

22 July 2024

India | Equity Research | Q1FY25 results review

Yes Bank

Banking

NIM and RoA stable QoQ; valuations appear fully pricing in the financial turnaround

Yes Bank (YES) has reported Q1FY25 PAT of INR 5.0bn with stable NIM QoQ. While opex and credit costs declined QoQ, RoA was flattish due to lower other income (MTM loss). Post the warrant conversion, CET 1 stands at 13.3%. Operating parameters have been on improving trajectory though RoA remains burdened by bulky RIDF investment (~11% of total assets). The bank is making concerted efforts in organic PSL origination, which should ease incremental RIDF burden, aiding yields and RoAs. This, coupled with easing credit costs, could improve RoA to 0.7/1.0% by FY25/26E. However, current valuation at ~1.5x FY26E ABV seems to adequately capture the turnaround. Maintain **SELL** with an unchanged target price of INR 20. Key risk: Faster than expected ramp-up in organic PSL yielding steep RoA improvement.

NIM stable QoQ but fee down; RoA stable (but muted) at 0.5%

Deposit growth was healthy at ~21% YoY with even higher CASA growth of 26% YoY. Loans grew 15% YoY and 1% QoQ. There is strategic slowdown in retail asset growth with focus on profitability/risk. Share of RoA accretive retail products has risen to 44.8% vs 44% in FY24 and 35% in FY23. Similarly, internal sourcing has risen to 48% vs 37/41% share in FY23/24. Corporate advances grew 14% YoY and 6% QoQ, vs declining trajectory earlier. LDR stood at 86.6% vs 91% YoY and 85.5% QoQ. NIM was stable QoQ at 2.4%. Opex declined QoQ, partly on lower PSL (INR 630mn vs INR 2.5 bn). Non-interest income grew 5% YoY and declined 24% QoQ due to treasury loss. Normalised fee income growth was healthy at ~20% YoY. Current profitability has been burdened by massive RIDF (~11% of assets). The bank aims nil shortfall in overall and sub-segment for PSL and aims to reduce RIDF to <5% over the next three years, driving better yield, NIM and RoA.

Slippages improve; net NPA + SR book down further to <1%

Gross slippages improved to 2.1% vs 2.4% QoQ. Net slippages also sustained at <1% run-rate for the second quarter. Net NPA improved to 0.5% vs 0.6% QoQ. Importantly, net carrying value of SR has now reduced to INR 8.5bn (0.4% of loans) vs INR 12.85bn QoQ. The receding share of net SR book and healthy recovery environment underline our comfort on FY24-26E credit cost at <50bps vs ~100bps in FY24.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	79.2	80.9	95.4	115.3
Op. profit (INR bn)	31.8	33.9	46.7	68.8
Net Profit (INR bn)	7.2	12.5	29.0	46.4
EPS (INR)	0.3	0.4	1.0	1.5
EPS % change YoY	(38.0)	63.1	122.2	53.3
ABV (INR)	13.7	14.3	15.0	16.5
P/BV (x)	1.8	1.7	1.7	1.5
P/ABV (x)	1.9	1.8	1.7	1.6
Return on Assets (%)	0.2	0.3	0.7	1.0
Return on Equity (%)	1.9	3.0	6.5	9.2

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Market Data

Market Cap (INR)	804bn
Market Cap (USD)	9,614mn
Bloomberg Code	YES IN
Reuters Code	YESB.BO
52-week Range (INR)	33 /14
Free Float (%)	61.0
ADTV-3M (mn) (USD)	79.0

Price Performance (%)	3m	6m	12m
Absolute	1.9	1.7	42.2
Relative to Sensex	(7.4)	(11.0)	21.5

Earnings Revisions (%)	FY25E	FY26E
PAT	(6)	(4)

Previous Reports

30-04-2024: [Q4FY24 results review](#)

30-01-2024: [Q3FY24 results review](#)

