"YES Bank Limited Q4 FY'24 & FY'24 Earnings Conference Call"

April 29, 2024

MANAGEMENT: **MR. PRASHANT KUMAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, YES BANK LIMITED**
MR. RAJAN PENTAL – EXECUTIVE DIRECTOR, YES BANK LIMITED
MR. NIRANJAN BANODKAR – CHIEF FINANCIAL OFFICER, YES BANK LIMITED
MR. MANISH JAIN – COUNTRY HEAD, WHOLESALE BANKING, YES BANK LIMITED
MR. PANKAJ SHARMA – CHIEF STRATEGY AND TRANSFORMATION OFFICER, YES BANK
MR. SUNIL PARNAMI – HEAD (INVESTOR RELATIONS), YES BANK LIMITED

Moderator: Ladies and Gentlemen, good day, and welcome to the YES Bank's Q4 FY '24 & FY'24 Earnings Conference Call.

On the Management Panel, we have with us today, Mr. Prashant Kumar – MD and CEO; Mr. Rajan Pental – Executive Director; Mr. Niranjan Banodkar – Chief Financial Officer; Mr. Manish Jain – Country Head - Wholesale Banking; Mr. Pankaj Sharma – Chief Strategy and Transformation Officer; and Mr. Sunil Parnami – Head of Investor Relations.

Mr. Prashant Kumar will give an "Overview" of the "Results", which will be followed by a question-and-answer session.

As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Kumar. Thank you, and over to you, sir.

Prashant Kumar: A very Good Morning and thank you for joining us so early in the day for our Quarter 4 and Full-Year FY '24 Earning Call.

On this call, I am accompanied by the Senior Team members of the Bank.

Moving straight on to the Results, as a Bank last fiscal, we continued to make consistent improvements across all the core operating metrices and progress well on the key strategic objective of <u>Improving the Profitability of the Bank</u>.

As I take you through the key highlights of the "Financial Performance" across Deposits and Loan growth, NII and NIM, Fee income, Asset Quality and Provisioning, Profitability and lastly but importantly of the progress made towards shortfall in the PSL subcategories.

You may also refer Page #6 to #14 of our Investor Presentation to get more detailed insights as to how the Bank is working on each of the Key Business Levers. But fundamentally, the key for us has been and will continue to be the disciplined execution towards the fulfillment of the stated objective.

<u>**Moving on to the "Key Performance Highlights":**</u>

- Fiscal '24 marks the third straight year of full-year profitability for the Bank since the year of reconstruction. This is yet another important milestone particularly in the context of eligibility of the Bank towards empanelment for Government and PSU businesses. Bank reported FY'24 Net Profit at INR 1,251 crores, which is up by 74.4% Y-o-Y.

Bank ended the year with Quarter 4 ‘24 ROA at 0.5%, against 0.2% in Quarter 3 and Quarter 4 FY ‘23, and this is despite incremental PSLC-related cost and stepping up the PCR.

- Full-year FY ‘24 Net Interest Margin (NIM) came in at 2.4% against 2.6% in Fiscal ‘23 due to negative drag because of the RIDF deposit placed for the PSL shortfall, which has further marginally inched up and now peaked at 11% of our total assets compared to 9% in March ‘23. This increase is due to calls related to the prior period shortfall.

  However, in line with our guidance, in Fiscal ‘24 itself the Bank has made substantial progress on PSL compliance, and I am pleased to share that from here on the Bank will start seeing a gradual reduction in these balances. The Bank has concluded Fiscal ‘24 with NIL shortfall in the overall PSL and subcategories of Small and Marginal Farmers (SMF) and Weaker Section (WS).

  Further the shortfall in the Non-Corporate Farmer (NCF) subcategory has been brought down to around 1.4%. This was done through a combination of organic accretion as well as through purchasing of PSLCs.

  As a result, beginning Fiscal ‘25 at an overall level, we would start seeing a reduction in the RIDF balances and Bank expects that gradually and by the end of Fiscal ‘27, these balances would eventually further reduce to below 5% of our total assets, bringing it much closer to the average levels, similar to that of some of our other large Private Sector Bank peers. With that Bank would also start seeing a reduction in its negative drag on our margins and profitability.

