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YES Bank

REDUCE

Downgrade from HOLD

Core operating earnings improvement to be gradual

Rs15.7

YES Bank reported a mixed set of Q4FY23 earnings with healthy business growth, NIMs and improvement in headline net stress, though profitability (RoA at 0.2%) remained weak due to continued investment in franchise and retail orientation.

Despite sectoral headwinds, we have been impressed by YES Bank's remarkable progress in 'retailisation' of balance sheet, sharp clean-up in asset quality and improved capital levels. The bank appears to be the preferred banker to 'Digital India' and has disproportionate market share in digital payments. However, we remain concerned on its muted operating earnings profile (~1.0% for FY23), where we see only gradual improvement going ahead (1.2-1.3% for FY24-25) due to relatively higher gestation period of retail business and intense competition. Despite building in modest credit costs at ~50bps for FY24/25, we see the bank reporting sub-par RoAs at 0.6-0.7%. YES has additional lumpy risks on AT-1 bonds write-offs litigation (~300 bps of CET 1 impact in worst case), which is pending in the Supreme Court. We revise our FY24 earnings estimates and introduce FY25 estimates. We arrive at our new target price of Rs13.5, valuing the stock at ~0.9x FY25E ABV. Risk rewards appear unattractive with the stock trading at ~1.0x FY25 ABV for single digit RoE. We downgrade the stock to REDUCE from HOLD.

- **Fee growth strong but elevated opex limits PPOP margins:** The bank has been focusing on retailisation of balance sheet and has been acquiring customers at a steep pace (>1.3mn CASA customers run-rate). Retail disbursements have also been strong. Overall, retail fee has been growing at a staggering 46% YoY (43% YoY for FY23) though on a low base. Overall non-interest income as a %age of assets has been muted at ~1.2%. At the same time, 'retailisation' of balance sheet has been attracting higher investment in the franchise. Cost to assets for the bank has been elevated at 2.6% and cost-to-income ratio has been steep at >70%. While we are confident of improving NIMs and fee income for the bank, elevated opex would mean only gradual improvement in PPOP margins for the bank.
- **Strong retail growth but overall growth moderated by corporate:** Advances growth was healthy at 4.5% QoQ (and 12% YoY) led by retail (up 8% QoQ) and mid-corp (up 9% QoQ), while corporate book growth declined 3% QoQ. Though loan growth lags system growth of >15%, it is considerably up from 8.5% in FY22 and decline in growth in FY21. Overall, management has guided for average loan growth of 15-20% for FY24 and is comfortable with CD ratio of ~90% vs 92% for Q4FY23. We, however, are building-in loan growth of ~10% CAGR for FY24-25E due to higher competition.

Market Cap	Rs451bn/US\$5.5bn	Year to Mar	FY22	FY23	FY24E	FY25E
Reuters/Bloomberg	YESB.BO/YES IN	NII (Rs bn)	65	79	90	96
Shares Outstanding (mn)	28,755.0	Net Profit (Rs bn)	11	7	23	29
52-week Range (Rs)	24/12	EPS (Rs)	0.4	0.3	0.8	1.0
Free Float (%)	100.0	% Change YoY	-126.4	-38.0	194.0	24.9
FII (%)	23.1	P/E (x)	36.5	58.9	20.0	16.0
Daily Volume (US\$'000)	52,191	P/BV (x)	1.2	1.1	1.0	1.0
Absolute Return 3m (%)	(13.7)	P/ABV (x)	1.4	1.1	1.1	1.0
Absolute Return 12m (%)	12.5	GNPA (%)	13.9	2.1	2.1	2.1
Sensex Return 3m (%)	(1.4)	RoA (%)	0.4	0.2	0.6	0.7
Sensex Return 12m (%)	6.3	RoE (%)	3.2	1.9	5.4	6.4

Please refer to important disclosures at the end of this report

Banking

Target price: Rs13.5

Target price revision

Rs13.5 from Rs19.3

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	0.0	0.0	0.0
Institutional investors	55.3	61.7	60.8
MFs and others	0.4	0.5	0.1
FIs / Banks	38.2	33.3	33.0
Insurance Cos.	5.3	4.6	4.6
FII	16.7	23.3	23.1
Others	44.7	38.3	39.2

