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July 26, 2022

National Stock Exchange of India Limited	**BSE Limited**
Exchange Plaza,	Corporate Relations Department
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Bandra - Kurla Complex	Mumbai – 400 001
Bandra (E), Mumbai - 400 051	Tel.: 2272 8013/15/58/8307
Tel.: 2659 8235/36 8458	**BSE Scrip Code: 532648**
NSE Symbol: YESBANK	

Dear Sirs,

Sub.: Transcript of Earnings Call for the un-audited Financial Results of the quarter ended June 30, 2022

Ref.: Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Please find attached the transcript of the earnings call hosted by YES Bank Limited ("the Bank") for the un-audited Financial Results of the quarter ended June 30, 2022. The same is made available on the Bank's website within the timeline prescribed under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and can be accessed at the following link:

https://www.yesbank.in/pdf?name=q1_fy23_analyst_call_transcript.pdf

You are requested to take the same on record and acknowledge the receipt.

Thanking you,

Yours faithfully,

For **YES BANK LIMITED**

SHIVANAND RAMA SHETTIGAR

Digitally signed by SHIVANAND RAMA SHETTIGAR
Date: 2022.07.26 18:12:03 +05'30'

Shivanand R. Shettigar
Company Secretary

Encl: As above

"YES Bank Limited Q1 FY23 Analyst Conference Call"

July 23, 2022

MANAGEMENT: **MR. PRASHANT KUMAR – MANAGING DIRECTOR & CEO**
MR. NIRANJAN BANODKAR – CHIEF FINANCIAL OFFICER
MS. ANITA PAI – CHIEF OPERATING OFFICER
MR. RAJAN PENTAL – GLOBAL HEAD (RETAIL BANKING)
MR. AKASH SURI – COUNTRY HEAD (STRESSED ASSET MANAGEMENT)
MR. RAVI THOTA – COUNTRY HEAD (LARGE CORPORATES)

Moderator: Ladies and gentlemen, good morning, and welcome to YES Bank Limited Q1 FY23 Analyst Conference Call.

On the management panel, we have with us today Mr. Prashant Kumar – Managing Director and Chief Executive Officer, YES Bank; Mr. Niranjan Banodkar – Group Chief Financial Officer; Ms. Anita Pai – Chief Operating Officer; Mr. Rajan Pental – Global Head (Retail Banking); Mr. Akash Suri – Country Head (Stressed Asset Management); and Mr. Ravi Thota – Country Head (Large Corporates).

As a reminder, all participants' 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 now hand the conference over to Mr. Prashant Kumar from YES Bank Limited. Thank you, and over to you, sir.

Prashant Kumar: Thank you and very good evening to all of you, and thanks for joining YES Bank Quarter 1 Financial Results Call.

With me, I have the top management of YES Bank, Rajan, Anita, Niranjan, Ravi, and Akash.

Let me start with the key updates available on Slide #3 of the Investors Presentation:

The Bank has successfully come out of the reconstruction scheme after the shareholders approved formation of alternate board with effect from July 15th. And presently, the board consists of seven independent directors, two non-independent directors and MD and CEO.

During the quarter, Bank or I would be saying on the 15th of July, the Bank has signed a binding term sheet with potential ARC partner towards sale of stressed assets. Pursuant to an objective board-run process, the binding term sheet was signed with partner JC Flowers to acquire an identified pool of Rs. 48,000 crore of stressed assets of the Bank.

A Swift Challenge auction has been launched with JC Flower's base bid of Rs. 11,183 crore, which is roughly 135% of carrying value on the balance sheet as of March 31st 2022. Pursuant to successful closure, this is set to be the largest sale of stressed asset in domestic markets.

Coming to Quarter 1 Financial Results:

We are pleased to report consistent improvements across all our core operating metrics as well as the strategic objectives. In the quarter gone by, the Bank has achieved the following:

On the profit and loss front – during the quarter, the Bank has reported a net profit of 311 crore, which is an increase of 50% YOY. The net interest income of the Bank at 1,850 crore has increased by 32% YOY. The Bank's NIMs stand at 2.4%, which is again up by 30 basis points on Y-o-Y basis.

The non-interest income excluding the treasury income is up by 35%. The core fee income drivers continue to show significant traction with sustained momentum in retail banking fees, which is up 43% Y-o-Y.

Corporate trade and cash management business and increased digital transactions have also resulted in higher interchange income on YOY basis.

The operating profit for the quarter stands at Rs. 590 crores. Excluding the treasury gains, operating profits have increased by 33% YOY. The total provision cost at 175 crore is lower by 62% Y-o-Y and is the lowest quarterly provision cost since the reconstruction scheme.

