YBL/CS/2023-24/022

April 28, 2023

National Stock Exchange of India Limited
Exchange Plaza,
Plot no. C/1, G Block,
Bandra - Kurla Complex
Bandra (E), Mumbai - 400 051
Tel.: 2659 8235/36 8458
NSE Symbol: YESBANK

BSE Limited
Corporate Relations Department
P.J. Towers, Dalal Street
Mumbai – 400 001
Tel.: 2272 8013/15/58/8307
BSE Scrip Code: 532648

Dear Sirs/Madam,

Sub.: Transcript of Earnings Call for the audited Financial Results of the Quarter (Q4) and Year ended on March 31, 2023

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 audited Financial Results of the Quarter (Q4) and Year ended on March 31, 2023. 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=q4_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: 2023.04.28 17:44:29 +05'30'

Shivanand R. Shettigar
Company Secretary

Encl: As above

"Yes Bank Limited

Q4 & Full Year 2023 Earnings Conference Call"

April 24, 2023

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. RAVI THOTA – COUNTRY HEAD, LARGE CORPORATES – YES BANK LIMITED
MR. SUNIL PARNAMI – HEAD INVESTOR RELATIONS – YES BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Yes Bank's Q4 and Full Year 2023 Earnings Conference Call. On the management panel we have with us today Mr. Prashant Kumar, MD and CEO; Mr. Rajan Pental, Executive Director ~~and Global Head, Retail Banking~~, Mr. Niranjan Banodkar, Chief Financial Officer, Mr. Ravi Thota, Country Head, Large Corporates and Mr. Sunil Parnami, Head of Investor Relations.

Mr. Prashant Kumar will give you an overview of the results which will be followed by a question-and-answer session. As a reminder, all participants' lines will be in a listen-only mode. Should you need assistance during a conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note this conference is being recorded.

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

Prashant Kumar: Thank you. Very good morning and thank you everyone for joining so early in the day on Yes Bank's Quarter Four and Full Year FY23 Financial Results Call. With me, I have the top management team of Yes Bank. Before coming to the key financial highlights for the quarter and last financial year, I would like to start by giving you a glimpse of the Yes Bank of today, which we are building as a new age, professionally run, granular franchise catering to Digital India with best-in-class technology and API stack. While you may please refer slide three to six of our investor presentation, I would like to summarize the key highlights as under.

Yes Bank has made a strategic shift towards a granular franchise. As on March 23, we have retail assets of nearly INR90,000 crores, which is 45% of the total assets and retail liabilities at INR1,15,000 crores, which is 53% of the total liabilities. Yes Bank balance sheet has been fortified as all the legacy asset quality issues of the past have been addressed through a combination of recovery, resolution, upgrade and transfer to an ARC. As against 4.8% at the end of FY22, the net NPA and net carrying value of security receipt as a percentage of net advances has reduced from 4.8% to 2.4%.

Going forward, on a proforma basis, we do not expect any major impact due to the ageing related provisions through FY24 to FY26. Yes Bank today has a comfortable liquidity and capital position with CET ratio of 13.3% and overall capital adequacy in excess of 17.9%. While strategically moving towards a granular franchise, the Bank has been able to fully protect its core operating profit with PPOP to Average Assets remaining between 0.9% to 1% over the last three years. The productivity and efficiency gains realized during this period has actually allowed us to protect our core operating profitability.

Lastly, but very importantly, the Bank has all the key levers in place to build a scale and further improve profitability in the mid-term. We are here to build the scale and improve the core operating profitability through a very disciplined execution through the following key initiatives. The first one, higher focus on current account and granularity in saving account supported by expansion in our distribution.

Number two, increase in retail mix with calibrated yield enhancement. Number three, strong fee growth through cross-sale and transaction banking. Number four, and this is very, very important for us, to address the RIDF or the PSL debt through both organic and inorganic means. And the last one, the operating leverage and productivity improvement through digitization. So, as we take these strides, we would like to take this opportunity to sincerely thank all our shareholders, our board members and our customers for their continued support and faith in the new Yes Bank franchise.

Now, moving over to FY23 and quarter four financial results, we are pleased to report consistent improvement across all our core operating matrices as well as the strategic objectives. In the year and quarter gone by, we have achieved, like on the profit and loss side, FY23 marked the second straight year of full profitability. The quarter four profits are INR202 crores and which are higher three times sequentially despite accelerated provisioning. Full year profit for FY23 is INR771 crores and this is due to step up in the provision coverage ratio through accelerated provisioning. We will touch upon the accelerated provisioning later in the call.