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	51	54	3
Environment	32	38	5
Social	36	40	5
Governance	85	85	0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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- ▶ **Deposits up 10% YoY, but average deposits up 16% YoY:** Deposits grew 1.3% QoQ and 10.3% YoY (in line with industry). However, average deposits growth was strong at 16% for FY23, which was largely driven by 26% average CASA growth in FY23. YES Bank aims for ~20% YoY deposits growth for FY24.
- ▶ **NIMs rise 30bps QoQ though largely aided by ARC transaction:** NIMs in Q4FY23 jumped 30bps QoQ to 2.8%, though a large part appears optical due to denominator effect post ARC transaction. On net assets, the bank saw 8-10bps sequential uptick. The bank has ~8% of assets into low-yielding RIDF, which has ~30-40bps drag on NIMs. YES intends to address this drag through organic as well as inorganic route though the improvement is likely to be gradual. We are building-in ~30 bps YoY NIMs improvement (off low base) for FY24E for the bank.
- ▶ **GNPA sees slight uptick led by retail and SME; Net NPA + Net SR falls QoQ:** Gross slippages declined but still remain elevated at 2.4% annualised while net slippages were also elevated at 1.45% with slippages largely flowing from retail and SME. GNPA also increased 15bps QoQ to 2.17% while improvement in PCR to 62% (vs 49% QoQ) resulted in lower net NPA QoQ. Net NPAs + net carrying value of SRs fell to 2.4% vs 3.0% QoQ and 4.8% YoY. The bank has mentioned that gross ageing provisions in this pool (net NPAs + net SRs) stand limited at ~0.8%/ 1.0%/ 0.4% for FY24/FY25/FY26 and thus is confident that recoveries / upgrades from this pool will largely offset the incremental provision needs. Overall, YES expects ~50bps credit cost for FY24, mainly through fresh slippages.
- ▶ **Capital adequate but AT-1 related uncertainty lingers:** After capital raise in Q3FY23, bank CET-1 now stands at 13.3% and post full warrant conversion, it expects further ~150bps accrual to CET I ratio. This conversion is likely to complete by Q1FY25, as per management commentary. However, the bank faces lumpy risk from the recent litigation on AT-1 bonds write-offs (~Rs84bn in worst case; ~300 bps of CET 1). The matter is currently pending before the honourable Supreme Court.
- ▶ **Key Risks:** Key risks are better than expected loan growth / NIMs and better recoveries leading to lower than expected credit costs.

Table 1: Q4FY23 results review

Financial Highlights					
Rs mn	4QFY22	4QFY23	YoY (%)	3QFY23	QoQ (%)
Interest Earned	49,475	62,162	25.6	58,720	5.9
Interest Expended	31,281	41,109	31.4	39,014	5.4
Net Interest Income	18,195	21,053	15.7	19,706	6.8
Other Income	8,817	10,823	22.7	11,432	(5.3)
Total Income	58,292	72,985	25.2	70,152	4.0
Total Net Income	27,012	31,876	18.0	31,138	2.4
Staff Expenses	7,719	8,541	10.6	8,574	(0.4)
Other operating expenses	11,551	14,446	25.1	13,428	7.6
Operating Profit	7,742	8,889	14.8	9,136	(2.7)
Provision & Contingencies	2,710	6,176	127.8	8,448	(26.9)
Provision for tax	1,357	689	(49.2)	174	296.9
Reported Profit	3,675	2,024	(44.9)	515	292.9
Other Highlights					
Rs bn	4QFY22	4QFY23	YoY (%)	3QFY23	QoQ (%)
Loans	1,811	2,033	12.3	1,946	4.5
Deposits	1,972	2,175	10.3	2,136	1.8
Gross NPA	279.8	43.9	(84.3)	39.0	12.6
Gross NPA (%)	13.93	2.17	-1176 bps	2.02	15 bps
Net NPA	82.0	16.6	-79.8	19.7	-16.0
Net NPA (%)	4.53	0.83	-370 bps	1.03	-20 bps
Provision Coverage (%)	70.7	62.3	-840 bps	49.4	1282 bps