The Bank's operating expenses are at 2,042 crores, which is an increase of 6% Q-o-Q. The increase in operating expenses is due to increase in loan sourcing fee on account of a strong business momentum, step up in IT investment, and employee increment and increased welfare expenses including health insurance.

On the advances front, the advances have grown by 14%, of which retail have grown by 42%, Medium enterprise at 33%, SME at 15%, while the corporate book has shown a decline of 9%. Retail, MSME and Corporate mix has improved by another 200-basis point now to 62% for retail and MSME and 38% for the large corporate.

New sanctions disbursement aggregated to roughly Rs. 23,000 crores during the quarter across segments. Despite decline in net advances for the corporate segment, our new business generation continues to be strong with wholesale disbursement of Rs. 5,237 crores during Q1FY23.

The Bank is confident of meeting the 15% loan growth guidance for FY23.

On the deposit front, as on June 30th, our total deposits are at Rs. 1,93,241 crores, which is showing increase of 18% YOY. The CASA ratio stands at 30.8% with CASA and retail term deposits together constituting 62% of total deposits.

The customer acquisition momentum continues with more than 3 lakh CASA accounts opened during the quarter.

Growth in liabilities has come despite reduction in interest rates, which is a reflection of our superior customer service and stakeholder confidence.

Our cost of deposits continues to reduce and is now at 4.8%, which is down 60 basis points Y-o-Y.

Saving account balances have grown by 39% Y-o-Y, while current account balances have grown 25% Y-o-Y. Average daily current accounts have actually grown 50% Y-o-Y, mainly on account of our digital solutioning to the e-commerce and fintech players.

On the asset quality front, the gross NPA number has improved to 13.4% against 13.9% as on March '22. Similarly, net NPA ratio has also improved to 4.2% from 4.5% as on March 31, 2022.

The slippage at Rs. 1,072 crores, of which corporate slippages stand at Rs. 619 crores, retail at Rs. 368 crores and the rest is for SME and Medium Enterprise. Slippage out of the restructured pool at roughly Rs. 126 crores, which majorly consists of one large exposure. The increase in the overdue loan of more than 30 days by Rs. 1,700 crores Q-o-Q, predominantly on account of one large infrastructure group fully backed by strong and highly valued collaterals.

Resolution momentum continues to be strong with total recoveries and upgrades of Rs. 1,532 crores and we remain on track to achieve our annual guidance of recovery and upgrades of more than Rs. 5,000 crores.

On the capital front, the Bank continued to accrete capital organically with CET I ratio at 11.9% and total capital adequacy at 17.7%. The risk weighted asset to total asset has improved to 73%.

Bank has seen a net addition of 802 employees during the quarter. During the quarter, we have taken initiatives for welfare of employees and also for upgrading the skills of our employees along with taking some special measures for our women employees, including the training for both top leadership as well as for the middle and the junior management.

We continue to focus on new customer products and propositions and we have launched a first of its kind floating rate fixed deposit linked to the RBI repo rate. This is an intelligent fixed deposit with dynamic returns and we already have acquired more than 14,000 customers through this product.

All the above points demonstrate a strong momentum in the buildup of a good quality franchise. Our slides from 20 to 41 in the Investor Presentation provides a detailed update on the entire franchise of the Bank.

As we complete the first quarter of FY23, we are confident of achieving our strategy guidance provided to you earlier, which I would like to reiterate:

1. 35% CASA ratio,
2. further improvement in the retail corporate advances mix by at least 400 basis point,

3. more than 15% advances growth where the growth in retail, SME and medium enterprise would be more than 25% and 10% loan growth in corporate segments.
4. We would sustain the CD ratio below 100%,
5. the recoveries and upgrades to be more than Rs. 5,000 crores,
6. ROA targets of 0.75% and 1% - 1.5% over the medium term.

With this, I want to thank you all once again for taking the time out for joining this call and wish all of you and your family good health and prosperity. We can now open the floor for your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.

Mahrukh Adajania: Sir, I had a few questions on earnings. But before that, I just had a question on the ARC. So basically, you did mention about the transfer, which is the gross value of assets, but newspaper reports talk about this same gross value and these say that the net value of assets is around 83 billion or something like that, 8300 or 8500 crores. So what I wanted to check is that basically 85% of that 8300 in the worst-case scenario, if there is no recovery, will come as provision. Is that the correct understanding? And what will be the aging profile means over what period, if at all there are no recoveries, of course, there will be, will these have to be provided for?

