysis frankly does help us to look at accounts that much deeper, but I think the current status also reveals that there is something that we are doing wrong or something that we are doing wrong and not everything in these numbers is wrong. So I think we need to just bear this in mind that going concerns are very different from gone concerns. So ours is a going concern analysis and that seems to work for us. Ashish maybe to add to this.

Ashish Agarwal:

See, there are couple of things which are important to note. When RBI does this exercise, it is effectively a retrospective exercise, right? So you know you effectively come 6 months, 9 months down the line and look at the account with a retrospective lens. Also somewhere I think a lot of times RBI has a very different view with respect to the overall situation with the particular borrower and may not be so much interested in a particular structure that a bank may have and that at time leads to a lot of dissonance with respect to the way RBI looks at these accounts and I think more often than not, that is one of the main reasons where there is some disconnect because once you are looking at it from a retrospective effect and from a systemic perspective irrespective of what the underlying structure is there could be some dichotomy and I think that is one of the main reasons.

Moderator:

Thank you. We will take the next questions from the line of Swati Madhabushi from East Capital. Please go ahead.

Swati Madhabushi:

First, I wanted to understand this RBI audit, is it the diverse or is it the central bank coming in and saying we think that this is an NPA, you can't, there is that kind of discussion?

Rana Kapoor:

I really don't want to comment about the regulator because the regulator has certain prerogatives and a certain point of view and as has been said there is going to be disconnect but with fullest respect to the views of the regulator and full obeisance we have to confirm to what they wish. All that we can do is, in subsequent periods prove that we can recover or fail. And I think our track record over these last four inspections has revealed that the Bank has more than amply demonstrated to the extent of almost 75%-80% that we can recover, right? So there is a disconnect and we respect that.

Swati Madhabushi:

No. Why I ask is, the fine is a little surprising because most of the banks have this divergence, but they fine you specifically. So is this what you call, dissonance, will it lead to some kind of penalties imposed in whatever sense, I mean the amount itself is small but it might become big, later on. So any thoughts on that?

Rana Kapoor:

We can't say and only hope that there is no further adverse impact and I think we have reason to believe that considering that these have been practically back to back that the worst is over, that is all I can say at this stage. So our attempt naturally is to be even more conservative, to be

even more timely to avoid such a situation again but what the regulator does as I mentioned earlier is their prerogative and we have to just respect that.

Moderator: Thank you. We will take the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Just on this RBI diversion, just wanted to understand sir, so may have exposure to your whole group. So does RBI diversion mean that the whole group exposure has to become NPA or the single company when you have the exposure will become NPA?

Rana Kapoor: Of one account becoming an NPA it doesn't mean the whole group becomes an NPA. So you know the NPA classification for a particular account as per IRAC norms is borrower specific. It is not group specific.

Anand Laddha: So for example like a bank may have an exposure to an operating asset as well as to a holding company. So if there is a diversion in the RBI audit at the operating company level does the holding company level exposure also become NPA or it doesn't affect the holding company exposure?

Rana Kapoor: Not by default. It is totally a function of the overall repayment behavior of both the companies separately.

Moderator: Thank you. We will take the next question from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Just a question again on the resolution of this whole 13,000 crores, the 70% that you spoke. More on mechanism, firstly on the upgrades. I just wanted to understand when we talk about an upgrade, say in March 17, RBI points out that we had an NPA or according to them an NPA, that was a servicing account on March 17 for us and they paid us in June and in September and hence we kind of recognize it to be an upgrade, that is the mechanism when we show it as an upgraded account.

Rana Kapoor: So effectively the litmus test is a consistent satisfactory track record over the period that you are actually looking at the account is what you determine whether it is upgradeable or not and that is effectively what the Bank has looked at before upgrading the accounts.

Adarsh P: And just Ashish, just to kind of understand, what happens is, there is a company which can service a 30%-40% of its obligation and you would be one among whom they would want to continue for various reasons maybe for reasons including better structuring, you know servicing you. So I am just trying to understand, of the accounts that you have upgraded I am sure you kind of know the list, would this be setting a standard for the system or this would be substandard or NPA in most cases. What I am trying to understand is they could be having some cash flows to service only some banks and you are part of that and you know eventually there is a problem



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with the overall 100% debt servicing capability. So my question is more from that side, so if you can throw some light on that it would be helpful?