Quarter four operating profit is standard INR889 crores, which is higher almost 15% Y-o-Y. But our normalized operating profit for FY23 has gone up by 22.6%. Quarter four FY23 net interest income highest in nine quarters at INR2,105 crores which is gone up by 15.7% Y-o-Y and 6.8% quarter-on-quarter. And for the full year, the net interest income has gone up by 21.8%. NIM for FY23 2.6 which is an improvement of 30 basis points on reported basis and 22 basis points net of ARC transaction. NIM for Q4 FY23 2.8%. However, adjusted for the ARC transaction, quarter four FY23 NIM have remained flattish sequentially.

The core fee income shows significant traction driven primarily by sustained momentum across segments of retail banking fee components as covered on slide 13. Non-interest income at INR1,082 crores has gone up by 22.8% Y-o-Y. The non-interest income for the full year at INR3,927 crores has gone up by 20.4%. But if you exclude realized or unrealized gain on sale of investment, the core non-interest income for the full year has gone up by 31.1%.

Moving over to operating expenses as covered on slide 14. As you may notice, the operating expenses have been a bit presented differently compared to the earlier quarters in order for us to show the real drivers and its impact on overall cost. Banks operating expenses for FY23 stand at INR8,661 crores which is gone up by 26.5% mainly due to higher IT spend and other expenses. Cost to income ratio calculated on normalized income remains flattish Y-o-Y and in quarter four, the expenses have gone up by 19.3% Y-o-Y.

If we see our balance sheet, the net advances at INR2,03,269 crores has gone up by 12.3% Y-o-Y and 4.5% quarter-on-quarter. And if we exclude or normalize for ARC transaction and reverse repo, our net advances has gone up by 13.2% Y-o-Y. There was a sustained improvement in granularity. Retail SME, mid corporate and corporate mix has further improved to 59% for retail MSME, 14% for mid corporate and 27% for large corporate. Particularly, retail advances mix 45.2% against 43.7% in December quarter.

For FY23, the new sanctions and disbursements, which include the limit setup, they are INR1,00,000 crores with retained disbursement of INR50,000 crores and INR25,000 crores of SME, limit setup and disbursement. Total deposit at INR2,17,502 crores has gone up by 10.3% Y-o-Y and 1.8% quarter on quarter. The CASA ratio at 30.8 against 31.1 in FY22 and 29.9 last quarter. During the year, we have opened 13.4 lakh CASA accounts. The average LCR during the quarter remains healthy at 118.5% and LCR as on March 31st was 126.3%. But I think very, very importantly, the average CASA deposit for FY23 has gone up by 26.3% Y-o-Y and supported by 30.4% growth in the average current account deposit.

And bank is currently acquiring in excess of 1.3 lakh CASA customers on a monthly basis and this run rate would continue to improve during the rest of the year. While saving account balances, our strategy of increasing the share of granular saving accounts that is balanced of up to INR2 crores yield positive results with share improving to 78% of saving account deposits. The average daily saving account has also grown by 23.7% Y-o-Y in FY23.

Coming to asset quality, the details are there on slide 3, 19 and 20. But at an overall level, there has been a good improvement in the asset quality. Sequentially, there has been a 60 basis point reduction in net NPA plus net carrying value of security receipts as a percentage of advances from 3% in December quarter. The GNPA ratio at 2.2% against 13.9% last year and 2% last quarter.

The net NPA ratio has improved to 0.8% against 1% last quarter and 4.5% last year. The resolution momentum continues to be strong with total recoveries and upgrades for FY23. Last quarter, quarter four is INR6,120 crores well ahead of guidance of INR5,000 crores. This is for full year, not for the last quarter. There has been further improvement in drag of labelled exposures. The slippages continue to trend lower for FY23, INR4,775 crores against INR5,795 in FY22. And for quarter four, the slippages are INR1,196 as against INR1,610 in quarter three.

There has been an increase in overdue loans in 30-day bucket but that is also offset by reduction in the 61-90 days. On the capital side, our CET ratio is 13.3 and the total capital adequacy at 17.9. Risk weighted asset to total asset has improved to 69.1% against 72.8% in FY22 and 70.9% last quarter. This is due to improvement in collateral and well-rated book, loan repayments in higher risk buckets and lower market risk capital charge due to higher provisioning for the security receipt.