  Sequentially, NIM for Quarter 4 was flat at 2.4%, with net spread marginally improving by 2 basis points compared to Quarter 3. Net Interest Income for the quarter at INR 2,153 crores was up 2.3% Y-o-Y and 6.8% sequentially.

- As regards Non-Interest Income, the Bank saw strong momentum sustained across all diverse and granular fee income streams. In Fiscal ‘24, Non-Interest Income has grown by 39% Y-o-Y to INR 5,114 crores.

  Over the last two years, the Bank has seen a meaningful increase in its Fee-to-Average Asset, which has increased from 1.1% in FY ‘22 to 1.3% in FY‘24. Within Non-Interest Income , the share of Retail Fee has increased from 55% to 66% over the same period.

  The sustained momentum in our Fee Income was driven by strong traction in Third-party Fees and continued traction in other fee lines such as Trade and Remittance, Interchange and Cash Management.

  This momentum is expected to continue, driven by our strong customer acquisition engine, which is very well integrated with our Spectrum Banking and Relationship Banking channels, our distinctive moat in our payments, APIs and Digital and Transaction Banking leadership, and also our refreshed YES Bank brand, and lastly our service orientation and disciplined execution.

  Sequentially reported Non-Interest Income at INR 1,566 crores has grown by 56% Y-o-Y and 31% quarter-on-quarter. Normalizing for interest on Income Tax Refund of INR 118 crores, Quarter 4 non-interest income has grown 21% quarter-on-quarter.

- For Fiscal '24, Cost-to-Income Ratio (normalized for PSLC cost and Interest on Income Tax Refund) was 72.2% against 72.6% in FY '23. For full-year FY'24, total cost of INR 9,824 crores included cost amount into INR 377 crores incurred on purchase of PSLC Certificate against NIL expenses in FY '23.

  For Quarter 4 FY'24, while on a reported basis, costs were up 27% Y-o-Y. However, normalizing for PSL cost of INR 254 crores incurred during Quarter 4, the Y-o-Y growth was 15.6%. The Quarter 4 FY'24 cost also included a variable pay cost of INR 109 crores. The Quarter 4 FY'24 Cost-to-Income ratio (adjusted for PSLC costs and Interest on Income Tax Refund) was at 71.2% against 70.9% in Quarter 3 FY'24.
- For Fiscal '24, Bank reported PPOP of INR 3,386 crores, which has grown by 6.4% Y-o-Y.

The salient highlights pertaining to "Asset Quality, Slippages, Recovery, and Provisions" are as follows:

- Compared to Quarter 3 FY'24, both the Gross as well as Net NPA improved to 30 basis points to 1.7% and 0.6% respectively.
- Resolution momentum remained strong during the last quarter as well with Recoveries and Upgrades of INR 2,092 crores during the quarter and for full year FY'24, the Total Recoveries of INR 5,978 crores in line with our guidance.
- Recoveries from Security Receipts and realization from ARC sales during the quarter were prudently utilized in further strengthening the asset quality metrices as evidenced through more than 50% reduction in the Net NPA and Net carrying value of Security Receipts (as percentage of Advances) to 1.1% against 2.4% in same quarter last year. Nearly half of that reduction has come in Quarter 4 alone.
- NPA Provision Coverage Ratio (PCR) was stepped up to 66.6% against 56.6% last quarter and 62.3% in Quarter 4 '23. Including Technical write-offs, PCR now stands at 79.3% against 71.9% in Quarter 3 and 72.3% in Quarter 4 FY '23.
- Non-tax provision cost for Quarter 4 at INR 471 crores and for full year at INR 1,886 crores and as a percentage to Total Assets were in line with our guidance of 50 basis points.
- The Gross Slippages for Quarter 4 was at INR 1,356 crores. against INR 1,233 crores in Quarter 3. Slippages net of recoveries and upgrades in Quarter 4 at INR 370 crores against INR 574 crores last quarter. Retail Segment Gross Slippage for Quarter 4 at INR 977 crores has come down against INR 1,051 crores last quarter. Net Slippage at INR 567 crores also has come down against INR 644 crores last quarter. One account in Mid-Corporate classified as NPA during the quarter has actually NIL financial overdues. Gross Slippage for FY'24 at INR 5,334 crores. However, the Slippage Ratio as percentage of Advances for FY'24 was flat at 2.3%.

