



# “YES Limited Bank Q2 FY20 Earnings Conference Call”

**November 01, 2019**



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*YES Bank Limited  
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**Moderator:** Ladies and gentlemen, good day. And welcome to the YES Bank Limited Q2 FY20 Earnings Conference Call. We have with us today Mr. Ravneet Gill – MD & CEO, Mr. Anurag Adlakha – Group CFO, Mr. Ashish Agarwal – Chief Risk Officer; Mr. Rajan Pental – Senior Group President and Retail Head; Mr. Niranjana Banodkar – Head Financial and Investor Strategy.

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

I would now like to hand the conference over to Mr. Ravneet Gill – MD and CEO. Thank you and over to you, sir.

**Ravneet Gill:** Good evening, ladies and gentlemen. Welcome to the Q2 earnings call. And I also take this opportunity to wish each of you a very Happy Diwali.

At the outset, I would like to break this up into effectively four buckets. And those in many ways represent the key objectives that we had set for ourselves as a management team over the past few quarters. And those buckets effectively are:

Greater granularity, strengthening our overall governance and controls culture, third was in terms of asset monetization and clearly have better asset quality stabilization, and the fourth was the entire initiative around monetizing our digital capabilities. And of course, this call would not be complete without a final update to you with regard to where we are on our capital raising plans, and there's plenty that I would like to share with you in that respect.

If I start with the focus on the granularity in the balance sheet that we have tried to build, I think we have been able to accelerate our journey towards that objective. Our retail assets continue to grow at about 30% year-on-year and now contribute almost 20% of our total loan book. Actually, in one year alone, the retail mix has expanded more than 500 basis points in terms of the contribution to the loan book. And I think we are well on our way to achieve a much better mix between the wholesale and our retail businesses. As far as the corporate businesses themselves are concerned, I think there has been a big focus in terms of deleveraging there, and it will reflect in the numbers when we get into that. And what we have tried to do is, we have tried to break down concentration in terms of our larger accounts, look to deleverage, and achieved a fair amount of success over there. And some of the sectors what we have been able to accomplish, I will talk about as we go ahead. Also, despite a reasonably tough environment with regard to the liabilities business, our CASA ratio actually improved from 30.2% to 30.8%. And as we saw in terms of our CASA and our granular TDs, now exceed 60% of our total deposits.

Importantly, I think we continue with some absolutely marquee mandates, whether it is the Western Union mandate, various state governments, there is Maharashtra, Haryana, Pondicherry, or then the entire digitalization of the education and medical institutions. These

have all become very large sources of liabilities for us. And I get the sense that even from a liability standpoint, the granularization is happening at a pace, which is much bigger than what I had anticipated.

The second part of this really deals with the strong governance and our control's culture that we wanted to build, and we have been very focused in terms of augmenting our capabilities over there. So, as you know, Anurag Adlakha joined us as a Group CFO. Rajeev Uberoi joined us as Group President and Head of Bank's Governance and Compliance. And then recently Anita Pai joined us as Chief Operating Officer. We are also in the process now of segregating the CRO and the CCO functions, and have a shortlist of CCO candidates, and hopefully we will be able to finalize that position very quickly too. So what we want to do is maintain the very strong entrepreneurial vibrant culture of this organization. But at the same time, harness it with much stronger controls and governance in place.

Next would be, how we have progressed with regards to our digital leadership. If you look at any new age digital interoperable platform that operates in this country, I think, YES Bank has been able to demonstrate not just the fact that it has market leadership, but the fact that this market leadership is actually beginning to expand quarter-on-quarter. So you would have read in the newspapers a couple of days back that UPI transactions crossed 1 billion, and the fact is that 400 million of those transactions actually went through YES Bank. Even if you look at it from an AEPS perspective, we have a 41% market share, and on IMPS, NPCI continues to rank us as the #1 remitter bank. So this is a leadership that we are not taking for granted. We continue to invest in people, in technology, in partnerships. And our sense is that we will continue to build on this market-leading position. Even if you look at it from the point of view of API banking, and APIs are really the future in terms of how you connect with their ecosystem and be able to derive the benefit that can come from smart partnerships, we are building a very strong and differentiated strategy. In terms of value and volume growth, 3x year-on-year; and today we have more than 1,200 customers on-boarded on APIs.