Ashish Agarwal: For us most of these accounts are actually either sole banking or with couple of lenders. So these are not necessarily systemic accounts where bulk of the lenders could be NPA and we have upgraded the account.

Adarsh P: Okay. So majority of these exposures you would be sole are among the 2-3 banks. So it is not like it is not getting serviced out of a smaller service, 20%-30% of the cash flow, okay understood. And the second question is more related to the first part of getting paid out. I understand that over periods of time you all have explained very well the way you all collateralize but I am just trying to understand that everything takes time, right? And it seems for us that this whole ability to kind of enforce the collateral seems to be extremely kind of quick immediately after RBI pointing out a divergence. So I just wanted to understand or give some example on how this quick, we are able to enforce those collaterals?

Ashish Agarwal: I don't think that would be a fair statement to make to say that the moment you get an issue the next day the borrower would repay. Obviously we have a very robust, proactive early warning system and if there is a situation where we have deteriorating credit we keep working on it for a while, so it is not a magic wand where you just can get your money the next day. So I don't think that is true, I mean in a lot of these accounts where we have seen an improvement in the underlying repayment behavior, the bank had been working for a while and in a lot of these, in three of the monetization even which you were expecting actually got consummated which has resulted in significant prepayment that Rana spoke about earlier.

Rana Kapoor: I just want to add to what Ashish has said and I actually go back to the last four reviews over the last two years, I really want to go back because there is a point to reinforce here. In 2016, for year ended 2015 and a little detailed here. The overall diversion was 2,820, fully recovered 1,225. Standard asset subsequent to that period, so which is more than 2.5 years ago, no further deterioration in that, is 904 standard, sold to ARC 399 and existing NPA is only 291 out of the 2,820. So you will get a good frame, a good idea of what happened to our position as of fiscal year ending March 15 which we were advised between December and March 2016. So what is that report card of that particular divergence number? Then let me move on to something very recent, right? 2016 which was advised to us in March and more or less agreed in April 2017 was a divergence of 4,177. Out of that 2,531 crores is fully recovered, right? Standard is a very small, only 144, sold to ARC was a slightly bigger number in this mix of 865 and 637 out of that is part of the existing NPA base. Not like everything is getting sold, some of this is sticking around. But the most recent which is like days ago and actually we couldn't have swung this in like a day or two because this is like going concern ongoing, red flagging and remedial actions, 6,355, I am sorry, I am repeating myself, recovered already 41%, 1,679. 2,987 is standard, sold to ARC is only 470 and there has been a net recovery and so the net number is about 440 and existing NPAs fell 119 and then the cumulative of that I have already shared with you is 41% fully recovered, standard asset 30%, sold to ARC only 13% and existing NPA for 3 years cumulatively

over 4 inspection is only 16%. So I am sorry for being pushy on this but I do want you to imbibe that yes there are divergences by our respected and honorable regulator but there is also some honorable work that is being done by the management team to remedy these situation and we are taking the bull by the horns, not post facto, not necessarily after this is red flagged and sent by way of a report to us, but this is what I mean by going concern remedial actions. Otherwise you will not have such tremendous progress and so much as we are down to 19% of a number that was advised to us days ago.

Adarsh P: I completely appreciate the work on the structuring and whatever you are doing. Just that you know, at least from the outside it would seem difficult or extremely extraordinary I would say to get this kind of recovery. So since this may not be the forum, at some point in the near future it would be really helpful to maybe have sell side, buy side and try and just give maybe 7-8-10 examples of in terms of timing and structuring and nature how some of these have either got upgraded or some of them have got recovered in cash or got repaid. I think that will be very helpful for most people attending the call in this forum here.