<u>Moving over to "Business, Balance Sheet and other Highlights":</u>

- Bank's Balance Sheet crossed INR 4 lakh crores mark, registering a Y-o-Y growth of ~14%. CD ratio improved to 85.5% from 89.9% in Quarter 3.
- Robust accretion continued in Deposit as it came in highest ever in the history of Bank at INR 2.6 lakh crores, clocking a healthy growth of 22.5% Y-o-Y and 10% quarter-on-quarter. For the full year and quarter ended 31st March 2024, the CASA ratio came in at 30.9% as compared to 29.7% in Quarter 3 and 30.8% in Quarter 4 FY '23. During the year, Bank added 1.7 million new CASA accounts. We remained committed to judiciously expand our distribution and added 134 new branches since January '23 in CASA rich clusters.

  CASA balances at the end of Quarter 4 were up 23% over Quarter 4 '23 and 15% over Quarter 3 of the FY'24. The average daily current account and average daily saving account balances have also grown by 12.3% and 13.5% respectively in Quarter 4. Retail and Small Business Deposits, as per the Gross LCR definition, at INR 1.17 lakh crores has grown by 18% Y-o-Y. CASA + Retail TDs are at 57.2% of the Total Deposits.

  As we continue to leverage branches as the fulcrum of our business, the contribution of Retail and Branch Banking Deposit increased to 53.1% of Total Deposit compared to 52.1% in FY '23. For Fiscal year '23-'24, the incremental CASA ratio was 31.5% and the incremental CASA ratio in deposit sourced by our branch Banking channel was even higher at 37.5%.
- Year-end Net Advances (excluding reverse repo) has grown by 13.8% Y-o-Y, aided by sustained growth momentum in SME and Mid-Corporate Advances (at 25% plus Y-o-Y) and resumption of growth in Corporate Segment.
- As guided earlier, we expect that within Advances, the Ratio of Retail + SME Segment Advances to Wholesale Segment Advances (Mid-Corporate and Large-Corporate) would remain at the similar level of 62:38 from here on over the near-to-medium term. Within Advances, while we would continue to drive a steadfast growth in SME and Mid-Corporate Segment and further enhance our focus on profitability improvement within retail, we would expect Corporate Advances Segment to grow in high single digits going forward.
- In Quarter 4 FY'24, the Bank's average quarterly LCR remained healthy at 116.1%.
- Regarding Capital Position, while CET-1 and Capital Adequacy at the year-end was at 12.2% and 15.4% respectively, however, including the effect of the warrants exercise by CA Basque in the month of April 24, the proforma CET-1, as on March 31, including the proceeds from warrants conversion, works out to 12.7%.

"Other Highlights":

- YES Bank has joined hands with Indian Olympic Association as Principal Sponsor for Team India for Paris Olympics 2024. This reflects our dedication and commitment to National pride and to showcase our commitment to support Team India in Paris Olympics '24. The Bank also launched a special saving account proposition called *"Yes Glory"* along with a campaign "*Milkar Jitayenge*".