Source: Company data

Table 2: Quarterly key ratios and trends

Rs mn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Loans	16,68,930	16,36,537	17,28,392	17,62,409	18,10,520	18,63,670	19,22,999	19,45,733	2,032,694
Loan Growth YoY %	(2.7)	(0.5)	3.5	3.8	8.5	13.9	11.3	10.4	12.3
Loan Growth QoQ %	(1.7)	(1.9)	5.6	2.0	2.7	2.9	3.2	1.2	4.5
Composition %									
- Corporate & Institutional	49.0	47.0	46.0	42.6	40.0	37.5	34.0	28.7	26.6
- Medium Enterprise	9.0	9.7	10.0	10.7	10.8	11.4	12.0	12.7	13.3
- Retail banking	30.0	30.8	31.7	33.7	36.0	38.3	40.8	43.1	44.5
- Small and Micro Enterprises	12.0	12.5	12.3	13.0	13.1	12.8	13.2	15.5	15.6
Liability Profile & Margin									
Deposit - Rs mn	16,29,466	16,32,954	17,66,716	18,42,884	19,71,917	19,32,409	20,00,208	21,36,078	2,175,019
CA	1,89,970	1,91,400	2,27,250	2,45,220	2,63,890	2,39,870	2,74,000	2,90,490	336,030
SA	2,35,900	2,56,500	2,93,050	3,14,750	3,49,700	3,55,570	3,46,730	3,48,780	333,000
CASA %	26.1	27.4	29.5	30.4	31.1	30.8	31.0	29.9	30.8
CA %	11.7	11.7	12.9	13.3	13.4	12.4	13.7	13.6	15.4
SA %	14.5	15.7	16.6	17.1	17.7	18.4	17.3	16.3	15.3
Branches	1,070	1,070	1,072	1,094	1,122	1,140	1,145	1,145	1,192
NIM (%)	1.6	2.1	2.2	2.4	2.5	2.4	2.6	2.5	2.8
LDR (%)	102	100	98	96	92	96	96	91	93
Movement of NPA									
Gross NPA (Opening Balance)	2,95,465	2,86,095	2,85,060	2,87,406	2,86,545	2,79,760	2,77,468	2,74,191	39,037
Fresh Addition	1,21,438	22,330	17,830	9,780	8,010	10,720	8,960	16,100	11,960
Recovery	41,340	2,640	3,040	3,050	9,950	8,900	9,120	74,400	1,820
Write-off	86,770	3,500	2,760	1,860	1,590	2,170	1,860	1,74,620	2,490
Upgradation	0	17,230	9,690	5,730	3,250	1,950	1,250	2,240	2,750
Total Reduction	1,30,808	23,366	15,484	10,641	14,795	13,012	12,236	2,51,254	7,051
GNPA	2,86,095	2,85,060	2,87,406	2,86,545	2,79,760	2,77,468	2,74,191	39,037	43,946
NPA	98,134	94,549	95,863	93,233	82,045	77,650	69,260	19,734	16,581
Restructured	12,440	49,760	61,840	68,780	67,520	64,530	59,280	58,600	47,050
Asset Quality									
GNPA %	15.4	15.6	15.0	14.7	13.9	13.5	12.9	2.0	2.2
NNPA %	5.9	5.8	5.6	5.3	4.5	4.2	3.6	1.0	0.8
PCR %	65.7	66.8	66.6	67.5	70.7	72.0	74.7	49.4	62.3
Annualized Slippages %	28.3	5.4	4.3	2.3	1.9	2.6	2.1	3.7	2.6
Capital									
Capital Adequacy %	17.5	17.8	17.4	17.7	17.4	17.7	17.3	18.2	17.9
Tier I %	11.3	11.6	11.5	11.6	11.6	11.9	11.7	13.0	13.3
CET 1 (%)	11.2	11.6	11.5	11.6	11.6	11.9	11.7	13.0	13.3

Rs mn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Profit & Loss									
NII	9,867	14,022	15,122	17,640	18,195	18,503	19,914	19,706	19,706
Other Income (Ex Treasury)	6,893	8,690	7,781	7,337	8,817	7,814	9,197	11,432	11,432
Treasury	0	0	0	0	0	0	0	0	0
Opex	16,178	15,383	16,121	17,670	19,269	20,419	21,207	22,002	22,002
PPOP	582	7,329	6,782	7,307	7,742	5,898	7,904	9,136	9,136
Provisioning Cost	51,129	4,570	3,774	3,746	2,710	1,747	5,828	8,448	8,448
PBT	-50,547	2,758	3,008	3,560	5,032	4,151	2,076	689	689
Tax	-12,670	690	753	896	1,357	1,045	548	174	174
PAT	-37,877	2,068	2,255	2,664	3,675	3,106	1,528	515	515