Exhibit 1: Q1FY25 result review

	Q1FY24	Q1FY25	YoY (%)	Q4FY24	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	64,432	77,192	19.8	74,472	3.7
Interest Expended	44,436	54,751	23.2	52,942	3.4
Net Interest Income	19,996	22,440	12.2	21,530	4.2
Other Income	11,411	11,990	5.1	15,686	-23.6
Total Income	75,843	89,181	17.6	90,158	-1.1
Total Net Income	31,408	34,430	9.6	37,216	-7.5
Staff Expenses	9,457	9,801	3.6	10,260	-4.5
Other operating expenses	13,767	15,777	14.6	17,932	-12.0
Operating Profit	8,184	8,853	8.2	9,025	-1.9
Provision & Contingencies	3,603	2,118	-41.2	4,709	-55.0
Provision for tax	1,156	1,711	48.0	(203)	-943.6
Reported Profit	3,425	5,024	46.7	4,519	11.2
Other Highlights (INR bn)					
Loans	2,002	2,296	14.7	2,278	0.8
Deposits	2,194	2,651	20.8	2,664	-0.5
Gross NPA	41	38	-5.6	40	-3.5
Gross NPA (%)	2.00	1.70	-30 bps	1.70	0 bps
Net NPA	21	12	-40.7	13	-6.3
Net NPA (%)	1.00	0.50	-50 bps	0.60	-10 bps
Provision Coverage (%)	48.4	67.6	1917 bps	66.6	98 bps

Source: Company data, I-Sec research

Exhibit 2: Progressing well on deposit front

Deposits (INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
CA	3,36,030	3,04,770	3,24,330	3,26,950	4,13,440	3,68,340	20.9	-10.9
SA	3,33,000	3,40,900	3,65,240	3,90,540	4,09,730	4,47,330	31.2	9.2
TD	15,05,989	15,48,021	16,54,026	17,00,822	18,40,552	18,35,052	18.5	-0.3
Total	21,75,019	21,93,691	23,43,596	24,18,312	26,63,722	26,50,722	20.8	-0.5

Deposits (% of total)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY bps	QoQ bps
CA	15.4	13.9	13.8	13.5	15.5	13.9	0 bps	-163 bps
SA	15.3	15.5	15.6	16.1	15.4	16.9	134 bps	149 bps
CASA	30.8	29.4	29.4	29.7	30.9	30.8	134 bps	-13 bps
TD	69.2	70.6	70.6	70.3	69.1	69.2	-134 bps	13 bps
Total	100	100	100	100	100	100		

Source: Company data, I-Sec research

Exhibit 3: Segmental loan growth trends

Loans (INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Corporate	5,39,930	4,95,180	4,83,930	5,00,310	5,29,760	5,63,280	13.8	6.3
Mid corporate	2,70,410	2,73,420	2,92,940	3,12,630	3,43,930	3,43,090	25.5	-0.2
Retail	9,10,360	9,44,450	10,04,410	10,30,860	10,51,030	10,17,810	7.8	-3.2
SME	2,81,300	2,88,990	3,09,790	3,31,420	3,53,270	3,71,470	28.5	5.2
Total	20,02,000	20,02,040	20,91,070	21,75,220	22,77,990	22,95,650	14.7	0.8

Loans (% of total)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY bps	QoQ bps
Corporate	27.0	24.7	23.1	23.0	23.3	24.5	-20 bps	128 bps
Mid corporate	13.5	13.7	14.0	14.4	15.1	14.9	129 bps	-15 bps
Retail	45.5	47.2	48.0	47.4	46.1	44.3	-284 bps	-180 bps
SME	14.1	14.4	14.8	15.2	15.5	16.2	175 bps	67 bps
Total	100	100	100	100	100	100		

Source: Company data, I-Sec research

Exhibit 4: Core non-interest income growth remains strong though hit by treasury losses in Q1

Non-interest income (INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Retail Banking Fees	7,520	6,700	7,970	8,020	11,250	8,440	26.0	-25.0
Corporate Trade & Cash Management	2,040	2,040	2,360	2,140	2,420	2,280	11.8	-5.8
Forex, Debt Capital Markets & Securities	-40	2,240	1,170	1,070	1,320	700	-68.8	-47.0
Corporate Banking Fees	520	430	600	710	690	570	32.6	-17.4
Total	10,040	11,410	12,100	11,940	15,680	11,990	5.1	-23.5
Non-interest income (% of total)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY bps	QoQ bps
Retail Banking Fees	75	59	66	67	72	70	1167 bps	-136 bps
Corporate Trade & Cash Management	20	18	20	18	15	19	114 bps	358 bps
Forex, Debt Capital Markets & Securities	0	20	10	9	8	6	-1379 bps	-258 bps
Corporate Banking Fees	5	4	5	6	4	5	99 bps	35 bps
Total	100	100	100	100	100	100		