Prashant Kumar: So one way I think the first point that 15% or 85% is not out of that Rs. 8,300 crores. The assignment value which is around Rs. 11,100 crores, we would be getting 15% cash out of it. And since the net carrying value is lower than the assignment value, this cash would further bring down the value of the Security Receipts ("SR") which we are going to carry in our books. As per the current regulation, the provisioning on the SR would be in accordance with the provisioning on the NPA. So it means the SR would also continue to attract the provisioning as per the aging of the NPA. But today we are carrying a net value of around Rs. 8,300 crores. We would be getting 15% of the Rs. 11,100 crores which would further bring down our SR net carrying value. So it means, fundamentally, the impact for us would be only the aging provision for the net carrying value for the SR which we would be carrying in our balance sheet.

Mahrukh Adajania: So the net carrying value will be Rs. 8,300 crores minus cash that way?

Prashant Kumar: Right.

Mahrukh Adajania: Got it, sir. 83 minus full 15% cash?

Prashant Kumar: Yes.

Mahrukh Adajania: And sir, given the profile of these assets, they'll age over how many years? Over one year, two years according to RBI guidelines?

Prashant Kumar: So this is a mix. This is a mix between one to three years.

Mahrukh Adajania: Sir, my next question is that you did give growth guidance, which looks strong, retail, corporate. So what are the risk to this growth given that, in general, investors remain concerned about a global slowdown or do you think the base is low enough to generate this kind of growth?

Prashant Kumar: I think as of now we are not seeing any impact on the demand side either on the corporate side or also on the retail and SME. But we need to be absolutely cautious in terms of how things should move, because things are very uncertain with respect to how the interest rate would move not only in India but globally, and how it would impact the Indian economy. So I think everybody is very cautious about this, but currently, we are not seeing any impact on the demand side.

Mahrukh Adajania: And sir, you think deposit gathering will not be an issue not only because of rising rates but also possibly because of HDFC Bank?

Prashant Kumar: No, I think the issue is more in terms of, yes, liquidity has come down as compared to past but still getting deposits to support the loan growth currently is not a challenge. The only thing is the pricing for all the banks would go up in line with the movement in the rate of interest.

Mahrukh Adajania: And sir, any outlook on margin?

Prashant Kumar: So currently our NIMs are at 2.4%, and we are expecting NIMs for around 2.75% for the full year.

Mahrukh Adajania: Sir, was there any mark-to-market loss in the quarter?

Niranjan Banodkar: Mahrukh, that's about Rs. 37 crores.

Prashant Kumar: Yes. Just 37 crores.

Mahrukh Adajania: That's it. Okay, sir. Thank you so much. Thanks a lot.

Prashant Kumar: Thank you.

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

Jai Mundhra: Hi, sir. Good evening and thanks for the opportunity, and thanks for the detailed presentation also. Sir, firstly, on this alternate board, so the proposal was there would be two SBI directors and two RBI directors. So as of now, there are two SBI nominated director, which are these two non-independent director, and there is no RBI director. Is the understanding right?

Prashant Kumar: Absolutely.

Jai Mundhra: And sir, now that you have an alternate board, I mean what is the significance of this? Does this change? I mean, of course, it's a good milestone that you have achieved and you have completely come out of this restructuring scheme, but does this sort of changes anything in terms of business or in terms of your ability to do business?

Prashant Kumar: No. I think the formation of alternate board would not be impacting any of these kinds which you are mentioning. I think it was more like a large financial institution was put up under a reconstruction scheme, which was brought in by Government of India under consultation with RBI. I think, at least we are not aware and we have not seen any parallel that a large financial institution is successfully able to come out from the reconstruction scheme. So I think that is something which is very important, and that has been possible on account of the performance, the delivery in the last two years where the Bank has successfully come out of the reconstruction scheme, new Board has been formed, and now it's a growth path for the Bank.

Jai Mundhra: Understood, sir. And second thing, sir, on this ARC deal, I mean, I just want to understand the mechanism. So let us say the base value, let us say it is finalized hypothetically at Rs. 12,000 crores just to keep the numbers, calculation easy. You get 15% of that as cash which is Rs. 1,800 crores. The rest you get all in security receipts, right? So you have a carrying value of let's say 8,000 crore, which reduces by 1,800 crore. So the net NPA only declines by 1,800 crore in the first tranche, in the first leg. The second leg would only be as and when you redeem the security receipts. Is that understanding correct?

Prashant Kumar: So I think just one clarification which I thought. Then we would be carrying the SR to the extent of 6,500.

Jai Mundhra: Sorry. What is that? 5,500?

Niranjan Banodkar: So I think in your example you took a Rs. 8,000-crore carrying value. Is that correct?