Source: Company data

Table 3: Asset quality trends have been improving over the quarters

Rs Mn	2QFY23		3QFY23		4QFY23	
	Gross	Provisions	Gross	Provisions	Gross	Provisions
GNPA (A)	274,190	204,930	39,040	19,300	43,950	27,360
Other Non Performing Exposures						
Non Fund based o/s to NPAs	13,400	2,950	11,830	2,370	12,890	2,370
NPI	49,610	47,110	1,850	750	1,720	760
ARC	21,230	18,080	88,530	50,800	76,660	44,300
Sub Total (C)	84,240	68,140	102,210	53,920	91,270	47,430
as % of Loans	4.4	3.5	5.3	2.8	4.5	2.3
Total Non-Performing Exposures (D = A+C)	358,430	273,070	141,250	73,220	135,220	74,790
as % of Loans	19	14	7	4	7	4
Std. Restructured Advances						
Erstwhile	10	-	30	30	40	40
DCCO related	15,200	760	17,180	860	15,580	780
Covid + MSME	44,070	5,390	41,390	4,930	31,430	3,720
Sub Total (E)	59,280	6,150	58,600	5,810	47,050	4,540
as % of Loans	3.1	0.3	3.0	0.3	2.3	0.2
Other Std. exposures (F)	1,620	570	2,220	750	3,590	1,230
as % of Loans	0.1	0.0	0.1	0.0	0.2	0.1
Gross Stress (G = D+E+F)	419,330	279,790	202,070	79,780	185,860	80,560
as % of Loans	21.8	14.5	10.4	4.1	9.1	4.0
PCR on Gross Stress		66.7		39.5		43.3
Net Stress	139,540		122,290		105,300	
as % of Loans	7.3		6.3		5.2	
as % of Net-worth	40.5		30.5		25.8	
SMA 2	33,800		28,340		11,660	
SMA 1	11,290		19,180		36,260	
Overdue Loans (31-90 dpd) (H)	45,090		47,520		47,920	
as % of Loans	2.3		2.4		2.4	
Gross Stress (incl. SMA 2)	453,130	279,790	230,410	79,780	197,520	80,560
as % of Loans	23.6		11.8		9.7	
PCR on Gross Stress (incl. SMA 2)		61.7		34.6		40.8

Source: Company data

Q4FY23 earnings call takeaways

Capital

- **Entire warrants money should flow in CET-1 in a period of 15-18 months.** So it could happen by FY24 end or Q1FY25.
- **RWA as of Mar'23 was Rs2.45trn.**
- **As of now, AT-1 bonds matter is pending before the honorable Supreme Court.**

RIDF

- **Investing into RIDF is impacting PPop to assets by 30-40bps. Bank will look to address this issue in FY24 in both ways, organic as well as inorganic.**
- **8% of balance sheet is invested in RIDF, which is low yielding.**

Asset quality

- **Expect ageing provisions of 80bps in FY24 and 100bps in FY25 towards NNPA and SR.** However, P&L impact for FY24 as well as FY25 would be marginal since bank believes that any incremental credit cost would be offset by recoveries. **Management expects sub 50bps credit cost for FY24.**
- Risk profile of balance sheet has normalised over the past 3 years which is seen in decline in RWA to assets
- GNPA increased 15bps QoQ to 2.17% though improvement in PCR to 62% (vs 49% QoQ) resulted in NNPA declining 20bps QoQ to 83 bps.
- Resolution momentum continues to be strong with total recoveries at Rs61bn for FY23 vs. guidance of Rs50bn.
- Increase in 31-60 dpd by ~Rs7bn but that has been offset by ~Rs7bn decline in 61-90dpd.

Loan growth

- Advances growth is healthy at 4.5% QoQ (and 12% YoY) led by Retail (up 8% QoQ) and Mid-Corp (up 9% QoQ) while corporate book de-grew 3% QoQ.
- Deposits grew at 1.3% QoQ and 10.3% YoY.
- Bank's average CASA deposit growth is 26% YoY and average CA growth is 30% YoY. Bank believes that it will continue to focus on this journey of growing better CASA deposits which helps in bringing down overall cost of deposits as well as manage liquidity.
- **Bank is comfortable with CD ratio of 90% for FY24.**
- **For FY24, bank is looking at average loan growth of 15-20% and average deposits growth of 20%.**
- Advances to total assets is 57% and investments is 22%.
- Added several new products digitally during FY23.

Opex and non-interest income

- Strategy on granularisation of balance sheet, especially while **scaling into Retail comes with higher opex.**
- Major opex is coming from IT expense.
- Over the past 3 years, retailisation has kept PPOP to assets at check.
- **Once bank picks up scale and operating leverage kicks in, then it would result in better PPOP to assets.**
- Bank is confident that investments over the past 3 years will help bank build sustainable PPOP to assets.
- Non-Interest income has declined 5% QoQ, mainly dragged by MTM / realized loss on securities.
- Core fee income shows improvement led by growth across fee from retail segments.