- Another notable highlight was a partnership with a skilled player in payment ecosystem as the PSP Payment Bank, reflecting the inherent strength in the capabilities and technology infrastructure of the Bank. This partnership is expected to further aid our market share in Digital Payment Ecosystem, Merchant Acquisition, Current Account Balances and Transaction Banking flows and thereby resulting in some improvement to our fee.
- We have also launched YES Pay Next, a cutting-edge, next-gen UPI payment app, which provides a seamless, secure and smarter way to manage transactions.
- Further, I am humbled to share that last quarter, YES Bank got certified as a Great Place to Work by GPTW Institute India and is ranked amongst the Top 50 in India's best workplaces in BFSI 2024 – 2nd year in a row.
- The Bank has also received top award for Best Bank for promoting Government schemes in the private sector and we are also named runners-up for best MSME Bank in the private sector at MSME Banking Excellence Award 2023.
- Lastly, we also became the first Indian Bank to conduct export finance transactions at Receivable Exchange of India Limited (RXIL), an International Trade Finance Service (ITFS) platform in India.

I would like to conclude that as we enter the fifth year of the journey of YES Bank of today, we remain focused on diligently executing the ROA expansion roadmap and remain absolutely resolved around our disciplined execution.

We thank you for your continued support. And with this, we can now take your questions.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: So, there are a couple of questions I had, firstly with respect to margin. So, with the reduction in margin, with the help of CASA and improvement in asset quality, we had a stable margin for this quarter. So, how it is expected to pan out maybe in FY '25, if you can help us understand that, sir?

Niranjan Banodkar: Rakesh, margins for us, we discussed this in the past as well. There are three drivers for us on driving margins. And I don't want to give kind of a very specific guidance in the really near term but talk about a more two-to-three-year journey.

One, very emphatically we have said that there is RIDF balances, which are causing a drag on the margins. And we have also actually given a pro forma number in our presentation to say that the current drag on the stock is about 70 basis points on NII to assets. So, that's one.

So, as the balances of RIDF come down, and like Prashant mentioned in his opening remarks, we are fully compliant with the PSL requirements even at a subcategory level in Fiscal '24, there's a marginal shortfall in the NCF category. But as a consequence, we will now start seeing reductions on a year-on-year basis. And that will start flowing into the margins over the next two to three years. As I said, the total stock hit is about 70 basis points.

The second point is what we are also doing is on our assets and especially on the Retail Assets mix. There is also a calibration towards moving into more ROA accretive products, which also inherently give better yields.

Of course, this journey that we are pivoting towards means that the growth that is incrementally coming on this book is coming at a slightly lower rate and you would have seen retail has been growing at about 35%-40% and has kind of now come into the 20s and we should possibly see the growth taper also to, let's say, the teens, right?

The point is, in the process of that, we will however see improvement from a margin standpoint. As we speak, the retail disbursements actually are clocking at a yield, which is already 100 basis points more than the stock of the retail portfolio yield, right?. So, that is already an indication that on the margin we are moving into better selling products.

The third is really the focus on getting the cost of funding improved through a better CASA, through making sure that you are not just putting rates on the table for accreting deposits. And again, if I just give an example, if you look at Fiscal '24 and if I look at, let's say, the blended savings account rate, over the last one year, we would actually not have increased our blended savings account rate despite the backdrop of a tight liquidity and real struggle or difficulties that the industry has witnessed on Savings Account, right?

And not only that, on the incremental market share, we have actually done better on savings account. And we have numbers till December. We have actually done much more than what our stock market share is. So, the focus on deposit and funding is also to make sure that relative to the market, keep improving the rates. So, we don't want to just put rates for acquiring deposits.

So, it's a combination of all these three. There is, of course, we continue to see a reduction in our non-accruing assets, which is the NPA stock coming down. That will, of course, also add to margins. But just the first two, which is the mix of our RIDF coming down, and we do see a trajectory where in the next two to three years, this should be below 5% of our Total Assets. All and the Retail Assets mix, both of these, we believe, will add to about 80 to 100 basis points of margins for the next three-year period.

Rakesh Kumar: Sir, just to understand the CASA progression in this quarter, so if we have to build this number to FY '25, so what is the sticky part? What is the one-off part? If you can help us get some clarity?