Jai Mundhra: Yes, sir.

Niranjan Banodkar: And you said Rs. 1,800 crores is the cash. So Rs. 6,200 crores is the post transaction net carrying value. The only minor, I would say, from a classification standpoint, the change would be the NNPA from the 8,000 crores will move into a security receipts of Rs. 6,200 crores. Investment in security receipts.

Jai Mundhra: So let us say your security receipts in not an aggregate basis but for a particular exposure is zero, right, let us say, and you have got security receipts of Rs. 10. Hypothetically, you are in the money on security receipts, right? But you cannot book that notional profit anywhere, right?

Niranjan Banodkar: Yes.

Jai Mundhra: And the third thing is, sir, just on this recovery of 5,000 crore, the target that we have, and I think we have done fairly well in this quarter also. You have already included this ARC transaction, right, which will, let us say, give you roughly around 2,000 odd crores as cash, right? So this 5,000 crore includes that already, right?

Prashant Kumar: No. Jay, this Rs. 5,000 crore is separate from ARC Transaction.

Jai Mundhra: Understood. And sir, there was a media mention of one film exhibitor having gone into NPA that was some sizeable amount. Has that been already NPA in first quarter or that could come in second quarter?

Prashant Kumar: It was a NPA in the last financial year.

Jai Mundhra: That was already an NPA in the last financial year.

Prashant Kumar: Yes

Jai Mundhra: And the last question is, sir, you have given a detailed guidance and of course, you have given milestone and we are on track on most of them or maybe almost all of them. On the cost to income, right, so this looks clearly bloated at 71 or 75% plus. So in your guidance of over 75 basis point ROA, how should one look at the cost to income for the full year?

Prashant Kumar: No, even for the full year our guidance on the cost to income is around 70, 71%. And the reason for this is also since we have started on the growth phase and since there is a higher focus on the retail and MSME, I think at this point of time, it is important to help those kind of investment, which would start giving you the revenues over a period of time. Similarly, I think not only for us, for any Bank, it is important to keep on investing in the IT infrastructure. And since we are very strong, we also have a responsibility of supporting the digital transaction of the country. So I think we would continue to make investment into our IT infrastructure. We would continue to expand our business and in the initial year, the cost to income would be definitely higher, but as the revenues would increase, it would start coming down.

Jai Mundhra: Understood, sir. Thank you so much for your time, sir.

Prashant Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Somya Jain from Emkay Global. Please go ahead.

Somya Jain: Congratulations, sir, on the results. Sir, I was going through the presentations. I wanted to know what is the breakup of SMA-1 and SMA-2 that if you could give the numbers for the same?

Prashant Kumar: I think in the presentation we have given the numbers.

Niranjan Banodkar: Yes. We have shared the number. Page 17 If you can go to page #17 of the presentation that we have the breakup between 31 to 60 days and 61 to 90 days overdue.

Somya Jain: And one last question, sir. Initially, you had mentioned the guidance that you have given as 35% CASA, 15% advance book. So I missed on the breakup in the segments advances. What is the target for advances growth in the retail and corporate? If you could just repeat that, that would be very helpful.

Prashant Kumar: So on the retail and MSME, we are targeting it more than 25% loan growth and on the large Corporate 10%.

Somya Jain: Thank you, sir.

Moderator: Thank you. The next question is from the line of Saurabh from JP Morgan. Please proceed.

Saurabh: So just on the drivers for NIM at its margin, sir, are you just forecasting an increase basis the improvement in mix or would you also be looking at some kind of funding cost reduction once you raise capital?

Niranjan Banodkar: So Saurabh, on the NIMs, a, to begin with, when you look at this quarter, I mean, we should have basically already seen some increase in the loan yields. We have not seen the commensurate increase because a lot of the repricing which was linked to either the EBLR or the MCLR is actually yet to kind of fully play out. So assuming on an as is basis, I mean, there is already a 7 to 8 basis points of margins, which will come through in the next quarter or two. So I think that's one element.

The second is in terms of how we look at deploying our excess liquidity. I think CD ratio we're already at about 96%. So I think we will continue to improve on our loan spreads. I think that's really the focus and that is a function of how we get our cost of funding lower. So we are using every event to kind of continue to compress the spreads that we offer on our deposits to competition and that's been a very historical Journey for us post March 2020. So whenever we are seeing interest rates or let's say cost of deposits actually go up in the industry today, we have also increased, but we've not increased with the same intensity as the market. So I think we will use that opportunity to also expand.