Source: Company data, I-Sec research

Exhibit 5: Retail banking fees break up

Retail banking fees (INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Trade & Remittance	1,250	1,400	1,560	1,560	1,640	1,630	16.4	-0.6
Facility / Processing Fee	1,260	1,160	1,230	1,330	1,650	1,840	58.6	11.5
Interchange Income	2,410	1,440	1,910	1,700	2,500	1,710	18.8	-31.6
General Banking Fees	1,640	1,450	1,570	1,720	1,760	1,850	27.6	5.1
Other income	10,039	11,411	12,100	11,946	15,686	11,990	5.1	-23.6
Total	16,599	16,861	18,370	18,256	23,236	19,020	12.8	-18.1
Retail banking fees (% of total)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY bps	QoQ bps
Trade & Remittance	8	8	8	9	7	9	27 bps	151 bps
Facility / Processing Fee	8	7	7	7	7	10	279 bps	257 bps
Interchange Income	15	9	10	9	11	9	45 bps	-177 bps
General Banking Fees	10	9	9	9	8	10	113 bps	215 bps
Other income	60	68	66	65	68	63	-464 bps	-447 bps
Total	100	100	100	100	100	100		

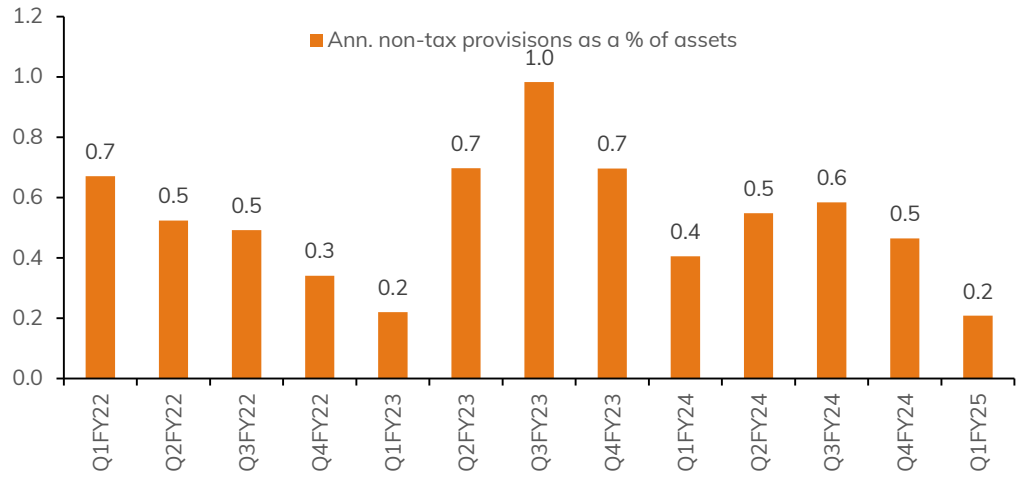
Source: Company data, I-Sec research

Exhibit 6: Summary of labelled exposures

INR mn	Q3FY24		Q4FY24		Q1FY25	
	Gross	Provisions	Gross	Provisions	Gross	Provisions
GNPA (A)	44,570	25,230	39,830	26,530	38,450	25,990
Other Non Performing Exposures						
Non Fund based o/s to NPAs	9,870	2,040	9,850	1,980	9,780	1,950
NPI	1,220	1,220	1,100	1,100	970	970
ARC	63,930	46,790	58,060	45,210	54,260	45,690
Sub Total (C)	75,020	50,050	69,010	48,290	65,010	48,610
as % of Loans	3.4	2.3	3.0	2.1	2.8	2.1
Total Non-Performing Exposures (D = A+C)	1,19,590	75,280	1,08,840	74,820	1,03,460	74,600
as % of Loans	5	3	5	3	5	3
Std. Restructured Advances						
Erstwhile	2,670	490	110	40	100	60
DCCO related	12,230	610	18,520	930	18,520	930
Covid + MSME	27,560	3,170	19,300	2,200	17,820	1,930
Sub Total (E)	39,580	3,940	37,930	3,170	36,430	2,920
as % of Loans	1.8	0.2	1.7	0.1	1.6	0.1
Other Std. exposures (F)	3,330	1,150	3,300	1,160	3,210	1,120
as % of Loans	0.2	0.1	0.1	0.1	0.1	0.0
Gross Stress (G = D+E+F)	1,62,500	80,370	150,070	79,150	1,43,110	78,640
as % of Loans	7.5	3.7	6.6	3.5	6.2	3.4
PCR on Gross Stress		49.5		52.7		55.0
SMA 2	20,510		18,790		18,090	
SMA 1	23,270		18,050		18,150	
Overdue Loans (31-90 dpd) (H)	43,780		36,840		36,240	
as % of Loans	2.0		1.6		1.6	