During the year, we have also in addition to opening the 83 branches, we have also added more than 3,000 employees. We have also launched several new products including Yes Express, an industry-first digital onboarding platform for seamless onboarding experience for availing the cash management and smart trade products. We have also issued the first electronic bank guarantee in partnership with National E-Governance Limited.

We have become the first bank in Asia-Pacific to bring forth a debit card and MasterCard premium lite platform. We have also launched industry-first build-your-own card which allows customers to fully customize a credit card. All the above points demonstrate a strong momentum in the build-up of a good quality and granular franchise.

With this, I want to thank you 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: We will take our first question from the line of Mahrukh Adajania with Nuvama. Please go ahead.

Mahrukh Adajania: Hello, sir. Congratulations. My first question is on basically the SRs. You did mention that you don't foresee any big aging provisions on SRs. But when do you see recovery start kicking in?

Prashant Kumar: So, Mahrukh, on the security receipts, recoveries have already started kicking in because we are able to get almost INR1,100 crores from the security receipt during this quarter. Currently, the aging provision for both security receipts as well as for our net NPAs would be in the range of 80 basis points for the FY24 and 100 basis points for FY25. But we believe that the recoveries and the redemption from the security receipt would not only take care of the aging provisioning for the security receipt, but would also take care of the aging provision for our net NPAs.

Mahrukh Adajania: So basically it will be 80 basis points of cost, gross, but net would be somewhere zero, is what you are suggesting?

Prashant Kumar: Yes.

Mahrukh Adajania: So the P&L impact will be what? It will be very marginal. I mean, if you have to build credit costs for 24?

Prashant Kumar: So, Mahrukh, credit costs for 24 would be on account of the future slippages. Okay. And those future slippages, we believe some of the credit costs on account of future slippage would also be met by the recoveries and the upgradation.

Mahrukh Adajania: Got it. So it will be safe to build in 40-50 basis points or what kind of a credit cost would be a good assumption?

Prashant Kumar: Mahrukh, 40-50 basis points of credit costs to assets, I think is a reasonable assumption.

Mahrukh Adajania: Got it. And just in terms of the overall growth outlook. So where do you see the growth margin debate settled for Yes Bank? Because people are seeing pressure on margin for the sector and FY24. There are mixed views on whether growth will slow down or not apart from the base effects. So where do you see it settled for your bank?

Prashant Kumar: Mahrukh, instead of saying like the margins will be settling for us, I would be saying we have already started moving in an upward direction. And why this is there, I would completely agree with you that because of the higher rate of interest scenario and the cost of deposit for the current year because of the reset would go up. But if you see our average CASA deposit growth, okay, which is 26% and our average current account growth is 30%.

And this I am saying overall deposit growth of the reported growth of 10.2%. But even the average deposit growth for us has been 16%. So I think we would continue this journey in terms of focusing more on the CASA deposits and we are as a bank, we don't go only for the end of period kind of balances. Our focus is more in terms of average balances, which actually is helping us not only in terms of building the liquidity, but also in terms of bringing down the overall cost of deposit.

Mahrukh Adajania: Got it. Okay, so I am guessing this basically this increase in the 30-day bucket that's driven by what segment?

Prashant Kumar: So this is basically the segment I would be saying is not so critical. I think this is mainly because of two things. One would be like March is a 31-day month. And the moment it's a 31 days anything which is paid on 31st day, which comes into this bucket of 31 to 60 days, which will not happen in June because June is a 30-day period. That is one thing.

Second also in terms of that we have implemented that out of order context and in out of order part that inflows have to come in the preceding 90 days, so there has been some impact there also, but fundamentally we are not seeing a behavioral change in any of the industry or any of the buckets.

Mahrukh Adajania: Got it sir. Thanks so much. Thank you.

Prashant Kumar: Thank you.

Moderator: Thank you. We take a next question from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi sir. Good morning and thanks for the opportunity. On the warrant, so we have received the 25% of the money and that is not a part of CET-1. So just wanted to check out, basically what is the standard timeline for the warrant conversion? This is standard 18 months and when does this money gets into CET-1?

Prashant Kumar: So basically I think if you see our initial thing, the warrant money should flow into the 15 or 18, 18 month period. So I think basically it may happen either just before the close of the current financial year, I am saying FY24, it may also go into the first quarter of FY25.