I mentioned the smart partnerships a little earlier in the brief, I think it's very important also to be able to talk to you about some of these partnerships in terms of how, I wouldn't say, unconventional but not conventional they tend to be. So if you look at the Maharashtra IT space, we are the sole UPI bankers for the entire state. We are the National Common Mobility Solution for Assam State Transport Corporation. We are digitizing campus, whether it's AIIMS, IITs. And then if you look at the Smart Cities, which the government has so much focus on, we are a banker to 22 Smart Cities, which is a clear leadership over any of the other competitor banks. And this leadership is now beginning to get increasingly recognized. So we did win the DigiDhan Mission Digital Payments Award for 2018-2019 for overall performance on digital payments at the Ministry of Electronics and IT Startup Summit 2019, when there were 56 banks competing for that. So this is something, which I want you to feel rest assured about that we will continue to grow, build, become stronger and monetize very aggressively as we go ahead.

This brings me to the point with respect to asset quality, and you would have seen some of the key parameters when we released our results to the exchanges. At the beginning of the year, we had provided credit cost guidance of 125 basis points for this year. But the credit environment has stayed challenging, and we have seen several unbudgeted and unforeseen corporate events, such as Cox & Kings, CG Power, Café Coffee Day and Altico. We have also been somewhat disappointed with the lack of progress on resolutions, at least two of which were scheduled to set in last quarter and were absolutely in the public domain as well. If I look at these factors in a composite manner, I think the upshot of all of this would be that we could end up exceeding our credit cost guidance for the year by up to 125 basis points. And to that extent, I would admit that our estimate at the start of the year was potentially an error of judgment and subsequent events, many of which were outside of our control, have led to this coming to pass.

What I would do now is to be able to have Anurag speak about the financials. And once he is done the financials piece, I will come back to you to give you a proper comprehensive update in terms of where we are on capital.

**Anurag Adlakha:**

Thank you, Ravneet. And a very good evening to all of you. The press release is quite self-explanatory, and the investor presentation has also been made available to you, so I assume you have already got the opportunity to go through the facts and figures. Let me spend some time on the qualitative comments on the figures.

Let's start with the P&L construct. First and foremost, net interest income, we are reporting a NII of Rs. 2,186 crores and NIMs at 2.7%. This is despite an impact from fresh slippages in Q2 and a sequential reduction in our interest-bearing assets. The NII was lower by Rs. 228 crores due to reversals and non-accruals on account of Q2 slippages. While we reported NIMs are at 2.7%, our core NIMs are in excess of 3%. Non-interest income, we reported a non-interest income of Rs. 946 crores. I am happy to report that the retail contribution in the fees has meaningfully stepped up and now stands at Rs. 382 crores. The underlying trends are extremely encouraging, and they clearly showcase our proficiency in the digital landscape. Corporate banking fees, we expect a smart bounce back as soon as we get the capital infusion, and we restart on our path of sustainable and calibrated balance sheet growth. The transaction banking fees continues to be robust, aided by underlying strength of our AEPS and UPI platforms. The marginal sequential dip that you see is on account of balance sheet shrinkage, which we, again, expect to reverse once we have the capital. Our treasury income is reported at Rs. 386 crores. Last quarter had non-core treasury gains to the tune of Rs. 450 crores. And for this quarter, that's a lower figure at Rs. 225 crores.

Coming to operating profits. Operating expenses for Q2 stood at Rs. 1,673 crores, which is 5% higher than last quarter. And this is mainly on account of PSLC purchases. As a consequence of all of above, our operating profit stood at Rs. 1,458 crores, which is about Rs. 500-odd crores lower from the previous quarter. While our core earnings remained robust, the delta is well explained through a couple of exceptional non-recurring items. One is lower NII of

approximately Rs. 100 crores and about Rs. 320 crores from lower fee income, predominantly from the lower treasury gains and a marginal increase in OPEX.

Coming to provisions. Non-tax provisions totaled Rs. 1,336 crores, most of which was towards credit cost provisioning. Our credit costs for Q2 were at 69 basis points and adding what we had in Q1 takes us to 100 basis points for H1. The profit that we are reporting for Q2 is a profit before tax of Rs. 122 crores, and the reason I am referring to profit before tax is important, because as you might have noticed and gone through our disclosures, we had a one-off impact of Rs. 709 crores due to the DTA adjustment, as we migrated to the lower corporate tax. This has resulted in a reported net loss of Rs. 600 crores and net of the DTA adjustment or PAT for Q2 was Rs. 109 crores.

Touching up on assets, given our consolidation and capital conservation mode that we observed in Q2, our assets stood at approximately Rs. 3,46,000 crores, which is about 7% lower on a sequential basis. We had a 12% shrinkage in our investments and a 5% contraction in our advances. The decline in advances was primarily led by 8% sequential decline in corporate advances. Our retail business continues to grow at a healthy pace, registering 30% year-on-year growth, and now accounts for about 20% of our total advances, which is up from 14% last year. As a result, you clearly notice how the capital conservation strategy has actually led to an acceleration in granularity of our assets.