Cost to income

- **Cost to income is higher since bank is moving towards retailisation of balance sheet and hence cost has to be front loaded.** However, bank is largely done with investments and hence cost to income should taper hereon. It would take another 3-4 years to be at par with the cost to income ratio for the best in class players in the industry.
- Bank is adding >1mn customers on an annual basis. Hence, now it has built that scale wherein it could cross-sell loans as well as help generate higher fees. This should help manage cost to income well.
- **Normalised C/I for FY23 broadly flattish** despite significant change in business mix towards Retail Segment (*Normalised is NII normalised for Interest Income from NPA/ NPI; Non- Interest Income normalised for realised/ unrealised gain on sale of Investments*).
- **Cost to assets is at 2.6% for FY23 and bank looks to maintain this around 2.6% for the next few years.**
- Now bank is working on income to assets wherein it would look to improve deposit cost. It is looking to improve revenue to assets improve in FY24 as well.

Margins

- **Bank saw 8-10bps improvement in NII to assets for the quarter** while 30bps QoQ margin expansion to 2.8% is optical due to ARC sale in previous quarter.
- Bank has already started moving in an upward direction on margins.

Q3FY23 earnings call takeaways

Opening remarks

- The bank continued to pursue strategic objectives and it concluded capital raise and ARC transaction.
- Reported operating profit of Rs9.14bn; up 16% QoQ and 25% YoY
- NII was flat QoQ and up 10% YoY as NIMs came off marginally by 10bps to 2.5%. Adjusted for interest recovery on NPAs in Q2, normalized NIMs were flat QoQ.
- **Non-interest income grew 24% QoQ / 56% YoY.**
- **Cost to income further moderated to 70.7% (vs 72.8%); cost to asset remained stable at 2.6%**
- **Retail has grown by 41%, SME by 19% and mid-corporate by 31%. Normalised advance growth was 12% adjusted for ARC sale.**

Completed assignment of identified pool of stressed assets to the J.C. Flowers ARC; GNPA's down to 2% and net NPAs at 1%

- On July 13, 2022, the Bank had signed a binding term sheet with JC Flowers ARC for a strategic partnership in relation to sale of identified stressed loans of the Bank aggregating up to Rs480bn as of FY22. On December 16, 2022, the Bank concluded the aforesaid assignment after adjusting recoveries between April 1, 2022 to November 30, 2022.
- The gross value of exposures transferred to JC Flowers ARC was Rs437.15bn which included exposures worth Rs151.98bn earlier written-off.
- The net book value ('NBV') as on the date of assignment was Rs49.82bn and the final consideration received was Rs80.46bn under 15:85 cash and security receipts structure.
 - For stressed loans transferred to ARC for a consideration lower than the NBV at the time of transfer **the shortfall to the Bank was Rs6.09bn which is being debited to the Profit and Loss Account in FY23 spread equally over the two quarters.**
 - The **realized profit amounting to Rs 5.12 crores where the cash recovery is exceeding the net book value of stressed loans is credited to Profit and Loss Account in Q3FY23.**
 - For stressed loans where the consideration received was higher than that net book value at the time of transfer and the cash recovery is lower than the net book value, the Bank has not reversed such excess amount of Rs31.61bn in the Profit and Loss Account. The Bank has continued to carry forward the same as provision against security receipts.
 - Rs68bn is face value of SRs and it is carried at Rs37.7bn as net book value of SRs. The pool that was sold to ARC included sub-standard, D-1, D-2 as well as some SMA-2 accounts.
 - On SRs, provisioning requirement is as per ageing and as per valuations of SR. Ageing related provisions on SRs would be offset against recoveries in the pool.