Niranjan Banodkar: So, Rakesh, what happens is we do see some transient flows that do happen in March and to be honest, it is not peculiar to only this March. It is peculiar to almost every year end that goes through because there are also businesses who like to maintain cash for their year-end transactions. They also demonstrate good amount of sales that come through. This year was also a little bit peculiar because there were also holidays. There was a weekend that kind of coincided. Some of our FinTech partners also end up keeping certain balances in excess to make sure that there is absolutely seamless flow of transactions. So, you could possibly look at, let's say a 5% adjustment to the number, but to be honest, as I said the peculiarity of the CA balances do continue mostly on all year end.

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

Jai Mundhra: Good morning Sir, and thanks for the detailed presentation, to which you keep on adding relevant disclosures. I have two questions. First on recovery itself, so last year we had set out a target of INR 5,000 crore and we very well achieved that. In your assessment, how should one look at recovery quantum for FY '25?

Prashant Kumar: So, Jai, this year we have done the ecovery and upgradation to almost like 6,000 crores and we are quite confident that FY '25 also we will see a similar trend, but definitely more than INR 5,000 crores.

Jai Mundhra: So, sir, just to understand, so hypothetically let's say we achieve INR 6,000 crores of recovery. If I look at our current Net NPA plus unprovided Security Receipts, that is like 1.1%, right? So, that would mean that the excess of that would flow into negative provisions. So, you may have a negative provisioning for full-year FY '25. Is that the right understanding?

Prashant Kumar: Absolutely, like if you see the current Net NPA plus net carrying value of SR is 1.1%, okay. And when we are talking of recoveries, the first thing that recoveries also include the upgradations, right. But in terms of recoveries and the right way of provision would be definitely there.

Niranjan Banodkar: The credit cost will also take into account slippages that we will have for next year and the consequent provisioning of that. Like we have mentioned, we do believe that every time we get recoveries and recoveries are in excess, we keep strengthening the balance sheet.

So, in terms of prioritization, we will make sure that our SR book is completely off. So, currently, the carrying value of our SR book is about 50 basis points. The redemption that will come through in Fiscal '25, we will make sure that, that balance becomes zero by the end of Fiscal '25, right. That is the first priority.

The second is that the NNPA that we have in our books, which is currently at 60 basis points, adjusted for the slippages that we will have next year. We will want the PCR also to actually go past 70%.

I think that's the broad endeavor that we have to say how can we further take the PCR in excess of 70%. Although, to be honest, the recovery rate that we do exhibit on our existing portfolio are actually much better than, let's say, a loss rate of 70%. But I think it's prudent to keep that, right?

So, both of these, if we add, adjusted for the recoveries that we will get from SRs, we do believe that the non-tax provisioning that we will end up for Fiscal '25 should again be contained below 50 basis points. Of course, the more recoveries we get, it kind of plays into the P&L, but at least there is an endeavor to keep further strengthening the quality of our balance sheet. And just to clarify, when I say sub-50 basis points of non-tax provisioning, it is to average assets just for abundance clarity.

Jai Mundhra: And Niranjan, how should one look at the slippages? I mean, earlier one, two quarters that we had some slight uptake in the retail slippages. Now this quarter and full-year basis, it is more or less INR 5,000 odd crores of the total slippages that we have seen. How should one think of the slippages for next year?

Niranjan Banodkar: So, Jai, if you recall, again, last year, we did indicate that we would operate the slippages between a 2% to 2.5% range. That was the broad range, and the range was slightly wider given the fact that we were seeing some early signs on the retail portfolio. I think what we are kind of pleased to report is that while the retail slippages did go up during Fiscal '24 but we are already seeing now the signs of that settling as we exit Fiscal '24, right?

So, on a blended basis, this year we did have a slippage ratio on the average loan book at about 2.4%. We do believe that for next year the slippage ratio should be on the lower end of the 2% to 2.5%. I think that is really how we see it. It might not come off immediately, but I think we are seeing H1 should be closer to the higher side of the range of 2% to 2.4%, but as we exit, we should start moving into the 2% or below slippage rate.

Jai Mundhra: And Prashant sir, in your opening remarks you mentioned something around that, something related to asset quality in mid-corporate. I actually missed that comment. If you could please repeat that? I think you said something related to slippages or asset quality in the mid-corporate segment.