Touching up on liabilities. On the liability side, both our borrowings and deposits came down by 7% on a sequential basis. Our granular retail TDs have shown significant resilience and now account for almost 30% of total deposits. As a result, our CASA plus retail TD has improved by about 200 basis points and stands at 60.8% in Q2 versus about 58.5% in Q1.

Finally, touch upon capital. You would have noticed our CRAR stands at 16.3%, with Tier-1 ratio at 11.5% and CET1 of 8.7%. On Slide 11, you will see a waterfall for our CET1 position. And as you can see, the major drivers out there for expansion in the CET1 ratios were the QIP, which happened in August and the capital optimization strategy. We highlight that, excluding the one-off DTA adjustment, the bank continues to demonstrate ability to accrete capital organically through operating profits and balance sheet growth.

With this, let me hand you over to Ashish.

**Ashish Agarwal:**

Hi. Good evening, everyone. Let me just give you some salient features on the asset quality.

The bank is reporting a gross NPA of 7.39%, which translates to an absolute number of Rs. 17,134 crores of non-performing advances. The net nonperforming advances stands at 4.35%, which is an absolute number of Rs. 9,757 crores, with a provision coverage ratio of 43.1%. The gross slippages for the quarter stood at Rs. 5,945 crores, with the net slippage of around Rs. 5,100 crores, translating into recoveries and upgrades of around Rs. 850 crores during the

quarter. The credit cost for Q2 FY20 were 69 basis points, which translate to a total credit cost of 100 basis point for first half of financial year 2020.

The overall increase in the BB and below rated book has been around Rs. 2,000-odd crores, which stands at around 10.1% of our overall corporate outstanding, essentially attributable to reasons which Ravneet mentioned in his introduction commentary. There has been a slippage of around 60% of the Rs. 5,000-odd crores of net slippage that the bank has reported, has come from BB and below book. However, there has been a slippage of around Rs. 2,000-odd crores which has happened from non-BB and below book, which predominantly, again, has been on account of a couple of names, which we mentioned earlier.

Let me just elaborate a little bit more on what Ravneet mentioned earlier, which is with respect to the pace of resolutions. So the certain resolutions which the bank was expecting to happen in Q2, unfortunately, because of very tough macroeconomic and credit environment, some of those resolutions have got pushed out. And accordingly, the bank has changed its credit cost guidance, and we expect that we should be within incrementally another 125 basis points for the next two quarters, which would take the overall credit cost for the year to around 225 to 250 basis points.

Let me also give you a little bit of more color around few specific sectors. We have been consciously reducing our exposures to certain sectors which are under stress, which includes NBFCs, housing finance companies and real-estate, particularly. The bank has seen an overall reduction in absolute terms of around Rs. 1,750 crores for Q2 FY20 and has seen further reductions of close to Rs. 1,500 crores post-September 30th. The bank has also not incrementally underwritten any new meaningful corporate real-estate exposure, and had seen an absolute reduction in terms of the overall outstanding to this sector.

On the telecom exposure, because that is again another sector which has been in discussions recently. The bank has an overall outstanding of around 3% to this sector, with nil delinquencies as on date, which is predominantly to two operators. We continue to monitor the developments in this sector very closely, including the recommendations which probably would be made by the Committee of Secretaries for ensuring that the credit profile of some of the telecom companies remain intact.

While there has been some delay in resolutions, and the bank does face some interim transition risk as far as the migration to NPA is concerned, predominantly from what has been identified as a stress pool. The bank's assessment on the overall recoverability on the loss given defaults on this portfolio continues to remain intact. And we feel that this temporary blip of increase in credit costs would effectively get reversed once the resolutions start to kick in, which hopefully should be sooner than later.

With that, I would like to give it to Ravneet for making comments on the capital raise.



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**Ravneet Gill:**

So let me then come to the most important point with regard to capital. And when I say it is the most important, it clearly represents the big turnaround for the bank in terms of the growth trajectory going forward, with stability, with strength.

As you know, that in August in a pretty tough market we raised \$273 million by way of a QIP. The reason for that number was that we had shareholders' approval for a 10% dilution, and we optimized that. It was very well subscribed, and we were able to raise the QIP in a fairly tough environment. Clearly, that wasn't enough in terms of our needs, and we had to continue to calibrate our operations in a fashion where we were conserving capital. And that got reflected when you see that the total balance sheet in the last six months has reduced by about 9%-odd. Of course, what we were also able to demonstrate to the street was that we could accrete capital organically, and our CET1, which stood at 8% at the end of last quarter, stands at 8.7% on 30th September.