Source: Company data, I-Sec research

Exhibit 7: Credit cost trajectory



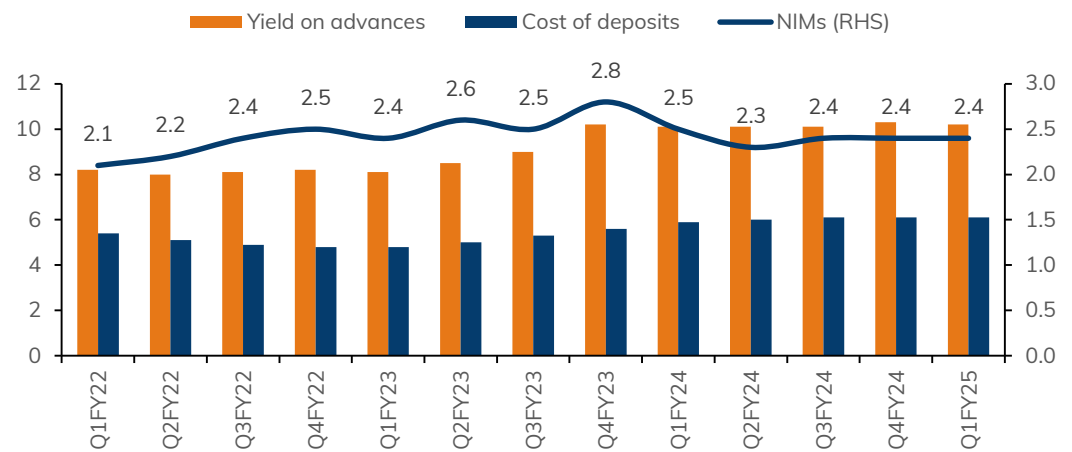
Source: Company data, I-Sec research

Exhibit 8: Headline asset quality sustains improving trajectory

(%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
GNPA	14.7	13.9	13.5	12.9	2.0	2.2	2.0	2.0	2.0	1.7	1.7
NNPA	5.3	4.5	4.2	3.6	1.0	0.8	1.0	0.9	0.9	0.6	0.5
PCR	67.5	70.7	72.0	74.7	49.4	62.3	48.4	56.4	56.6	66.6	67.6
Gross slippages	2.2	1.8	2.3	1.9	3.3	2.4	2.9	2.3	2.3	2.4	2.1
Net slippages	0.2	-1.1	0.0	-0.3	-12.4	1.5	1.5	1.0	1.1	0.6	0.9