Niranjan Banodkar: So, during the quarter we had one account slip into NPA from our mid-corporate segment. So, this was actually an account on the road. It's a road project, where because there is a date of commencement of commercial operations, if you don't meet that, then you slip into NPA. So, this is a largely completed road project. In fact, there is no delinquency on this particular account, but it's just that because it crossed the date, it had to be classified as an NPA. So, that was just one callout that we wanted to make in the mid-corporate segment.

Jai Mundhra: And then last question, we have given a very good number, I mean, disclosure in terms of what would be normalized P&L assuming the PSL or RIDF branch type. But in your assessment, the way PSL will work, or the PSL requirement will keep coming down on incremental basis, but how should one look at the FY 25-26 ROA progression from current levels onwards considering the RIDF or PSL, they will not go away straightaway, they will go away only maybe in three years' time out. So, in the intermediate time, how should one look at blended ROA?

Niranjan Banodkar: So, Jai, we have actually, as I said, we have not given a very specific guidance in the near term. We kind of refrain from speaking about that. But the trajectory that we maintain from an ROA perspective is an improving ROA. And I am happy to kind of take you through again on the two-to-three-year roadmap that we have, which largely includes that our NII to assets should actually expand quite materially for the reasons that I mentioned.

There will be some room for improvement on non-interest income for us. So, we currently operate at about, let's say, full year, it will be about 1.3%. We do believe that over the next two to three years, we will see about 8-10 basis points of accretion, let's say, typically every year.

On operating expenses, despite the PSLC, we have been calling out that our operating expenses to assets should be contained in the range of about 2.6%, 2.7%. In fact, we have said it should be below 2.6%. However, adjusted for PSLCs, we might end up at about 2.65% or something. And we do believe that we should operate at sub-2.6%.

There are certain initiatives that we are also playing out on the operating expenses. We think there is room of about 10 to 15 basis points over the next two to three years. All of that just, I would say from an ROA perspective, over the next two to three years, it's all flowing in materially from the NII. And as I mentioned right at the start, it's about 80 to 100 basis points that we do see flowing in into the ROA, ultimately.

Jai Mundhra: And sorry, last clarification. The PSL, we are compliant on overall as well as sub-segment basis in all sub-segments. And the incremental RIDF or PSLC certificate purchase, that should not be there from, let's say, this quarter onwards, right? Is that the understanding?

Niranjan Banodkar: So, I will clarify, Jai, on that. So, Fiscal '24 we are fully compliant. I mean, again, I just want to, for the sake of abundant transparency, there is a marginal shortfall in the NCF category, which is about 1.4% of the Average Net Bank Credit, which is nominal compared to some of the shortfalls we have had in the past. So, which means that for Fiscal '24, we will not get calls to place deposits with RIDF or NABARD in subsequent years. Right?

That does not mean that for Fiscal '25, if I have to comply with PSL, we will not purchase PSLCs. So, we will also purchase PSLCs to make sure that we are also complying with Fiscal '25 requirements, such that the non-compliance does not trigger a, rather the, you know, we do not get calls for our RIDF deposits in subsequent years after Fiscal '25.

So, the compliance component typically is driven by three different ways. One is you purchase PSLCs, and you can buy for the entire quantum, or you can buy for a limited quantum, but it is completely a function of what is your organic accretion of PSLCs. So, first is PSLCs, which we used with a total cost of about INR 377 crores in Fiscal '24.

The second is, we also lend to MFIGs and Financial Institutions, who onwards, in turn, lend to, let's say, some of the SMF or NCF category borrowers, right. So, it's not a direct lending, but it is effectively a Balance Sheet that, in turn, will give you the PSL. It, of course, comes at a slightly lower yield than you would otherwise do organically.

The third is you do it organically on the balance sheet. Again, there are two different models to that. You can do it through a business correspondent, or you do it directly through your own branches.