When we looked at our additional capital raise, one of the things which I was very clear about was, that we needed some external validation in terms of the bank and in books. And there was no better way to be able to do that than go down the path of private equity. So that was a process that we kick started post the QIP. And as you would have noticed, yesterday we announced the receipt of a binding offer of USD 1.2 billion from a global investor.

So let me provide a background in terms of why the disclosure happened. When the term sheet was received, we took it to our lawyers to see that it was legally binding in every way. And the legal opinion that we received was that this could be potentially price sensitive information and needs to get disclosed to the exchange via SEBI. Just to be doubly sure, we immediately spoke with SEBI. SEBI concurred with the legal opinion. And as a result, we went ahead and made the disclosure yesterday.

Subsequently, there has been a lot of speculation in terms of the name of the investor, and many other factors surrounding that. All that I would like to say is that we have not disclosed any of the investor to anyone and everything that gets debated and talked about continues to be speculative. What we can tell you is that it's an investor who has the financial ability to be able to make this investment. And the bid has come with the backing of a large long-standing U.S. financial institution. So I think there should be no doubts in anybody's mind about the ability of this investor to be able to put in the capital that they he has committed, should we choose to go down this path and should regulatory approval be available.

But I think it's very important to understand and recognize that just because we made this disclosure yesterday, which as I mentioned to you was for regulatory reasons, this is not the only option that the bank is currently looking at. After a fair amount of diligence, we have eight very strong bids from top global private equity firms and some domestic firms. If you look at these eight bids, they themselves aggregate to over USD 1.5 billion. In addition, as I had mentioned when we had connected earlier during the month, there were three constituencies of investors

that we were looking at. One was, obviously, the private equity, which is the piece that I just covered. Second one was family offices, and third one was more strategic.

So let me dwell down a little bit on the family offices. We had support from two of India's most sophisticated financial investors, very large, very highly pedigreed, very highly respected. And equally, we have support from two of India's finest entrepreneurs known for their business acumen, their leadership, their governance standards. And just looking at these four, the demand over there could be in the vicinity of USD 350 million. There has also been very interesting discussions with two strategic counterparties, but those are early stage discussions and I wouldn't want to talk about capital in the context of those because, clearly, we do recognize that we need capital quickly and we will look for options which will inject that capital in the fastest possible time.

Given the entirety of the land with respect to not just the binding bid that we received yesterday, but also the other offers that we have on the table, we have clear sight of the capital that we have looked for. As I mentioned to you that this would be, obviously, subject to shareholder approvals and regulatory approvals in some cases. This was tabled at the Board meeting today, and it is the decision of the Board to have the capital raising Committee of the Board quickly go through these offers which are on the table and then quickly decide on what is the optimal capital mix for the bank and it serves the best interest of the bank in the short-term, medium-term and long-term.

I hope that gives you a lot of optimism as well, as it does us as part of the bank. And we do think that this really could be the inflection point for the YES Bank to come back and once again occupy the position that it did as one of India's most dynamic high-growth, high-performance financial institutions. Thank you.

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| <b>Moderator:</b>      | Thank you. We take the first question from the line of Suresh Ganpati from Macquarie. Please go ahead.  |
| <b>Suresh Ganpati:</b> | Ravneet, I have some questions on, firstly, on the capital raise. Does this require you to make an open offer, say, if it crosses 25%?  |
| <b>Ravneet Gill:</b>   | So, Suresh, given the fact that the voting rights will be capped at 15%, our understanding is that if the investor has to go beyond that percentage also, it will not trigger an open offer.  |
| <b>Suresh Ganpati:</b> | Okay. And do these capital raisings, you of course mentioned a lot of possible options, will they come with a demand for a board seat by the particular institution or how this all will work out depending upon the circumstances? |
| <b>Ravneet Gill:</b>   | In some cases, the investor has talked about a Board seat, and that's something that we will consider very positively. Actually, we will welcome that. I think it will strengthen the Board, it                                     |



will strengthen the Board governance as well, and the functioning of the Board. So if any of the investor wants that, we would be very happy to provide it as well.