Rana Kapoor: Easier thing to respond to you is, and I will request Ashish to share this with you, is the 41% of the what we have recovered because I can put that in the public domain, those cases, right, what we have recovered. 41% that we have recovered over the last two years around these 4 inspections, right? So we can share these cases with you. You know somewhere we may have to not necessarily mention the name and why we recovered them, we can share this if you want, however you want, via follow up call, with all of you or a few of you as you choose, we would like to invite you. Rajat, if you can and Niranjana, invite a few of you who want to actually see these cases. The team here Rajat, Ashish, myself, others will be more than pleased to present this to you. A very good point you made.

Moderator: Thank you. The next question is from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karva: I just wanted to understand your, the asset sales that you have been doing for the last 2-3 years, how has been the trend there? What has been the recovery and what is the gross value of the total asset that have been sold till date?

Rana Kapoor: See, the gross value is approximately 1,730 crores, outstanding is approximately 1,400 odd crores at present and as we have put in our press release the management is confident that we should recover 30%-40% of this within maximum 18 months because this is the portfolio if you let it stagnate it reduces your salvage value. As long as we are keeping it alive and non-government it will improve your ability to recover. So this is a reasonably high, I would say medium to high probability recovery that we are attempting. So this 1,440 odd crores that we have at present, we are hopeful that 30% to 40% of this should be recovered.

Moderator: Thank you. We will take the next question from the line of Abhishek Murarka from IIFL. Please go ahead.

- Abhishek Murarka:** Actually could you give us some understanding about the reason for the fine? I understand that there was a press release and it was because of some deviation but can you just throw some additional light on that?
- Rana Kapoor:** Well, there is a press release by Reserve Bank of India which outlines in a fairly concise way as to what is their view on which we have been fined and honestly I can't comment on the regulatory action except accept it, pay for it and we have made a provision in this quarter itself of the 6 crores, but again as I mentioned to you, this is a regulatory prerogative and I really can't comment on regulatory actions. Sorry, it is very difficult to comment on this part.
- Moderator:** Thank you. We will take the next question from the line of Siddhesh Mhatre from SPA Securities. Please go ahead.
- Siddhesh Mhatre:** With that new 2.11 lakh crores recap given to the PSU Banks and our portfolio is around 67% in corporate loan book, so the growth for this quarter is around 35%. So because I guess the competition was very low since last 4-5 quarters but now when PSU Banks also starts to lend to corporate will our growth be hampered?
- Ashish Agarwal:** Firstly on this recap plan as such. I think it is far more good for the industry including, other than PSU Banks that it far more outweighs any of the dynamics in terms of competition that it might invoke. I think all banks have their own strengths, their own distribution, their own approaches, their relationships. There is always competition if PSU Banks has not been competing. In that period non bank lenders have been competing aggressively. Other private lenders have also been competing at least in the same interest. I mean we have seen fairly let us say, aggressive competition in pockets of retail lending in this picture. So if the PSU banking sector revise, I think it is going to revise the corporate CAPEX cycle, the private sector investment cycle also will revive along with that. There will be enough opportunity for everyone is what our opinion is. In fact like I was saying the macroeconomic benefits of this will completely outweigh the downside of maybe increased competition.
- Moderator:** Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.
- Nilanjan Karfa:** The only point I want to make and I will ask the question later is, no matter whether we are able to prove that we are able to finally collect, I think it is still jarring. I think these numbers are extremely jarring and where I couldn't kind of, if you could help me this, if you are saying that the FY16 divergence which was concluded not too long back. How come within a very short span, we have such a very divergence come all up again? While I respect that you may not want to comment on RBI, but is it possible that the RBI may not have looked at the entire book and is this why this has come up? Thanks.
- Rajat Monga:** This is Rajat. I think I will just repeat what we already said as an answer to this question. I think we also have an element of let us say, I would say dissatisfaction or whatever you might say



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with this outcome but into your question unfortunately, I am just going to repeat we have been saying over the last few minutes in terms of elaborating the situation at our end. We can address this from our point of view, is what we are trying in terms of to be able to second guess the regulator is not something that we are attempting at all.

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

Rana Kapoor: I think we have had a long Q&A session and thank you all for your patience and participation. We will be happy to take the second round of conversation as we have agreed to maybe layout some of these specific cases and we will coordinate the program accordingly and will inform appropriately on that. Thank you for the patient hearing.

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