The third clearly is the mix in our cost of funding which is on the CASA. Within CASA, you know the proportion of how that kind of also plays out. So it's a combination of these which will play into the net interest margins. The last element is also on the recoveries and resolutions because that also plays in terms of a drag that I have on the net interest. So it's a combination of these four broad events.

Saurabh: So for the ROA guidance of 0.75%, the NIM on that, I mean, to achieve that should be around 2.9 odd percent.

Niranjan Banodkar: So we should be exiting at about 2.9%. For the full year we should be at about 2.7 to 2.75%.

Saurabh: But the Q4 exit should be around 2.9.

Niranjan Banodkar: That's right. Upwards of that.

Saurabh: And what will be the average cost of savings right now?

Niranjan Banodkar: We should be in the 5% handle, Saurabh.

Saurabh: 5%.

Niranjan Banodkar: Actually, it's 5%. Yes.

Saurabh: And just one last question, sir. On this large infrastructure account, which in your SMA-2 book, what's your expectation that this could potentially slip in forward quarters? And where are you exposed? Are you at the group company or in the SPVs?

Prashant Kumar: No, I think, we don't see any possibility of this account slipping into NPA category, and this account remains under SMA-1 or SMA-2 for a very, very long time, and the issue was more in terms of mismatch between the revenues and the obligations for this. But it's a strong company backed by strong security, and we don't see any possibility of slippage at all.

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

Kunal Shah: So first question in terms of this impact of ARC sale on GNPA and net NPA. So the way to look at it is in terms of the carrying value which is there that will directly go out of the GNPAs, corporate GNPAs of 25 odd thousand crores which are there. So maybe minus 8,800 and at the net NPA level, how would be the impact?

Prashant Kumar: No. So Kunal, I think if we try to see in a slightly different way, the 48,000 crores of stressful asset, which we propose to transfer to ARC is excluding of the slippage happens in the Bank after 1st October, 2021, right. And similarly, some of the category of loans like foreign currency loans, which are regulatory, cannot be transferred to ARC, would remain within the Bank. So it means when we would be exiting the FY23, we would be having the slippage after 30th September 2021 in some of those category of loans. But we would also be seeing a recovery and upgradation from that pool also. And since our slippage guidance for The Current financial year is 2%, so we would be expecting a GNPA number of between 1.5 to 2% by the end of the FY23 and the net NPA of something around 0.5 to 0.6.

Kunal Shah: So GNPA would be 1.5 to 2 and net NPA of 0.5 odd percent.

Prashant Kumar: Yes.

Kunal Shah: Of the overall. So this is broadly in terms of we are talking at the Bank levels.

Prashant Kumar: Correct.

Kunal Shah: So this entire corporate banking piece which is there that would move out. So I just wanted to understand from the corporate banking GNPAs which are there, okay, 25,000, so how would that behave post the sale and towards the end of the fiscal year?

Prashant Kumar: So the corporate NPA would be out. Okay.

Kunal Shah: So it has nothing to do with the carrying value on the balance sheet. So it will directly in the larger part of this file.

Prashant Kumar: Entire pool will be out.

Kunal Shah: Okay. So that would be out in the same way you are talking about the net NPA. And in terms of this restructure, so, again, when we look at the COVID related restructuring, I think decline was almost 210 odd crores and I think that's the number you highlighted in terms of slipping into NPA as well. So to direction try to assume that maybe there has been no recoveries which are coming in from the restructured pool, and if we really look at it, when do we expect this pool to move out? And maybe what would be our estimate of the further slippage going forward on this 3,700 crores of COVID related restructuring?

Prashant Kumar: I think the behavior of the COVID restructured pool has given us a positive surprise. The retail and SME COVID structuring pool is behaving very well. The customers are repaying as per the restructured plan and the collections have been good. We have seen only one reduction on the corporate side from this COVID restructuring. Otherwise, the pool is behaving very well. But definitely, we can't expect the similar asset quality trends in the restructured pool also as compared to the remaining part of the loan book. There will be definitely some incremental delinquencies out of the restructured pools, but that would not be meaningful or significant.

Kunal Shah: And when does this actually move out? So when should we see is reflecting? Maybe it will be September or it will be till March?

Prashant Kumar: No, actually, because as per the COVID restructuring, they have been given a timeline. Ravi, any idea? Two years or what? So I think it would take some time, because as per the restructuring, they need to continue to serve and completely repay the FITL. Right. Once they would make the FITL as zero, then they would be considered out of the COVID restructuring.