**Suresh Ganpati:**

Sure. And my final question, of course, you are going to see a lot of questions on the asset quality front, the challenge, Ravneet, all of us have is, sometimes investors could be very naive, in the sense that, they take your net worth as Rs. 25,000 crores, Rs. 26,000 crores and if you have a BB and below book of Rs. 31,000 crores, then effectively, they say that you are bankrupt, assuming the entire BB and below book goes bad. So, of course, I know that it's not the case, but just some sense of how should we look at slippages from the BB and below book? We have also seen a downgrade to BBB book, that also has gone up. And, of course, you have also seen a gross addition of Rs. 5,000-odd crores to your BB and below book. And so there are so many of these numbers, so how should we look at the possible stress emanating from the BB and below book? How much do you think can go bad?

**Ravneet Gill:**

So I think, Suresh, the thing really is that just because we have revised the credit cost guidance, because resolutions have taken longer, it doesn't take away from the fact that how many of these exposures are collateralized, and the fact that even though there maybe timing issues which could have provisioning implications, the eventual LGD may not be anywhere close to what you may apprehend at this point in time. And we have made this point earlier as well with regards to the exposure that we have and how they are collateralized. We have talked about the divestment by conglomerate. We have talked about some of the other exposures as well. That collateral hasn't disappeared. We still feel that we will be able to recover a major part of the thing. And then you were asking me for guidance with regard to what do you think could be the eventual LGD on the BB and below book, I would say 25% would be my estimate.

**Suresh Ganpati:**

25% of this Rs. 31,000 crores can go bad?

**Ravneet Gill:**

I would think so.

**Suresh Ganpati:**

Okay. And finally, Ashish Agarwal was supposed to be on the Board, and you had gone one year before and approval was sought from RBI for the Executive Director position. What has happened? We have not heard anything on that front.

**Ravneet Gill:**

So two things happened, Suresh. First was that when the request went out the first time to Reserve Bank of India, they came back saying that both the promoter families had to jointly nominate any ED or rather it was part of the Articles of Association, so it came back. After that, they have jointly nominated him. RBI had come back with certain queries, which we responded to. So the matter currently rest with Reserve Bank of India.

**Moderator:**

Thank you. We take the next question from the line of Varun Khandelwal from Bullero Capital. Please go ahead/

**Varun Khandelwal:** My question is also related to asset quality. We have seen in the news that CG Power and Avantha Power and Café Coffee Day, etc., have recently defaulted and bank has taken possession of some of their shares. But the real question is, we are not able to get a fix on what really is the story in the asset quality? You had Rs. 2,000 crores come from outside the BB and below book, so is that figure going to remain at Rs. 31,000 crores or that Rs. 31,000 crores can go to Rs. 35,000 crores? What is happening in the higher-quality credit component of it?

**Ravneet Gill:** So, as we mentioned this time, if you look at, let's say, the situation with CCD or if you look at it with Cox & Kings, which was a major part of the Rs. 2,100 crores that you alluded to, these were not typical corporate events where there was incipient sickness or impairment. In some cases, there were just unfortunate events relating to management. In some cases, there was just a downright fraud. Which sitting from the outside sometimes is harder to judge. So if you really see, one way of looking at it was that even in quarter four we had Ezeego, which was one of the group companies of Cox & Kings, part of that. And to that extent, the stress had been identified at that point in time. But if something like what happened in the case of CCD or happened in the case of Cox & Kings, I think that becomes that much more difficult to understand. I actually thought that the two eminent resolutions, the BB and below book will start to contract from this quarter. But like I said, some resolutions have got a little delayed. But we don't see the BB and below book at any material risk in terms of further expansion.

**Ashish Agarwal:** And sir, I just wanted to add one more thing. On the cases which got slipped from non-BB book into NPA, the bank has been able to make material amount of recovery from a large account there post September 30th as well. So those were backed by good collaterals, and the bank also expects a near to medium-term recovery on the other end.

**Varun Khandelwal:** So just a follow-on question. So let's take the example of Café Coffee Day or Avantha Power, and even the Mcleod Russel Group, where the bank came in and took possession of some of the promoter shares, right? So when you say your exposures are collateralized, you do have other collateral apart from these shares which are now pretty much losing all their value. So for a lot of us on the street, what happens is that we see okay the bank has taken possession of this collateral, this collateral is worth not much. And the loan amount is, say, xyz. So then immediately, I mean, the entire thing goes to 0.

**Ashish Agarwal:** So Varun, actually it would be different for different cases. But what I can tell you is that what you read in the press is not necessarily the only collateral that the bank has. Bank has a combination of collaterals in most of these situations, which in addition to the shares that you would have read about would also have certain hard collaterals down the road.