Now, in the order of what I mentioned, which is PSLC, then you have lending to MFIGs and IFIs, then you have a BC model and then you have a direct model. In the order that I mentioned is where you have the, from a cost of, let's say, ballpark 2.5% to an ROA accretive model of, let's say, anywhere between 3% to 4%, is the spread that operates.

And the endeavor is, as we kind of keep building our skill set in this particular space, we want to move away from having the contribution made from PSLCs to actually having more and more organic accretion coming in from our organic businesses. So, that the cost that we are paying today for PSL compliance, which is about, let's say, 2.5%, that actually moves into not only recouping the cost, but into an ROA accretive model of about, let's say, 3% to 4%. So, that's the journey that will play out also over the next few years. I hope I have answered that well.

Jai Mundhra: Yes, that is very, very clear.

Moderator: Thank you. The next question is from the line of M. B. Mahesh from Kotak Securities. Please go ahead.

M. B. Mahesh: Niranjan, just a question on the security receipts. Can you just give us an update? What is the carrying value which got unwound in this financial year and against that, what was it in terms of gains that you booked?

Niranjan Banodkar: Sorry, what was the carrying value that we unwound during the year is what you are saying?

M. B. Mahesh: I think when you started off this journey, you had approximately about INR 5,000 crores, if I have the numbers right.

Niranjan Banodkar: So, let me, so I will just pull out the exact carrying value as of March '23. Give me a minute. But March '23, if I go back, Mahesh, our NNPA + SR was cumulatively 2.4% and against that 2.4%, the SR value was about 1.4%-and if I look at the, just one minute. So, just bear with me, I am just pulling out the exact numbers. One minute.

M. B. Mahesh: And while you are answering this, if anyone else can answer, the provisions that we are carrying today, it's currently at about closer to 70% on the SR book today. How much more does it have to go up or do you think this is more or less done here?

Niranjan Banodkar: So, Mahesh, to be honest, just from a coverage standpoint, we don't need to have a coverage on the security receipt because we believe that the ultimate recovery actually is going to be more than that. The only reason we do end up carrying provisioning is because there is also a concurrent aging related provision requirement that keeps coming in and depending on how we kind of use the redemption that we get, we ultimately use it for making sure that the burden of any aging related provision actually is zero.

So, just from a P&L impact standpoint, let me just answer that. So, Fiscal '24, if I look at a net level, the P&L benefit that we would have got is about INR 700 crores, okay, during the entire Fiscal '24. And a bulk of that actually has come through in Q4 Fiscal '24 and this is on account of the write-backs that we would have had as well as the surplus that we would have recovered over the face value. So, about INR 740 crores of P&L write back is what we have got from, let's say, the security receipts.

Going back to the question that you asked, we had about INR 1,700 crores of face value, sorry, not face value, carrying value in our balance sheet as of March 31st, 2023. That's come down to about INR 1,250 crores.

M. B. Mahesh: And given that you had classified these in category A, B and C when you had announced this transaction, how has been the performance of this book because the expectation was that the recovery rate should be reasonably healthy on this particular portfolio given where it was sold at that point of sale. Those numbers still hold up?

Prashant Kumar: So, Mahesh, if we see the security receipt at the time of transaction, 45% of that security receipts have been resolved in 15 months. So, I think that way we are seeing a very good progress. And the initial expectation was that the entire security receipt resolution would happen in a period of say around 4 to 5 years. So, if we see the 15 months trajectory and 45% SRs have been resolved, I think the progress has been quite good.

Niranjan Banodkar: Mahesh, if I can also add, so the carrying value that we have currently on these security receipts as I mentioned as of 31st March is about INR 1,250 crores. What we have is our rating agencies that effectively give us an estimate of what the recoveries would be. I am not putting management estimates, or I am not relying on what the ARC recovery estimates would be. But rating agencies ascribe a certain value, and that value is about INR 5,000 crores.

Now, clearly the Bank will have its own estimates and as Prashant mentioned, we do see a good run rate of recoveries, not only in terms of absolute recoveries but also the percentage of recoveries that have actually been playing out. So, I just wanted to make sure that there is a 1,250 crores of carrying value. The rating agencies have put out a recovery estimate of about INR 5,000 crores that will flow into the security receipts holder.