Kunal Shah: Got it. And in terms of the overall expenses, so I think maybe when the Bank was under this entire restructuring scheme, I think that was the place wherein there would have been the cost cuts and some ROI management through the operating efficiency but, in fact, that's growing. It seems to be pretty much into the investment phase and given the growth guidance which is there, how should we really look at this number? In fact, when we look at it maybe 30% still seems to be low and we will be investing it much higher getting forward into the next 18 to 24 months or it should stabilize?

Prashant Kumar: Kunal, I am not able to get you very clearly on this question. Can you please repeat?

Kunal Shah: No, sir. I'm just saying that, see, one, two years have been the year of consolidation and maybe not too much of an investment. So definitely we have been building up the retail and the SME and disbursements are going up, but to what extent we are done? If we have to look at it in terms of our objectives, targets, how much of that Investments is already done in the franchise? And we should now see more of a stabilization of the OpEx or maybe we have just started off maybe Q4 whatever numbers we are seeing, 33% rise, 6% quarter-on-quarter rise, that's just the start and we should see the buildup over here in terms of the overall operating expense other than the employees?

Prashant Kumar: So, Kunal, I think most of the investments would happen during the current financial year. And that's why we would be seeing a expense ratio of around 70%-71% for the year FY23, and next year onward, this expense ratio would start improving. Though there would be a continuous investment, which we will require, but I think the kind of investment which we are doing would also give us the proportionate increase in the revenues, and we are also bringing the overall efficiency into the entire system which would also bring a lot of improvement on the expenses ratio.

Niranjan Banodkar: Kunal, I think just one more point I also wanted to add is if you look at the cost to income thought process for the retail business is clearly higher than corporate, right, just a cost income, and over the last two years what you have also seen very substantially is that the mix on the balance sheet or the assets is actually also moved in favor of the retail. So while in isolation if you look at retail, you would have seen them on an improving trajectory from a cost efficiency standpoint, but just the sheer mix moving into retail has also meant that some of the cost to income ratios have been at 77, 78% for this quarter, but largely, we should be 71%, right?

But I think just coming to the point, this year, if you look at our cost to assets, we were at about 2.4%. I think that we have allowed to expand to 2.6% in June and possibly for this particular financial year, and that is coming on the back of multiple things, right, that Prashant just mentioned for this year. But we will see that offset coming in from the revenue to assets as compared to fiscal 22. We will see margins which expanded from 2.1% to 2.5% in fiscal 21. We should see the 2.4 that we are right now to expanding to exiting to 2.9%. So you will see NII to assets actually offset that cost. One.

Number two, there will also be because June was in some ways coming off the back of a very good March quarter, also, it was not a very comparable one from some of the retail business standpoint. I think we should see a good momentum sequentially also pick up. So the fees to assets should also do better. And if this coincides with also the contribution from corporate growth because on a YOY basis, corporate growth has been lower. So that also will start supporting the cost to income quite constructively.

Kunal Shah: So I understand it from the income perspective, but purely on the cost side, would we allow this 2.6% to further expand or it should stabilize? Maybe income, I think, yes, there would be levers, but broadly, in terms of the cost, is there the investment mode which is still on and we'll further allow it to expand beyond that as well?

Niranjan Banodkar: So Kunal, as I said, we will not allow the cost to assets now to go beyond 2.6%.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Thanks. What would be the capital implication for the ARC transaction?

Prashant Kumar: What is the possible? Sorry?

Sri Karthik: What will be the impact on our capital ratios because of the ARC transaction?

Prashant Kumar: Kunal, the transaction would be capital neutral, but due to some accounting entry, it would be having an impact on the Capital Ratios. Otherwise, it's capital neutral for us.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please proceed.

Anand Dama: Thank you, sir, for the opportunity. Sir, if I'm correct, basically, what you said in the earlier one of the query, is that all of these 48,000 Crores of NPA which will move out to ARC is part of the current GNPA pool, right? Nothing is already written off.

Prashant Kumar: No, it also includes almost say Rs. 15,000 crores which has been written off.

Anand Dama: So 48,000 minus 15,000 crores is the gross value which will move out of the GNPA and how much will move out of the NNPA in that case?

Prashant Kumar: How much of the?

Anand Dama: So what is the net carrying value which is sitting into the NNPA pool at this point of time?

Prashant Kumar: Rs. 8,300 crores.

Anand Dama: Rs. 10,300 crores.

Prashant Kumar: Rs. 8,300 crores.

Anand Dama: Rs. 8,300 crores. And, sir, secondly, the cash which you will receive from the ARC certainly after the switch auction happened, now will that not really even partially flow into the P&L?

Niranjan Banodkar: Sorry. Is the question that will the cash flow into P&L? Was that the question?

Anand Dama: Yes.