Jai Mundhra: Sure, and even the cash 900 plus that we have got, that will only become part of CET-1 only upon the complete exercise of the warrant?

Prashant Kumar: Yes, absolutely. As per the regulatory guidelines.

Niranjan Banodkar: That's right Jai and just on that treatment, you know, once we have abundant clarity confirmations, only then we will be able to take that into CET-1. For now, we have conservatively not taken that as part of CET-1.

Jai Mundhra: Sure, and if you can help me with the RWA amount, in absolute amount as of March, if you have that handy?

Prashant Kumar: Bear with us for 30 seconds, we will just share that, okay?

Jai Mundhra: Sure, and secondly, Jay, if you want to update on the status of AT-1 bond which is subsidized, but if you can explain your thought process at this point of time.

Prashant Kumar: No, Jai, I think since the matter is pending before the Honorable Supreme Court at this point of time, in addition to saying that right round of AT-1 was done in accordance with the regulation, Basel-III regulation, we have seen this, we have a very, very strong legal opinions about it. But since matter is pending in the Honorable Supreme Court, we would not like to add anything as of now.

Niranjan Banodkar: Jai, sorry, to your previous question, the number is INR2,45,000 crores, INR2.45 trillion.

Jai Mundhra: Sure, thanks. Sir, the second question is on PPOP, right? So, I take your point that credit cost is going to be very benign, at least for the next 12 months. But how do we look at the PPOP margin of the bank, right? So, your costs are also elevated and you are, of course, building a lot of investing into franchise and the margins in this quarter were also very good. So, even if I were to take fourth quarter of PPOP margin, still around 1.1%, 1.2% of efforts, even if the credit cost were to be very benign, it will not help until and unless PPOP margin goes up to a large extent. So, what is your thought process on the PPOP margins trajectory?

Prashant Kumar: So, Jai, I think what we are also trying to communicate that this strategy on the granularization of balance sheet, especially going on the retail, always bring that additional burden of the cost. Because if you see our increase in the cost, this is mainly related to the business cost. That is one part.

Second thing, the major cost is also coming from IT. And this additional investment in IT is not only preparing the bank for the future, but also for bringing the efficiencies in our systems and the processes. So, more digitization, more internal, say, efficiency. So, I think what we have done, and this is not something we are saying that we would jump to a particular trajectory, but it is a continuous upward movement for us.

Niranjan Banodkar: Jai, sorry, if I can also add to what Prashant mentioned is, I think you also have to take into cognizance the risk profile of the balance sheet, which is also meaningfully changed over the last three years. So, for example, if I actually look at normalizing for the RWA to assets and look at RWA, you would actually start seeing already an improvement in the normalized behavior. So, just to summarize, what we are saying is, over the last three years, retailization has therefore kept, let us say, the PPOP to assets at check.

And the reason is because, in fact, there were a lot of efficiency plays that played out within the retail businesses. Had it not been for that, in fact, the PPOP to assets would have actually come lower, number one. Number two, we also see that the risk profile has improved, and a good indicator of that is the RWA to total assets. So, despite that coming off sharply, we continue to see our PPOP to assets maintained. It is a time of, I would say, going forward, it is a matter of scale, the operating leverage that kind of kicks in, is what is going to result into expansion of PPOP to assets.

What I would like to add is, we understand, of course, the cost of funding play is something which, of course, it is not going to be a magical pill. But, therefore, there has been also a focus of banks to also look at how can it improve fees. And one of the, I would say, a big takeaway that we have had for fiscal 23 is you just look at the run rate of the retail fees, the way it is growing.

So, clearly, these elements will start playing out. I think Prashant in his opening remarks also mentioned that we need to address RIDF. Clearly, that in itself has a significant drag on our PPOP to assets to the extent of close to almost 30, 35 basis points. So, once we start, which is the work that we will solve, due to solve these, we will start feeding in that 5, 10 basis points into the PPOP to assets. So, we are actually, we are quite confident that the work that has gone in over the three years, and that we will continue to do, will give us long-term sustainable PPOP to assets without necessarily looking at one quarter or two quarters.

Jai Mundhra: Sure, thanks. And, sir, lastly, I think in your opening remarks you mentioned that the NIMS has gone up by 30 basis points Q-o-Q. That is, if one were to adjust for the ARC convection, then the NIMS expansion is, I think, 10 basis points only. So, if you can elaborate, sir, I mean, is this only the mathematical numerator, sorry, denominator thing that is the adjustment, or is there anything else which impacts the reported NIMS?

