Yes Bank Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**The bank has transitioned to a retail-heavy model with Retail/SME now comprising 59% of the mix and Retail Banking contributing 41.93% of total segment revenue.**	Positive
2	**Revenue grew 19.37% YoY to □22,702 Cr, supported by a dominant 38.3% market share in UPI P2M transactions, providing a high-growth digital moat.**	Positive
3	***Financing margins deteriorated to -11.00% as rising interest costs and a 37.88% spike in loan sourcing fees (DSA) indicate an increasingly expensive growth profile.***	Negative
4	***PAT fell 32% to 736 Cr, pressured by high acquisition costs and provisions, resulting in a thin interest coverage ratio of 1.07x.***	Negative
5	**Capital Adequacy Ratio was bolstered to 17.9% following a □8,900 Cr capital infusion from Carlyle and Advent, providing a necessary buffer for the reconstruction phase.**	Positive
6	***Cash Flow from Operations (CFO) swung to a massive negative 25,816 Cr, signaling that current growth and de-risking activities are heavily consuming liquidity.***	Negative
7	***Capital allocation efficiency remains poor with an ROCE of 4.44%, which sits below the cost of capital, and a low ROE of 1.81%.***	Negative
8	***Earnings quality is weak as Deferred Tax Assets (DTA) of 8,941 Cr stand at 12x PAT, suggesting the balance sheet is inflated by non-cash assets and provision reversals.***	Negative
9	Governance is technically stable with a 10/10 matrix score and 53% board independence, though transparency is hampered by the use of secrecy provisions regarding RPTs.	Neutral
10	***Execution risk is heightened by a staggering 42.7% voluntary attrition rate, threatening the bank's service-led growth model and operational stability.***	Negative
11	***The 8,415 Cr AT-1 bond litigation remains a significant unprovisioned "sword of Damocles" that could severely impact Tier 1 capital if the verdict is unfavorable.***	Negative
12	Stance is Watch: While the □43,715 Cr stressed asset transfer to JC Flowers reduced Net NPA to 0.8%, investors should wait for positive CFO and attrition to drop below 30%.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** Yes Bank has pivoted from a wholesale-heavy lender to a granular, retail-focused institution. The current mix stands at **Retail & SME (59%)**, Mid-Corporate (14%), and Large Corporate (27%).
- **Revenue Drivers:** Growth is driven by digital payments dominance (38.3% UPI P2M market share), transaction banking (95% of Corporate CASA embedded with products), and a shift toward high-yield unsecured retail assets.
- **Cost Drivers:** Primary costs include human capital (3,000+ new employees), physical expansion (83 new branches), and significant technology spend on cloud-native processors and AI-based CRM systems.
- **Industry Position:** Identified as the 6th largest private sector bank in India, positioning itself as the "Banker of Choice" for the new-age economy by serving 60% of India's Unicorns.

- **Expansion Plans:** Target of opening 150 more branches in FY24 to complement its "phygital" model and leaner branch formats.
- **Acquisitions & Structural Cleanup:** Completed the ₹48,000 Cr stressed asset sale to JC Flowers ARC, removing the legacy overhang and bringing Net NPA down to 0.8%.
- **Geographical Presence:** Strong domestic presence with a growing focus on the IFSC branch operations to capture global transaction flows.