Source: Company data, I-Sec research

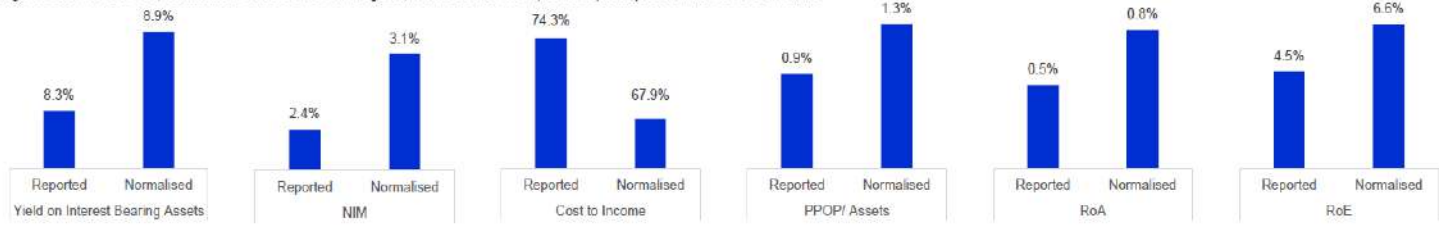
Exhibit 9: NIM remains flat QoQ



Source: Company data, I-Sec research

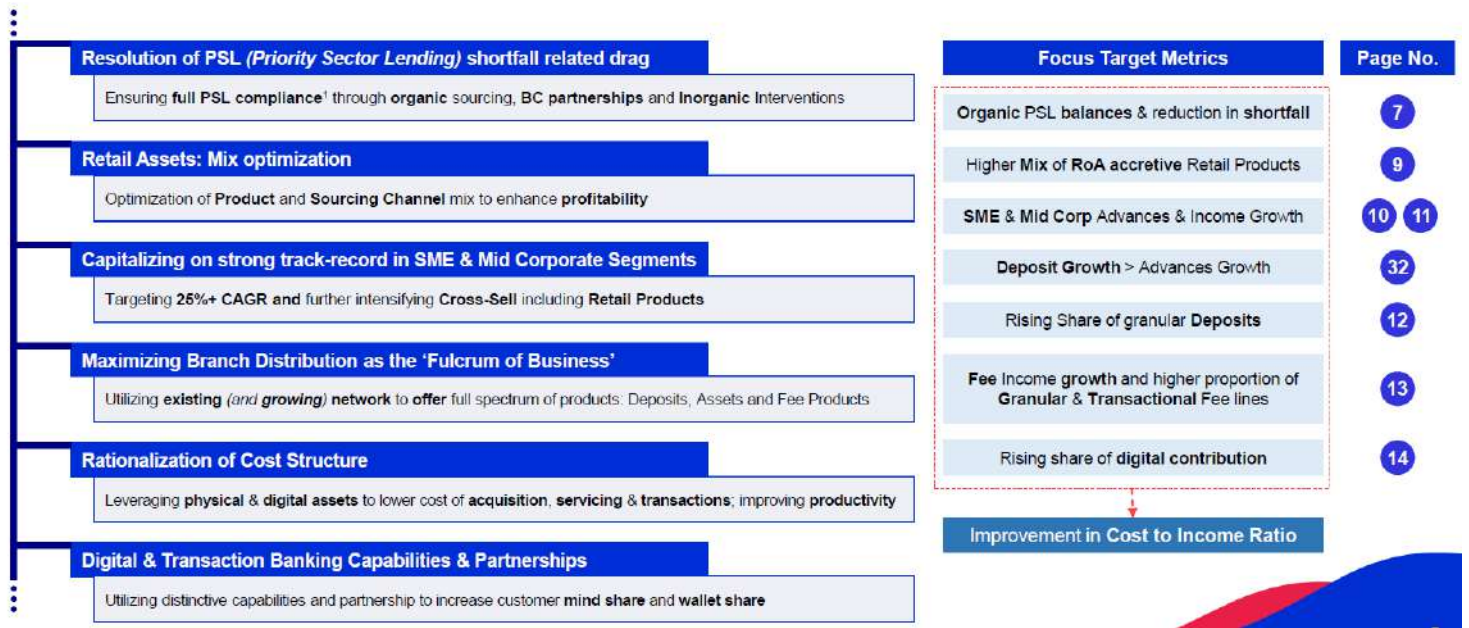
Exhibit 10: Mandated deposits in lieu of PSL shortfalls: at 11% of assets- a drag on income & profitability outcomes

All figures below for Q1FY25. 'Normalised' indicates Pro-forma figures, normalized for the impact of deposits placed in lieu of PSL Shortfalls



Source: Company data, I-Sec research

Exhibit 11: Key business levers engaged to improve profitability



Source: Company data, I-Sec research

Q1FY25 concall highlights

- Average LCR was 137.8% in Q1.
- The bank has announced strategic partnership with EBANX- a Brazil based global fintech to empower cross-border commerce in India.
- The bank has seen market share rise in UPI transactions. However, due to issues at one of its large partners, YES is likely to see a dip in market share going ahead.
- Net carrying value of SR pool is INR 8.5bn or ~0.4% of loans.
- The bank had MeitY incentive last year, which was absent in Q1.
- O/s RIDF book is around INR 440bn now. It should come down to INR 400bn by FY25. Over the period, it should further come down to 5%, boosting NIM.
- There is significant shift in balance sheet and income mix towards higher C/I intensive segments over the last couple of years.
- Within retail, the bank has calibrated disbursement growth with focus on RoA-accretive products such as PL, CV/CE, affordable home loans, unsecured business loan, micro LAP and education loans.
- The bank has tightened credit risk parameters within retail lending.