Niranjan Banodkar: So, at an NII level to assets, clearly, because that does not take into account the ARC sale, there is about 8 to 10 basis points improvement in the NII to assets. But from a reported net interest margin perspective, given that, we went to the ARC transaction and there was a cross and net denominator adjustment that happened, the NIMS have gone down to 2.8%. But I think the way to look at this going forward, Jai, is that what you are seeing as Q4 actually is more reflective of the franchise from here on.

Jia Mundhra: Great. Thanks, Niranjan. Thank you, sir, and I will come back in the queue.

Moderator: Thank you. We will take the next question from the line of Pratap Makwana, an investor. Please go ahead.

Pratap Makwana: Good morning, all. First of all, congratulations for such a nice result. I have two questions which pertain to the report which has been submitted for the current result of FY22 to FY23. Bank has done fantastically well in all four fronts except the three areas, provisions, enhance the provisions, net profit, decline year-on-year, and EPA. These are the three areas of concern for the investor.

I would like to know from the management what is the provisions which has been increased year-on-year? What is the breakup of the provision carried forward and how it is going to be utilized, whether it is asset quality improvement, whether it is for the NPA reduction, or whether it is asset expansion? You have mentioned the 89 branches have been added, and so when these 89 branches come across in terms of adding the revenue in NII as well as the gross profit also?

My second question on this regard is that being a retail investor, so what is the plan for bank management to distribute the profits to the investors in terms of the dividends and the bonus because the operating profits have been increased, not the net profit has been increased due to the provisions carried forward? Thank you.

Prashant Kumar: Pratap, thank you so much for taking time out and joining this call and to have a continued interest in our bank. I just missed out, you were saying there are three things where we have not been able to deliver. One is on the provision side, second was on the net profit, and what was the third thing?

Pratap Makwana: EPS. EPS, Earnings Per Share.

Prashant Kumar: EPS, okay, right, sorry, I got it. So, fundamentally Pratap, actually if you see in terms of our core operating profits are continuously improving with good growth on the quality deposits and also in terms of moving to the advances which is more granular, which is more safe, which would not actually go for any kind of credit cost going forward. If you see our net NPAs as on March 22 and with very, very minimal security receipt, it was 4.8%.

Now, in one year, this bucket of 4.8% has come down to 2.4%. And this 2.4% of both net NPA and security receipt, suppose you take a base case, there would not be any recoveries, then you need to make some aging provision. And this aging provision would be 80 basis point in the FY24, 100 basis point in FY25. But if you see our trajectory for recoveries and the upgradation, last three years we have made almost INR19,000 crores of recoveries and upgrade. Even in the current year, we have made INR6,120 crores. This will continue in the next year also.

So, we believe that whatever is the aging provision for both NPAs and the security receipt and some of the provision requirement for the fresh slippage would be taken care by the recoveries and the upgradation. And in worst case scenario, our credit cost would be between say 40 basis point to 50 basis point going forward. And the moment that is going to happen, because if you see in last three years, the net NPAs, the gross NPAs has come down drastically, which also bring down the credit cost going forward.

We had a choice to declare a profit, higher profit, which would be actually, would be addressing your question. But I think it is important to actually strengthen your balance sheet so that the future earnings, they do not have any impact of the provisioning requirement of the past. So, I think this is the direction which we have done. We have strengthened the balance sheet quite big and we have reached to that situation where most of the credit cost, because they have come down, would be taken care by the recoveries and the upgradation. So, I think next year you would be seeing that kind of the profitability which would be coming in our operation and which would be actually talking about an improved net profit and definitely improved EPS. I hope Pratap, I am able to take this point.

Pratap Makwana: Thank you. And last part on the rewarding the investors?

Prashant Kumar: I think the moment we go into this journey in terms of declaring a good profit, so sharing the good things with all our stakeholders is definitely something which will happen going forward.

Pratap Makwana: Yes, and anything on the provisions are related to the asset quality improvement or expansion tax?

Prashant Kumar: No, so provisions always basically happens only for asset quality, bringing down the net NPS. You were talking about opening the 83 branches. Now these 83 branches, normally a branch takes 18 months to 24 months minimum in terms of for break-even and contributing sizable business. But I think we have seen like the branches which has been opened, they have already started contributing to our business. So, I think next year we would be seeing a good traction because of the new branches.