May not be true for all the cases but would be true for large part of the portfolio. I would also like to somewhere allay the fear that the BB and below book for the bank has been expanding. Yes, last quarter, given the unfortunate corporate event, was an aberration. In our view, as far as this book is concerned, I think it has peaked out. Yes, as we discussed earlier, there could be a transition risk that the bank could potentially see from this part of the book, which is where we

have revised the credit cost guidance. However, again, I am reiterating, the loss given default on these books prove the already recognized gross NPA book, which stands at Rs. 17,000-odd crores with a 43% PCR. I think the ultimate recoverability assessment on that is fairly intact. So some transition risk, and therefore, incremental provisioning, but definitely that is something which should come back starting 2021.

**Varun Khandelwal:** Okay. One final question with respect to the capital raise. So with respect to the binding bid that you received of Rs. 1.2 billion, is this a single investor or is this a consortium of multiple investors?

**Ravneet Gill:** This actually is a single investor.

**Varun Khandelwal:** And is it direct equity or equity plus borrowings? I mean what kind of capital structure are you currently looking at?

**Ravneet Gill:** We are looking at direct equity.

**Moderator:** Thank you. We take the next question from the line of Viacheslav Shilin from Deutsche Bank. Please go ahead.

**Viacheslav Shilin:** I have two questions. So one is, could you elaborate please on the timing of the expected completion of this equity injection? That's question one. And question two is about provisions against the bad loans. YES Bank, as we know, runs this at the level which is I think the lowest amongst the private sector banks. And when we talk about this new capital, my bigger concern is that if your bad loans continue to age and the resolutions does not happen as quickly as we all expect, you will end up having...

**Ravneet Gill:** Hello, have we got disconnected?

**Moderator:** As there is no response from the current participant, we take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

**Nilanjan Karfa:** Ravneet, one question on the equity first. I realized that you had certain requirements before disclosing, or rather start disclosing this, but wouldn't it have been appropriate to specify at what price this is going to come? I am presuming given the sharp rally in the stock prices, I find it really hard to believe that the investors will probably invest at wherever the stock is trading. So any color on the pricing side of, to the extent, that you can provide? So that's the second question.

**Ravneet Gill:** Yes. Sure. It is actually there in the term sheet that has been given. And what the investor has said is that either the two-week pricing formula of SEBI or what we mutually agree. So very clearly, the floor price for him is the two-week pricing formula.

- Nilanjan Karfa:** Right. Okay. And a bit color on this real estate exposure. Of course, you would understand, a lot of rumors as well as some of the factual things are pretty disturbing on the real estate side. And we do have about little upwards of 7%. So what's the rating profile of that same bucketing of AAA to BB and below, if we can have that disclosure, please?
- Ravneet Gill:** Yes. So as I had mentioned earlier, our overall exposure to commercial real estate is around 7% of the total exposure of the bank. Of the total outstanding, around one-third of it is already part of BB and below book, including nonperforming assets. I don't have the exact breakup between BB and NPA, as we speak. But the balance 70-odd percent, which is not BB and below, you can assume, would be between BBB and some part in A category. So a large part of this would be BBB. Some a small part maybe around 10% to 15% would be in A category. That would be the profile.
- Nilanjan Karfa:** Right. And Ashish, what kind of LGD should we assume on this real estate?
- Ashish Agarwal:** So let me just give you a little bit more color around that. I think the projects that we have funded, by and large, the location of these projects is absolutely very, very good. And therefore, we feel that the issue with respect to the real estate portfolio of YES Bank is more with respect to the slowdown in velocity industry-wide. However, as the industry comes back, I think the projects that the bank has funded would be among the first ones to actually pick up sales as far as the portfolio is concerned. So honestly on the part, which is not BB and below, as a bank, we don't expect any meaningful loss given default. On the part, which is BB and below, I will go with the similar estimate that we gave on the other part of BB and below, which is, let's say, around 22% to 25% with respect to the one-third book which is BB and below.
- Moderator:** Thank you. We take the next question from the line of Ashwani Agarwal from Baroda Mutual Fund. Please go ahead.
- Ashwani Agarwal:** Sir, if we just look at one of the housing companies which you have got exposure to, the auditors have proven that there was siphoning of funds of roughly Rs. 20,000 crores. So if that is classified as default, what is the provision coverage which you are having? And what is which you will have to make?
- Ashish Agarwal:** See, as you are aware, the bond exposure is mark-to-market. So the bank continues to carry the mark-to-market provision on this particular name that you are talking about. The entire exposure of the bank to this company is in the nature of investments. So we have been following RBI guidelines with respect to that, and we have been marking it to market. So depending on where the bond gets traded, if indeed the siphoning and fraud, et cetera, is proven and it is classified as fraud, we will need to provide, again, in line with RBI guidelines, which could be as high as 100%. However, that is something, which has not happened as yet. So we continue to do a mark-to-market provision on these bonds.