Niranjan Banodkar: No, that the cash will not flow into the P&L. The cash will actually go down to reduce the carrying value of the security receipts.

Anand Dama: Of the security receipts. Okay. So there will be no P&L impact because of this ARC transaction at all. All that it will do is basically optically reduce the NPA ratio. It will move out of the balance sheet. It will go to the ARC. And secondly, there will be no capital impact as well. I mean, there is no capital release as well, right?

Niranjan Banodkar: Right.

Anand Dama: So in that case, the CET ratio being slightly lower than the piers, what is our capital raising plan?

Prashant Kumar: So, currently, we are sitting with a CET of 11.9%. We would definitely like to increase it to at least 14% kind of thing. So during the current financial year, we would see when this kind of opportunity would come, but we would like to raise capital in the current financial year.

Anand Dama: Sir, any quantum?

Prashant Kumar: Around $1 billion.

Anand Dama: Thanks a lot, sir.

Moderator: Thank you. The next question is from the line of Ankit Bihani from JM Financial. Please go ahead.

Ankit Bihani: So I just had one question. I wanted to know what proportion of your loan book is floating rate and of the floating rate, how much would be linked to repo?

Niranjan Banodkar: So we have approximately 36%, which will be at the MCLR and we'll have about 25% which will be EbLR.

Moderator: Thank you. The next question is from the line of Sagar Rungta from Anand Rathi. Please proceed.

Sagar Rungta: Just one data keeping question. What were the restructured slippages you mentioned? Thank you.

Niranjan Banodkar: We had about 130 crore that has slipped from the restructured book into NPA.

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

Rakesh Kumar: Thank you for the opportunity. So just coming back to this stress asset sell to ARC transaction. So please correct me if I am wrong of the total transaction of 48,000 crore, we have got the bid of 11,100 crores. So basically, there is a write down of around 77%, right? And we approximately have provision coverage of 83%. So we are going to get write-back of the provisions of around Rs. 2,900 crores which you said just now that it will go towards reduction in the SR value instead of provision write back in the P&L. Correct?

Prashant Kumar: Absolutely.

Rakesh Kumar: And this Rs. 1,600 – Rs. 1,700 crores number which is part of the cash, this will come into the P&L or like what is that like against the sale of the stressed asset?

Prashant Kumar: Yes, this would reduce the carrying value of this.

Rakesh Kumar: But this 2900, which is the difference between the PCR what we carry and what is the write down that JC Flowers is giving, so this 2900 should be rooted into the provision line, right?

Niranjan Banodkar: Sorry, Rakesh. Can we just very quickly start with the numbers, again? 2900 reflects what?

Rakesh Kumar: So according to the bid of 11,100 crore, so there is a write down of 77%. We are carrying the provision of 83%.

Niranjan Banodkar: Understood. Let me just very quickly explain. So the first rule in an ARC transaction is that you have to record the security receipts at the lower of the security receipt consideration or the current book value whichever is lower. So as a thumb rule, if I am selling these at 11,000, let's say, 11,100 ballpark, the carrying value is 8,300. I cannot have a balance sheet carrying value which is more than 8,300. That's the first step. Number one.

The second is that I can recognize anything into P&L only if I receive cash. However, because I have a principal outstanding, the P&L will be used to further create or reduce the value of that security receipt which means on the 11,000, when I get the 15% cash, the 8,300 will be further reduced to get the carrying value to about, let's say, 6,700.

Rakesh Kumar: And secondly on this slippage ratio number guidance, which we have provided at around 2%, so the Rs. 3,700 crores slippage we are expecting on a gross basis from the remaining nine months and we have a slippage of Rs. 1,000 crores in the first quarter and 1,500 crore of recovery upgrade. So we have actually net slippage a negative number. So what is the credit cost that we are estimating our expectation that we have?

Niranjan Banodkar: So Rakesh, our actually slippage is the way we are looking at the full year slippage is from a gross slippage standpoint. We've always said that this year our provisioning write back or the recovery that will have some bad debts should be quite sufficient to offset any provisioning requirement that we will have on our existing book either through slippages that we will have or the aging related provision that we have. So that, let's say last year the provisioning to assets was about a 55 basis points in FY22. We should actually see a lower reading in fiscal 23 as a consequence of the recoveries that we will have, possibly in the 25 to 30 basis points range.

Rakesh Kumar: And just coming back to because of this ARC transaction because this net NPA number would fall, so we would have positive impact on the margin. Correct?