Q4FY24 earnings call takeaways

Margins

- **Negative drag of RIDF deposits continues to pressure deposits. NIM was marginally up 2bps QoQ.**
- RIDF deposits inched up to 11% of total assets vs 9% YoY. However, from here on, YES will see gradual reduction in RIDF deposits.
- **By FY27 end, RIDF balance would reduce to below 5% of total assets, similar to historical average and large private bank peers.**
- **RIDF hit on margins currently is ~70bps.**
- **3 drivers of margins going ahead:**
 - Reducing drag of RIDF margins
 - Moving towards more RoA-accretive products which would also be more high yielding
 - Focus on improving cost of funds through better CASA
- All the above 3 drivers should add around 80-100bps in margins over the next 2-3 years.
- **As of FY24, the bank has complied on overall PSL levels and has 1.4% short-fall in NCF (non-corporate farmer). It has complied on SMF and weaker section as of FY24. The bank has deployed a variety of measures to comply with PSL requirements which are listed in the order of lower to higher profitability to the bank. a) PSLC purchase; b) onward lending to MFI; c) organic origination through business correspondent and finally organic origination through branches. The bank mentioned the cost for the above is 2.5% (for PSLC purchase) of 3.0-3.5% RoA business cost for self-origination. The bank would endeavour to move towards self- origination to improve overall profitability.**

Deposits and CD ratio

- CD ratio improved to 85.5% from 89% QoQ. YES is comfortable with LDR in the range of 85-90%.
- Deposits growth would continue to outpace loan growth.
- Robust accretion continued in deposits which stood at an all-time high for the bank.

Opex

- **Opex to assets should be contained in the range of 2.6-2.7% after adjusting for PSLC.**
- Other opex included PSLC cost of INR 2.54bn vs INR 0.72bn QoQ.
- PSLC cost for FY24 stood at INR 3.77bn vs nil in FY23.
- **PSLC-compliant cost is around 2.5% for the bank.**

Non-interest income

- Fee income momentum is likely to continue driven by strong customer acquisition engine.

Capital, PAT and RoA

- FY24 was 3rd straight year with full year profitability for the bank since reconstruction.
- **Despite incremental PSLC cost and stepping up PCR, YES reported Q4FY24 RoA of 0.5% vs. 0.2% QoQ.**

- From RoA perspective over the next 2-3 years, major improvement should come from NII which could be in the range of 70-80bps.

Asset quality

- GNPA, NNPA improved 30bps QoQ.
- Resolution momentum remained strong with recoveries and upgrades of INR 20.9bn during Q4.
- Recoveries from SR and ARC were prudently utilised in further strengthening the asset quality metrics.
- **NNPA + net carrying value of SR have more than halved to 1.1% from 2.4% in FY23.**
- **The bank expects recoveries / upgrades of around INR 60bn in FY25.**
- Bank will look to inch up PCR above 70% in medium term as a prudent measure.
- **Expects 50bps of non-tax provision to average assets for FY25.**
- **Current slippages for FY24 stood at 2.4% (higher end of 2.0-2.5% guided range). The bank expects slippages to have stabilised. For FY25, it guides slippages at the lower end of 2.0-2.5% guided range.**
- One account slipped into NPA from mid-corporate segment (related to DCCO issue) which is a road project.
- P&L write-back of INR 7.4bn P&L due to recoveries from SRs in FY24.
- **INR 12.5bn is the carrying value of SR as of FY24-end. As per rating agencies, recovery estimate is INR 50bn.**

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	0.0	0.0	0.0
Institutional investors	66.0	63.8	65.4
MFs and other	0.1	0.2	0.2
Banks/ FIs	37.2	36.7	33.9
Insurance Cos.	4.6	4.6	4.2
FIs	24.1	22.3	27.1
Others	34.0	36.2	34.6