**Ashwani Agarwal:** And what's the status for one of the media companies where you have got a big exposure, they're in the process of selling the stake? And second question is, as you say that most of our loans are collateralized, but how easy or difficult is it to sell the collaterals? Because initially you will have to definitely make a provision. And as far as I know, it is not easy selling those collaterals and getting the money back. So what is the...

**Ashish Agarwal:** That is exactly the risk that we highlighted. Given the continuing sluggish and challenging macroeconomic environment, the resolutions which effectively also include monetization of collateral is something which has got delayed. We are also mindful of the fact that if we forcefully monetize some of these collaterals in the current environment, then, of course, there would be a depletion in value at which we recover this money. And therefore, some of the sales while we could have forced and pushed it down, but we also want to ensure that we preserve the underlying collateral value, which is where some of the resolutions have got delayed. And therefore, in the interim, could there be a transition risk into a nonperforming asset category? I guess, yes, which is precisely why we have changed the credit cost guidance. So you are right, you are absolutely right in your assessment that enforcement may not be very, very easy. But we have to basically either get the right value or we have to wait it out a little bit till the time the environment improves to actually ensure that we get the best value for the bank.

**Ashwani Agarwal:** Sir, another question here. Currently, if you see your net worth is in excess of Rs. 24,000 crores, Rs. 25,000 crores. And as per you, the loss given default would be around about Rs. 7,000 to Rs. 8,000 crores. That's 25% of the Rs. 31,000 crores. If that's the story, then why are we diluting or raising money of \$1.5 billion at such a low price? Why don't we clean up our book totally and then raise money? It's okay not to grow for a year or two, but clean the books and then raise money at a high level because, ultimately, it will be highly ROE dilutive. And that will be so small, then it makes a lot of sense to dilute at a higher price after cleaning the books.

**Ravneet Gill:** I think there is logic in what you say. I think what you need to balance the dilution vis-à-vis is there are certain franchise considerations as well. You want to be perceived strongly by all the stakeholders that you deal with, which could be clients, which could be regulators, which could be depositors, rating agencies, et cetera. And at the end of the day, if you're talking about ROE dilutive, the market also doesn't just pay you for consolidation, the market does pay you for growth. And I think the quicker we get on to a growth path, the better it is for all concerns. So I think what we should really be aiming for and which is certainly the way we are looking it as management is that we have had two quarters of consolidation there. I think we have shown the market that we came to accrete capital organically, but now is the time to be able to get grow capital and be able to go ahead and start to take market share again. I mean if you look at it from a market opportunity standpoint with all the dislocation that has happened in the NBFC sector, I think it would be a massive opportunity loss to, at this stage, just keep cutting balance sheet shrinking and becoming more lean. So I still say that what you said had logic, but if you look at it more from a franchise perspective, I think the long-term interests of the bank are better served,

getting more capital, getting stronger and then getting on to the front foot from a growth perspective. I think that will be much more value accretive.

**Moderator:** Thank you. We take the next question from the line of Saurabh Das from Franklin Templeton. Please go ahead.

**Saurabh Das:** Ravneet, just very quickly, I missed out the point on the timing of the fund raise regarding the binding offer. So is there any clarity on how long is that binding offer valid? And till what time will you be deciding between this offer and the four or five other offers you mentioned?

**Ravneet Gill:** So the time line for this offer is 30th November. Today, the Board did consider this matter. And as I mentioned that now the capital raising committee has been entrusted with the job of very quickly going through these offers and heading the path forward. I expect that process to get completed in a reasonably short time. And ideally speaking, we would want to be able to get the money in before the year is out.

**Saurabh Das:** Great. And also regarding the BB and below watchlist movements, if you can give some color on this Rs. 52 billion slippage to the BB and below addition, what is the complexion of it? What are the key two, three accounts, if you can highlight that?

**Ashish Agarwal:** So actually, some of the accounts Ravneet did mention in the opening remarks. So predominantly in terms of new groups that is what it has been. However, we have also looked at some of the exposures, which were already identified as part of the stress group. And if there was any exposure, which was part of the same group and was not figuring in BB and below because of given the conduct and the underlying credit profile, we have also somewhere ensured that wherever we see, if at all any, potential inherent weakness on account of the contagion impact for lack of financing available to that group, we have chosen to move it to the BB and below profile.