Concluded equity raise and CET-1 ratio improved to 13% (vs 11.7% QoQ)

- It has concluded capital raise of Rs89bn in Q3FY23 to Carlyle and Advent and has received Rs50.93bn towards equity and Rs9.5bn towards warrants.
- It has appointed Mr. Sunil Kaul (Carlyle) and Ms. Shweta Jalan (Advent) as Additional Directors onto the board.
- ***CET-1 ratio improved to 13% (vs 11.7% QoQ) – excluding warrant application money***
- ***RWA to asset is at 71% at Rs2.43tn.***

Decision to write-down AT-1 bonds is challenged; financial implication to be known with final outcome of the litigation

- Hon'ble Bombay High Court vide its judgment dated January 20, 2023 has set aside the stock exchange intimation and decision of the Bank to write down the AT-1 Bonds. At the request of the Bank, the Hon'ble Bombay High Court has stayed the order for a period of 6 (six) weeks.
- Basis legal advice, the Bank is in the process of preferring an appeal before the Hon'ble Supreme Court of India.
- ***Impact, if any, on the results and/ or other financial information shall be considered once the final outcome of the litigation is known.***
- ***Net impact of AT-1 in the worst case would be CET-1 coming down and AT-1 going up by similar amount. It is not mandatory to exercise call option.***

Corporate slippages and some inch up in retail slippages lead to higher slippage run-rate

- GNPA ratio contracted to 2% (vs. 12.9% QoQ)
- ***Slippages run-rate was Rs16.1bn (Rs8.9bn QoQ).*** Slippages from restructured pool was Rs1.9bn
- Overdue 31-90dpd was 49bn. SMA-2 has come down but SMA-1 has gone up. Looking at individual accounts, doesn't seem to be concern.
- Resolution momentum continues with total recoveries & upgrades for Q3FY23 at Rs 12.7bn - well on track to achieve the FY23 guidance of Rs50bn.
- Net impact of the sale to ARC transaction on provisioning requirements during the quarter was largely neutral.
- Credit cost for Q3FY23 at Rs8.4bn - Rs2.5bn is credit cost related to incremental slippages, Rs6bn is due to ageing provisioning on existing stress.
- Rs1.75-2.0bn would continue on incremental slippages. On ageing related, recoveries and resolutions should be able to offset though timing is sometime volatile.

Margins marginally down QoQ to 2.5%:

- NII was flat QoQ and up 10% YoY as NIMs came off marginally by 10bps to 2.5%. Adjusted for interest recovery on NPAs in Q2, normalized NIMs were flat QoQ.

- **Loan mix: EBLR 29%, MCLR 23%, 4% is floating and balance fixed rate book comprises 10-15% of short term nature.**
- Impact on NIMs due to ARC transaction will be reflected in Q4.
- NIMs would be better in FY24 with better retail and SME growth.

Advances grow 3% QoQ and 11% YoY; Deposits up 3.5% QoQ and 13% YoY

- Loan book was up 1.2% QoQ and 10% YoY.
- Bank continues to build its granular retail and SME loanbook Retail & SME: Mid Corp.: Corporate Mix improved to 58:13:29 from 54:12:34 in Q2FY23
- New business generation continues to be strong.
- **Gross retail disbursements improved further to Rs127bn. Rural disbursements stood at Rs8.06bn, SME at Rs61bn and wholesale banking at Rs77.24bn taking total disbursements for the quarter at Rs273.1bn (vs Rs241.5bn).**
- Within retail, home loans, secured business loan, auto loans continue to see strong traction.
- Deposits gained traction being up 6.8% QoQ and 15.9% YoY.
- Average daily current and savings account balances has grown by 20-21%
- CD ratio as a result fell to 89.7% vs 96.1%. QoQ and 95.6% YoY
- Retail deposits are growing at pace higher than corporate deposits.
- Will grow current account and reduce cost of deposits. Will continue to see control in cost of deposits.

Other highlights

- On half yearly basis computing financial statements as per Ind-AS and there is not much of an impact. Provisioning on stage-2 would go up while requirement for stage-3
- Lock-in would be lifted on 13th March, '23. Discussion with investor banks gives confidence there will not be any undue pressure on stock due to lock-in expiry.
- Telecom exposure – has reduced 60% in last 12 months.
- Net addition of 300 employees during the quarter.

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending Mar 31)