Pratap Makwana: Thank you. Thank you, sir.

Moderator: Thank you. We will take the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Hi, sir. Just two questions. One is, you know, on your CD ratio, it's around 93 and if you look at your deposit growth, last quarter has been quite decent on the retail side. But how should we think about your CD ratio going ahead? I mean, would you now want to kind of reduce loan growth, get the CD to below 90 or any thoughts there will be appreciated?

The second, sir, is on this other assets, your other assets to total asset ratio still, you know, elevated and maybe that's kind of contributing down to your overall profitability. So, what will be the view on that reduction? Thank you.

Prashant Kumar: Saurabh, we would be on the CD ratio side. I think we would be comfortable with the CD ratio of around 90% at least for the FY24. And your question related to, sorry?

Saurabh Kumar: So, incremental CD ratio should be below 90. I mean, that's the way to?

Prashant Kumar: Yes. So, basically, if you see like, if you don't go into the end of period kind of balances, okay, then our average deposit growth is around actually 16% even now, which is higher than the loan growth. So, I think this trajectory would continue and we would be actually we are targeting a loan growth between 15% to 20% and a deposit growth of around 20%. And I am again talking about the average deposit growth.

Your question related to the other assets, one of the very, very large chunk of the other asset is our investment in the RIDF, where like I shared earlier, this is a drag of almost 30 to 40 basis points. And this year we are trying to address this issue both from organic as well as inorganic means.

Saurabh Kumar: And sir, what will inorganic mean? Are they buying the PSLC?

Prashant Kumar: It would be a combination of PSLC also plus our rural branches. Currently, all rural branches are not contributing to the PSL advances. So, this year we are making available all the PSL advances at all our 400 plus rural branches. So, that would be actually part of the organic. But that would be only a part of it.

Saurabh Kumar: Got it. Thank you.

Moderator: Thank you. We will take the next question from the line of S Srinivas, an investor. Please go ahead.

S Srinivas: Yes, good morning, sir. My question is regarding the ROA, return on asset. The return on asset, is it in line with the guidance which was given earlier for the current FY? And what is the return on asset which is expected for FY24? And I would also like to know the mix between the advances and the investments for the current FY?

Prashant Kumar: So, I think if you see the ROA part, our guidance earlier was somewhere between, say, 0.4 kind of thing, 0.4, 0.5, which is 0.2 as of now. And one of the reason is that recovery estimation, some of those recovery estimation, which would be having a direct impact on the P&L, there has been some timing mismatch. It has moved to the current financial year. That is one part.

Second, also in terms of that we have, like I was sharing earlier, we are continuously strengthening the balance sheet and bringing down the net NPA and the carrying value of the security receipt. So, I think in the FY24, definitely we would be, we are targeting and we are quite confident that we would be in a position to reach that ROA of that 40 to 50 basis point on a very, very conservative basis. And if you can give the number.

Niranjan Banodkar: The advances…

Prashant Kumar: And then investment.

Niranjan Banodkar: You think the mix on the advances to total assets is about 57% as of March 23 and investment is about 22%.

S Srinivas: Okay, so now going forward, like the ARC transaction related recoveries, will they outpace the provisioning on the ARC portfolio or not?

Prashant Kumar: Yes, absolutely. Not only the provisioning requirement of the security receipt, but they would also take care of our provisioning requirement of the net NPAs which are being sitting in our book.

S Srinivas: Okay, can you just give me the figure, like as I can see the net profit for FY22 was more than INR1,000 crores and now in FY23 it's only about INR750 crores. There is a 25% reduction actually. So, is it, I mean, because of the high cost to income ratios, when do you see the cost to income ratios coming down in line with the best-in-class banks like maybe ICICI or HDFC?

Prashant Kumar: So, basically like two things are different in terms of provisioning and the cost to income ratio. The provisioning since we are continuously strengthening, then you see like next year the aging related provisions has come down to just 80 basis points. This actually is the result of bringing down the net NPAs and the net carrying value of the security receipt. But if you talk about the second part, the cost to income ratio, I think please appreciate that since we are going for the retailization of our balance sheet, you require lot of investment and the expenses for this.

But now we have reached to that stage where the cost to income ratio would start coming down in the current financial year. But if you are talking about best in class, I think it would take some time, it's a journey. I think it would take another 3-4 years where we would be at par with the best of the class banks.