M. B. Mahesh: Just one last question. Cost of Funds seems to have stabilized this quarter Q-o-Q. I mean, from the way you are seeing these numbers, you say that they have kind of peaked out for you guys as well?

Niranjan Banodkar: So, Mahesh, I would say yes, TD rates, we have seen some uptick from TD pricing, but to be honest, it also got offset by the mix on CA and SA to some extent. So, I would say nothing material that we also expect, at least as of now, on the ground that will play out in the near term from a cost of funding perspective.

Moderator: Thank you. The next question is from the line of Srinivas, an individual investor. Please go ahead.

Srinivas: My question is about acquisition of a microfinance business, which is, I mean, there on the radar of YES Bank that has been there for quite some time. Any progress on that front? Do we see that forthcoming in this current financial year? Then the second question is, like, as Prashant sir mentioned, like three years of continuous profitability. So, what exactly are the kind of benefits which the Bank is likely to see from Government and PSU bodies? And the third question is, what is the plan regarding the branch expansion, whether the branches that we have added in the last three years or so are being contributing towards the operating leverage? Has that started kicking in operating leverage?

Prashant Kumar: So, Srinivas, I think your first question in terms of MFI, I think we continue to explore that part. But as of now, there is no progress. But let's see if we are able to do something in the current financial year.

My comments regarding, this is the third year of profitability, we become entitled to do the Government business in terms of the tax collection and the empanelment with the Central Government and the other State Government for doing the government business. And at the same time, for almost most of the PSUs, they deal with the Banks for their businesses, if you have the three years profitability.

So, I think this three-year profitability would make us entitled to be qualified for empanelment with the Central Government as well as the different state governments to do the tax collection, as well as the small saving scheme and their other business, which would be beneficial for the Bank both in terms of fee as well as in terms of the low cost deposits.

Your third question was in terms of expansion. I think we are continuously expanding our branch network through branches as well as through the BCBO model, and we are seeing like the branches and these touch points are actually adding in terms of both liabilities as well as fee income. So, I think this branch expansion would continue to be our strategy going forward also.

Srinivas: Last question, actually this 3-year profitability has improved our credit ratings so as to enable us to acquire a refinance from lending institutions, refinance which is a cost-effective source of funds. Have we been able to do that from institutions like NABARD?

Prashant Kumar: No, so I would not be specifically commenting about NABARD, but definitely the third year of the continued profitability and I think the momentum which we are seeing in our performance, we are quite hopeful that it should result into some rating upgrade and whenever there is a rating upgrade, it also results into the lower cost of funding for the Bank.

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

Chintan Shah: Sir, I just had a question on LDR. So, our LDR is around 85% now, which is almost at 5-6 year low. Even prior to the reconstruction, we had an LDR which was higher than the current one. So, any qualitative comments on how could the LDR move from the current level? Even in the last quarter, I think we mentioned that we are comfortable with LDR around 90%. So, first question is on that.

Prashant Kumar: So, Chintan, like last time also what we were saying, that we are comfortable with the LDR of less than 90%, okay. So, I think this trajectory or range between 85% to 90%, depending on like what happens on some of the loan growths and the deposit (growth), I think we are quite comfortable. But as a strategy, we would always like to have our deposit growth higher than the loan growth, okay. So, I think this range of 85% to 90% is quite comfortable for us.

Chintan Shah: So, in that case, if we are seeing surplus deposit inflow, then would we like to cut any of our deposit rates on the SA side or on the TD side? Would that be a case?

Prashant Kumar: No, I think naturally it would also be a function of what happens in the market and how our deposits are coming. But definitely endeavor of the Bank is to continuously reduce our cost of deposit and cost of funding.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Prashant Kumar for closing comments. Over to you, sir.

Prashant Kumar: Again, thank you all of you to join us for this call so early in the day and for your support. Thank you so much.

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