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	2,26,974	2,75,859	3,20,118	3,63,114
Interest expense	1,47,799	1,94,913	2,24,752	2,47,780
Net interest income	79,176	80,946	95,365	1,15,334
Non-interest income	39,266	51,143	62,148	78,493
Operating income	1,18,442	1,32,089	1,57,513	1,93,827
Operating expense	86,615	98,227	1,10,763	1,25,070
Staff expense	33,627	37,743	42,066	47,926
Operating profit	31,828	33,863	46,750	68,757
Core operating profit	31,483	32,273	45,750	66,257
Provisions & Contingencies	22,198	18,863	8,024	6,702
Pre-tax profit	9,629	15,000	38,726	62,055
Tax (current + deferred)	2,455	2,489	9,682	15,619
Net Profit	7,174	12,511	29,045	46,436
Adjusted net profit	7,174	12,511	29,045	46,436

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Cash and balance with RBI/Banks	1,92,744	1,89,296	2,21,077	2,44,820
Investments	7,68,883	9,02,351	9,50,444	10,07,825
Advances	20,32,694	22,77,995	25,49,511	28,54,925
Fixed assets	24,448	28,565	36,861	40,267
Other assets	5,29,092	6,56,722	7,53,592	8,66,915
Total assets	35,47,861	40,54,930	45,11,485	50,14,752
Deposits	21,75,019	26,63,722	29,80,279	33,49,358
Borrowings	7,74,520	7,99,409	8,31,387	8,71,679
Other liabilities and provisions	1,90,898	1,70,346	2,20,869	2,68,329
Share capital	57,510	57,536	62,655	62,655
Reserve & surplus	3,49,915	3,63,918	4,16,295	4,62,731
Total equity & liabilities	35,47,861	40,54,930	45,11,485	50,14,752
% Growth	11.5	14.3	11.3	11.2

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
Adjusted EPS	0.3	0.4	1.0	1.5
Book Value per share	14	15	15	17
Adjusted BVPS	14	14	15	16
Valuation ratio				
PER (x)	96.3	59.0	26.6	17.3
Price/ Book (x)	1.8	1.8	1.7	1.5
Price/ Adjusted book (x)	1.9	1.8	1.7	1.6
Dividend Yield (%)	-	-	-	-
Profitability ratios (%)				
Yield on advances	9.3	9.8	10.1	10.4
Yields on Assets	6.7	7.3	7.5	7.6
Cost of deposits	4.9	6.0	6.0	6.0
Cost of funds	4.4	5.1	5.2	5.2
NIMs	2.6	2.5	2.7	2.9
Cost/Income	73.1	74.4	70.3	64.5
Dupont Analysis (as % of Avg Assets)				
Interest Income	6.7	7.3	7.5	7.6
Interest expended	4.4	5.1	5.2	5.2
Net Interest Income	2.4	2.1	2.2	2.4
Non-interest income	1.2	1.3	1.5	1.6
Trading gains	0.0	0.0	0.0	0.1
Fee income	1.2	1.3	1.4	1.6
Total Income	3.5	3.5	3.7	4.1
Total Cost	2.6	2.6	2.6	2.6
Staff costs	1.0	1.0	1.0	1.0
Non-staff costs	1.6	1.6	1.6	1.6
Operating Profit	0.9	0.9	1.1	1.4
Core Operating Profit	0.9	0.8	1.1	1.4
Non-tax Provisions	0.7	0.5	0.2	0.1
PBT	0.3	0.4	0.9	1.3
Tax Provisions	0.1	0.1	0.2	0.3
Return on Assets (%)	0.2	0.3	0.7	1.0
Leverage (x)	9.0	9.2	9.5	9.5
Return on Equity (%)	1.9	3.0	6.5	9.2
Asset quality ratios (%)				
Gross NPA	2.1	1.7	1.7	1.7
Net NPA	0.8	0.6	0.5	0.4
PCR	62.3	66.6	72.0	75.0
Gross Slippages	2.6	2.6	2.2	2.0
LLP / Avg loans	0.0	1.2	0.9	0.7
Total provisions / Avg loans	1.2	0.9	0.3	0.2
Net NPA / Networth	4.1	3.2	2.6	2.3
Capitalisation ratios (%)				
Core Equity Tier 1	13.3	12.2	12.7	12.6
Tier 1 cap. adequacy	13.3	12.2	12.7	12.6
Total cap. adequacy	17.9	15.4	15.5	15.1

Source Company data, I-Sec research

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