S Srinivas: Okay, sir. Thank you.

Moderator: Thank you. We take next question from the line of Piyush Chawla, an investor, please go ahead.

Piyush Chawla: Hello. My question is that it was earlier indicated in this call that the operating leverage would now start to kick in and that would have a positive impact on the profit. So do you have any idea on how much should be the balance sheet size before we can see the operating leverage to actually kick in?

Niranjan Banodkar: So, when we look at the, there is a certain scale that you typically build in the retail before the benefits of those flow into the P&L, right, from a leverage standpoint. So what we are saying is if I just use, let's say, retail assets as a good example, we have already now reached a INR90,000 crores of book where we are dispersing new assets which are almost as large as, I would say, barring maybe one NBFC, more than any other NBFC and possibly in the top five or six banks in terms of the size.

Now, what that means is given that you have now a great penetration into the ecosystem of retail, you have good experience of dealing with various products and the collection understanding of that, you are able to also start building the, the yield on that book as well. So you are not moving from a low risk to a high risk, but within the, let's say, low risk, you are able to start calibrating yields. That's number one.

Number two is if you go back to the way we were also looking at sourcing our retail assets in the past, a bulk of it was indeed coming through external channels. As we are building scale, there will be a shift of the acquisition onto our internal channels. And what that also means is that your cost of acquisition, kind of comes down quite meaningfully. And that is also dependent on the extent of customer base that you have. And over time, over the last three years, we've also been able to build now a very large customer base in aggregate. We are annually adding in excess of 1 million, 10 lakh customers.

But why that is important is because it effectively gives the bank a base on which it can cross sell not only assets, but also fees, which effectively give you the income. So we believe that a, the mixed shift from a large corporate to now a large retail, that itself, meant that our cost to income remained at static levels over this last three years journey. But if we actually deep dive into the individual retail business, we've already, seen significant improvement and leverage play out.

So as the mix now keeps improving into retail, but now at a pace which is slightly slower than what we would have seen in the last three years, the benefit of that will start playing into the profitability. It is a journey. I mean, it is not going to be a one quarter, two quarter outcome. Again, I want to reiterate that. It's a journey, but I think we're very confident that over the next two to three years, you see a very good profitability outcome at a core operating performance level.

Piyush Chawla: Okay, so as I understand, I mean, the cost would largely remain the same. So my, I mean, if you can put it in numbers, what would be the balance sheet size wherein we can see the profitability which is, competitive, maybe INR4.5 lakh crores or INR5 lakh crores. What is the balance sheet size wherein the, you know, the cost would be optimized, if you can indicate a number?

Niranjan Banodkar: So let me present it in a different way. Our cost to assets is about 2.6%. We've been operating at that over the next, let's say, couple of years. You know, we don't see that cost to assets very materially changed. So we've kind of using those two cost to assets, using it to kind of continue to invest into branches, IT, investment. The work that we need to do now is really to improve the income to assets, where fundamentally we are looking at, A, improving your, cost of funding, and that's a function of how the mix of your CASA improves to the balance sheet.

Number two, we will look at yield calibration on our retail assets book. Number three, again, the point that Prashant highlighted right at the start of the call, there is almost 8% of the balance sheet today sits in RIDF deposits. These are deposits where the bank has placed in lieu of shortfall in PSL, and these yield very low.

So if we solve our PSL deficit either organically or on our balance sheet or through purchase of PSLCs, the benefit of that will play out over a two to three year period. So for example, if we take interventions next year, we should be able to expand the PPOP to assets in year two, three, and more permanently.

So the way we are looking at is fiscal 24, let's say, our cost to assets, and we've given this guidance, cost to assets broadly remains range bound. We should not see that increase meaningfully. But on your revenue to assets, we will want to continue to see improvement year on year. We've seen that this year on a normalized basis. We will continue to see that next year as well on revenue to assets.

Piyush Chawla: Okay. Yes. Thank you for that.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would now like to turn the call over to Mr. Prashant Kumar for closing comments. Over to you, sir.

Prashant Kumar: Thank you, and once again, thanks everyone for joining the call so early in the day and to have a continued interest in what we are doing as a bank. And we can assure all of you that last year, at least we are more confident in terms of we have taken the right approach, right direction. And I think with this strategy and the transformation, we will continue to deliver more for our stakeholders. Thank you so much.

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