Year ended 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	202,674	296,248	260,666	200,418	190,235	226,974	267,516	303,506
Interest expense	-125,304	-198,157	-192,614	-126,132	-125,257	-147,799	-177,158	-207,485
Net interest income	77,371	98,090	68,052	74,286	64,979	79,176	90,358	96,021
growth (%)	33.5	26.8	-30.6	9.2	-12.5	21.8	14.1	6.3
Non-interest income	52,238	45,902	118,565	30,117	32,625	39,267	52,847	70,048
Operating income	129,609	143,992	186,617	104,403	97,603	118,442	143,205	166,070
Operating expenses	-52,128	-62,643	-67,292	-57,920	-68,444	-86,615	-100,388	-113,077
- Staff expenses	-21,889	-24,698	-25,999	-24,304	-28,557	-33,627	-38,888	-44,535
Pre-provisions profit	77,481	81,349	119,325	46,483	29,159	31,828	42,817	52,993
Core operating profit	72,346	78,174	108,191	35,403	26,565	31,528	39,817	49,493
growth (%)	41.1	8.1	38.4	-67.3	-25.0	18.7	26.3	24.3
Provisions & Contingencies	-15,538	-57,776	-327,584	-93,834	-14,801	-22,199	-12,693	-13,702
Pre-tax profit (before non-recurring items)	61,943	23,573	-208,259	-47,351	14,358	9,629	30,123	39,291
Non-recurring items	0	0	0	0	0	0	0	0
Tax on non-recurring items	0	0	0	0	0	0	0	0
Pre-tax profit (after non-recurring items)	61,943	23,573	-208,259	-47,351	14,358	9,629	30,123	39,291
Tax (current + deferred)	-19,698	-6,371	44,079	12,728	-3,696	-2,455	-7,582	-9,890
Net profit	42,246	17,203	-164,180	-34,622	10,662	7,174	22,541	29,402
Adjusted net profit	42,246	17,203	-164,180	-34,622	10,662	7,174	22,541	29,402
growth (%)	26.9	-59.3	-1,054.4	n/a	n/a	-32.7	214.2	30.4
Minority interests	0	0	0	0	0	0	0	0
Net income	42,246	17,203	-164,180	-34,622	10,662	7,174	22,541	29,402

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending Mar 31)

Year ended 31 Mar (Rs m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Cash and balance with RBI/Banks	247,344	268,895	83,830	293,087	466,396	192,744	255,052	263,108
Investments	683,989	895,220	439,148	433,191	518,956	768,883	733,839	794,468
Advances	2,035,339	2,414,996	1,714,433	1,668,930	1,810,520	2,032,694	2,211,903	2,452,756
Interest earning assets	2,966,672	3,579,111	2,237,411	2,395,209	2,795,871	2,994,322	3,200,793	3,510,332
Fixed assets (Net block)	8,324	8,170	10,091	21,485	21,331	24,448	34,891	38,030
Other assets	149,460	220,980	330,767	318,734	365,000	529,092	602,602	694,778
Total assets	3,124,456	3,808,262	2,578,269	2,735,428	3,182,202	3,547,861	3,838,286	4,243,140
Deposits	2,007,381	2,276,102	1,053,639	1,629,466	1,971,917	2,175,019	2,444,360	2,764,326
Other interest bearing liabilities	748,936	1,084,241	1,137,905	639,491	722,046	774,520	743,786	743,786
Total interest bearing liabilities	2,874,148	3,544,802	2,361,006	2,403,464	2,844,783	3,140,437	3,408,320	3,755,320
Other liabilities and provisions	117,831	184,459	169,462	134,507	150,820	190,898	220,174	247,208
Share capital	4,606	4,630	25,101	50,110	50,110	57,510	57,510	62,629
Reserves & surplus	245,702	258,830	192,162	281,853	287,309	349,915	372,456	425,190
Less: Misc. expenditure	0	0	0	0	0	0	0	0
Shareholders' funds	250,308	263,460	217,263	331,963	337,419	407,425	429,966	487,820
Minorities interests	0	0	0	0	0	0	0	0
Total equity & liabilities	3,124,456	3,808,262	2,578,269	2,735,428	3,182,202	3,547,861	3,838,286	4,243,140

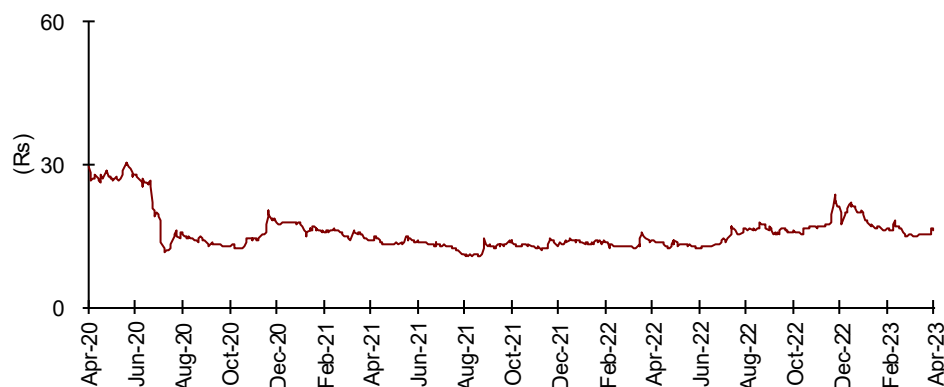
Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending Mar 31)