Niranjan Banodkar: I mean look, from an NII to assets, we should see I would say marginal improvement. That's because to the extent of cash that we receive will go to improve the NII to assets, but from a NIM perspective, it's actually cosmetic. So I would say just from an NII standpoint, the cash that we receive is the real contributor to the NII of the bank.

Rakesh Kumar: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Anusha Raheja from Dalal and Broacha. Please proceed.

Anusha Raheja: With respect to again this ARC deal, you said that reduction in the gross NPAs would be to the tune of 15,000 odd crore, right? Am I right there?

Prashant Kumar: Sorry. Again, come up.

Anusha Raheja: With respect to this ARC deal, out of this 48,000, reduction of the gross NPAs would be to the tune of 15,000 odd crore.

Prashant Kumar: No, we were saying like 48,000 crores includes 15,000 crore which has been technically written off and sitting outside the balance sheet.

Anusha Raheja: So 15,000, that is sitting outside the balance sheet. This 33 is the current carrying NPAs because if I just look at it as on Q1, the current carrying NPA, gross NPA is 27,000. So 15 is technical written off assets.

Niranjan Banodkar: That just also includes a non-performing investment.

Anusha Raheja: So can you just give up the breakup, like what will be the current carrying value of NPAs and technical written off? And what could be the restructured assets in this 48?

Niranjan Banodkar: Ma'am, the carrying value in the balance sheet as of 31st March which we've explained is 8,300 across the NPA, NPI pool which is going to be transferred.

Anusha Raheja: So that is the net NPA.

Prashant Kumar: Which is going to be transferred to this and the gross is the 48,000 crores including 15,000 of technical write-offs.

Anusha Raheja: Again on this, so what could be the reduction in the gross NPAs? 8,300 was the reduction in the net NPAs. What could be the reduction in the gross NPA?

Niranjan Banodkar: Gross NPA would be lower by about 26,500 crores.

Anusha Raheja: Sorry. Come again.

Niranjan Banodkar: About 26,500 crores. 26,000 to 26,500 crores.

Anusha Raheja: And when is the deal likely to go through? When it's expected to complete?

Prashant Kumar: We have already launched a Swiss Challenge process. It would take like around 75 days kind of thing. So I think the whole assignment would happen in the third quarter.

Anushka Raheja: And what are the estimates of flows expected post sale of these assets to ARC? It will have a pool of Rs. 48,000 crore. Usually, you will be having a 20% stake. So it is pari passu or how is it?

Akash Suri: So on this structure, the security which is that the banks will hold will be on a say pari passu basis. Like we said that gross value would be Rs. 11,183 crores, so that is in some sense say reflection of the prognosis that a third party has made and said recovery on the same will happen over due course of time.

Anushka Raheja: So the estimate that you have given of the NPA of 1.5 to 2%, anything that is built into these numbers? The flows of ARC, anything is built into these numbers.

Prashant Kumar: No, I think whatever like what I was sharing that…

Anushka Raheja: That will get reduced from SRs I guess.

Prashant Kumar: Yes.

Anushka Raheja: But I did not actually understood why it will not have a P&L impact because whether it will be received in cash or how the transaction is likely to happen? Because usually, if you get in cash, that's usually pari passu, right?

Akash Suri: So the P&L impact will not be there because of the regulatory guidelines. The regulatory guidelines only allow say write back if in case say cash for that specific asset will be more than the net carrying value. So because of that say P&L impact will not be there and this will largely have a impact on the net book value of the security receipts. But the important point is that from a economic perspective, you will see that say a book which has net carrying value of 8,300 crore that has been submitted at Rs. 11,000 plus. So whatever is the delta, that delta would come back to bank as and when recoveries would happen.

Anushka Raheja: So anything recovered beyond the selling price would add to the P&L. Is that correct?

Akash Suri: Sorry.

Anushka Raheja: Anything that you receive from the ARC beyond the selling price, that could add to the P&L?

Niranjan Banodkar: So as and when the recovery, not beyond the selling price, the point that Akash mentioned. So let's say, we keep getting the recoveries would mean that we basically keep writing or rather reducing the carrying value in our balance sheet. When the carrying value is effectively, let's say, zero, any recoveries over and above that becomes into P&L. So it's like in this particular structure, the P&L benefit of effectively Rs. 3,000, let's say Rs. 3,000 crores or 2,800 crores that we are talking about is kind of rear-ended from a P&L benefit standpoint, but it is there and it has been basically validated through the bidding process that has come through.

Anushka Raheja: Okay, sir.

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

Prashant Kumar: So thank you so much for attending this call. We hope like we have been able to clarify your queries, but still if there is anything where you require more clarification, you are most welcome to reach out to us. Thank you so much.

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