So other than these couple of groups that we mentioned earlier, there is no new group which has been added. And as I mentioned earlier, I don't think we are anticipating any meaningful change to this book going forward barring one sector, which I mentioned earlier, which is the real estate, which we are very closely monitoring. And as I mentioned earlier, around one-third of that is already part of this. That may throw up some surprise, but to my mind, it will not be a meaningful change.

**Ravneet Gill:** Also, if I could just add that if you look at the BB and below group, it has two real estate exposures there. And we have been working on getting resolutions done for both. One of which you would have read about in the press some time back, where we took possession of a particular project. And the second one where we are in very close engagement with a third-party about taking over the project. I think what you will also see in this quarter is definitive resolution for both these real estate exposures, which are part of the BB and below book.

- Saurabh Das:** While you clarified it in some forms, is my understanding right that when you disclosed the Rs. 29,500 crores book last time, there was some stress sitting outside of this Rs. 29,500 crores, which has slipped in this quarter?
- Ashish Agarwal:** No. I don't think that would be a fair assessment to say there was some stress which was sitting outside. So as we mentioned, there were a couple of corporate surprises, the names which were mentioned in our earlier part of the conversation. And some of the exposures which were already identified groups, but were performing satisfactorily, we had chosen to put them down into BB and below just for the sake of completeness.
- Saurabh Das:** Okay. And today, the Rs. 31,500 crores is completely encompassing the stress pool which you have in mind, is that a correct assessment?
- Ashish Agarwal:** In our assessment, yes. Barring...
- Saurabh Das:** The CRE.
- Ashish Agarwal:** Barring the CRE that I spoke about. So that would throw some surprise. But other than that given the current situation, yes, this should be the universal set of the potential stress, which is sitting on the balance sheet, yes.
- Saurabh Das:** And what's the contingent provision against the Rs. 31,000 crores?
- Ashish Agarwal:** So against the Rs. 31,000 crores, we don't hold any contingency provision on advances. However, we do hold around, if I am correct, around Rs. 1,500 crores kind of a mark-to-market provision against the investment because this is not just in advances book. Just to clarify, this includes everything which is with respect to these exposures, including nonfund-based investments, advances, et cetera. So we do hold some mark-to-market with respect to this pool, but the contingency pool that we had created of Rs. 2,100 crores in Q4 of FY19, that is something which has been consumed over the last two quarters. So on advances, there is nothing.
- Saurabh Das:** And is it fair to say that a large part of the HFC bond exposure has already been provided for? More than 50%? Or that's not a fair assessment?
- Ashish Agarwal:** So the HFC part of the exposure, and I am somewhere assuming the name that you maybe referring to, as I mentioned earlier, are all being mark-to-market. So whatever provisions we hold on a mark-to-market basis are effectively attributable to the housing finance companies that you possibly are referring to.
- Saurabh Das:** So on that, can you share the provisions?
- Ashish Agarwal:** It's around 25%.



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**Moderator:** Thank you. We take the last question from the line of Anuj Jain from Birla Mutual Fund. Please go ahead.

**Anuj Jain:** Just wanted to understand what is the incremental marginal cost of funding for the bank for this quarter?

**Ashish Agarwal:** So Anuj, can we come back to you separately on that response, please, if you don't mind?

**Anuj Jain:** Yes.

**Ashish Agarwal:** Because we don't have that number handy right in front of us.

**Niranjan Banodkar:** For the one year is 9.7. MCLR for one year is 9.7.

**Ashish Agarwal:** But he asked cost of funding.

**Niranjan Banodkar:** Did he ask cost of funding or...

**Ashish Agarwal:** No, he asked cost of funding. This is MCLR.

**Niranjan Banodkar:** I just want to clarify, are we speaking about cost of funding or the MCLR?

**Anuj Jain:** No, cost of funding.

**Ashish Agarwal:** So we will come back to that number. The number that Niranjan just talked about was the one year MCLR.

**Niranjan Banodkar:** Cost of funding is in the range of about 6.5% to 6.7%.

**Moderator:** Thank you. Ladies and gentlemen, that's the last question for today. I would now like to hand the floor back to the management for closing comments.

**Ravneet Gill:** Thank you, again, ladies and gentlemen, for dialing into this call. And we look forward to staying connected with you and also carrying on this conversation bilaterally as we go forward. Thank you for your support. Bye-bye.

**Moderator:** Thank you very much. On behalf of YES Bank, that concludes this conference. Thank you all for joining. You may disconnect your lines now