Year ended 31 Mar (Rs m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Valuation ratios								
Adjusted EPS (Rs)	18.4	7.5	-56.1	-1.6	0.4	0.3	0.8	1.0
BVPS (Rs)	108.7	113.8	17.3	13.2	13.5	14.2	15.0	15.6
Adjusted Book NAV/share (Rs)	104.9	101.0	12.8	10.3	11.0	13.7	14.6	15.3
PER (x)	0.9	2.1	NA	NA	36.5	58.9	20.0	16.0
Price/Book (x)	0.1	0.1	0.9	1.2	1.17	1.11	1.0	1.0
Price/Adjusted book (x)	0.1	0.2	1.2	1.5	1.4	1.1	1.1	1.0
Dividend Yield (%)	17.3	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Du-Pont ratios								
NII/Avg. Assets (%)	2.9	2.8	2.1	2.8	2.2	2.4	2.4	2.4
Non-interest income/Avg Assets	2.0	1.3	3.7	1.1	1.1	1.2	1.4	1.7
- Fee income / Avg Assets	1.8	1.2	3.4	0.7	1.0	1.2	1.3	1.6
- Trading gains / Avg Assets	0.2	0.1	0.3	0.4	0.1	0.0	0.1	0.1
Cost / Avg Assets	2.0	1.8	2.1	2.2	2.3	2.6	2.7	2.8
Non-tax Provisions / Avg Assets	0.6	1.7	10.3	3.5	0.5	0.7	0.3	0.3
Tax Provisions / Avg Assets	0.7	0.2	-1.4	-0.5	0.1	0.1	0.2	0.2
ROA (%)	1.6	0.5	-5.1	-1.3	0.4	0.2	0.6	0.7
Leverage	11.4	13.5	13.3	9.7	8.8	9.0	8.8	8.8
ROE (%)	18.2	6.7	-68.3	-12.6	3.2	1.9	5.4	6.4
Balance Sheet ratios								
Loan growth (%)	53.9	18.7	-29.0	-2.7	8.5	12.3	8.8	10.9
Deposit growth (%)	40.5	13.4	-53.7	54.7	21.0	10.3	12.4	13.1
Loans/Deposits (%)	101.4	106.1	162.7	102.4	91.8	93.5	90.5	88.7
Investments/Deposits (%)	34.1	39.3	41.7	26.6	26.3	35.4	30.0	28.7
CASA ratio (%)	36.5	33.1	26.6	26.1	31.1	30.8	30.4	29.8
Profitability ratios								
NIMs (%)	3.1	3.0	2.2	2.9	2.3	2.6	2.9	2.8
Interest spread (%)	2.7	2.7	2.2	3.4	2.5	2.7	2.9	2.9
Yield on advances (%)	9.3	10.4	10.6	10.4	9.2	9.5	9.9	10.4
Cost of deposits (%)	5.5	6.4	7.2	5.7	4.7	4.8	5.5	5.9
Efficiency/other P/L ratios								
Non-interest income/Net income (%)	40.3	31.9	63.5	28.8	33.4	33.2	36.9	42.2
Trading income/Net income (%)	4.0	2.2	6.0	10.6	2.7	0.3	2.1	2.1
Cost/Income (%)	40.2	43.5	36.1	55.5	70.1	73.1	70.1	68.1
Asset quality ratios								
Gross NPLs (%)	1.3	3.2	16.8	15.4	13.9	2.1	2.1	2.1
Net NPLs (%)	0.6	1.9	5.0	5.9	4.5	0.8	0.7	0.5
Net NPLs/Net worth (%)	5.1	15.2	37.5	27.9	23.0	3.9	3.2	2.6
Credit costs (%)	0.6	2.1	15.3	4.8	0.4	-0.1	0.5	0.5
Provisions cover (%)	50.0	43.1	73.8	65.7	70.7	62.3	70.0	75.0
Capitalisation ratios								
Tier I cap.adequacy (%)	13.2	11.3	6.5	11.3	11.6	13.3	12.8	13.1
Total cap.adequacy (%)	18.4	16.5	8.5	17.5	17.4	18.0	17.0	16.8

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

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