2. Management commentary & outlook

- Management has articulated a clear vision: "Stay Universal but Go Granular," targeting a 60:40 Retail/SME to Corporate mix.
- The bank is targeting a ~1.5% Return on Assets (RoA) within the next five years, predicated on reducing the "PSL drag" and improving loan yields.
- Despite near-term headwinds from deposit repricing, management expects NIM expansion over the next 4–6 quarters as the book shifts toward higher-yield retail.
- The medium-term CASA ratio target remains 35%, though management is currently prioritizing maintaining the current 30.8% level in a tight liquidity environment.
- The entry of Carlyle and Advent International (₹8,900 Cr capital raise) is viewed as global institutional validation of the bank's recovery.
- Management identifies competitive intensity in deposits as the primary challenge, responding with "Connected Banking" to integrate APIs into client ERPs for operating accounts.
- A critical risk acknowledged is the voluntary attrition rate of 42.7%; management is implementing "train and hire" programs like the YES Professional Banker to mitigate this.
- The completion of the JC Flowers ARC deal is seen as a triumphant milestone, allowing the bank to shift from a "survivalist" to an "offensive" stance.
- Management Tone: The tone is resolute and transitionary. There is a palpable shift toward growth and digital moats, yet the commentary remains realistic regarding the long-haul nature of achieving top-tier RoA targets. (Final Verdict: Resolute and Transitionary).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Revenue	22,702	19,019
Sales Growth %	19.37	-5.09
Interest	14,800	12,528
Expenses	10,371	8,058
Manufacturing Cost %	0.24	0.20
Employee Cost %	15.33	15.58
Other Cost %	30.11	26.59
Financing Profit	-2,468	-1,568
Financing Margin %	-11	-8
Other Income	3,883	3,405
Exceptional items	7	-13
Other income normal	3,876	3,417
Depreciation	433	403
Profit before tax	981	1,434
Tax %	25	26
Net Profit	736	1,064
Minority share	0	0
Exceptional items AT	5	-9
Profit excl Excep	731	1,073
Profit for PE	731	1,073
Profit for EPS	736	1,064
Profit Growth %	-32	131
EPS (□)	0.26	0.42
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	5,751	5,011
Reserves	34,967	28,688
Deposits	217,382	197,063
Borrowing	77,754	72,340
Other Liabilities	19,350	15,476
Non controlling int	0	0
Trade Payables	751	732
Other liability items	18,599	14,744
Total Liabilities	355,204	318,578
Fixed Assets	2,156	2,016
Building	1,210.25	1,248.06
Furniture n fittings	3,265.31	0
Other fixed assets	0	2,728.28
Gross Block	4,475.56	3,976.34
Accumulated Depreciation	2,319.85	1,960.52
CWIP	296	125
Investments	76,749	51,754
Other Assets	276,003	264,683
Cash Equivalents	11,975	42,659
Loans n Advances	693	608
Other asset items	263,336	221,415
Total Assets	355,204	318,578

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	-25,816	23,598
Profit from operations	2,532	5,049
Loans Advances	-20,751	-16,270
Operating investments	-15,630	4,374
Operating Deposits	20,320	34,217
Other WC items	-12,220	-3,673
Working capital changes	-28,281	18,648
Direct taxes	-67	-99
Cash from Investing Activity	-13,026	-14,566
Fixed assets purchased	-792	-410
Fixed assets sold	52	12
Capital WIP	0	0
Investments purchased	-12,165	-14,113
Investments sold	0	0
Other investing items	-122	-55
Cash from Financing Activity	11,450	8,391
Proceeds from shares	5,088	0
Redemption of debentures	0	0
Proceeds from borrowings	7,178	9,804
Repayment of borrowings	-1,764	-1,413
Dividends paid	0	0
Other financing items	948	0
Net Cash Flow	-27,392	17,423
Free Cash Flow	-26,555	23,199
CFO/OP	-209	216

3.2 Financial analysis summary

- **Revenue** grew by 19.37% to □22,702.00 Cr, driven by a strategic pivot toward Retail Banking which now contributes 41.93% (□11,276.06 Cr) of total segment revenue, effectively reducing corporate concentration risk.
- Despite top-line growth, **PAT** declined by 32% to □736.00 Cr, primarily due to a 33.29% spike in Provisions & Contingencies to □2,465.67 Cr and a sharp 37.88% increase in Other Expenses related to Loan Sourcing Fees (DSA) of □1,126.86 Cr.
- **Financing Margin** deteriorated to -11.00% from -8.00%, signaling that Interest expenses (□14,800.00 Cr) are rising faster than interest income, while aggressive retail acquisition costs are further pressuring the EBITDA (Operating Profit).

- **CFO** experienced a massive swing to negative □25,816.00 Cr from a positive □23,598.00 Cr in the prior year, largely due to □20,751.00 Cr consumed by Loans Advances and □15,630.00 Cr in Operating Investments, indicating that growth is heavily consuming liquidity.
- **Total Assets** expanded to □355,204.00 Cr, but Asset Turnover remains stagnant at 0.06x, while Other Assets are bloated by a □8,941.15 Cr Deferred Tax Asset (DTA) which represents 12x the current PAT, posing a significant valuation risk.
- **Net Worth** improved as Equity Capital rose to □5,751.00 Cr following □5,088.00 Cr in Proceeds from shares, which helped lower the Debt/Equity ratio to 1.91x despite a 7.5% increase in Total Debt (Borrowings) to □77,754.00 Cr.
- **Investments** on the Balance Sheet rose to □76,749.00 Cr, influenced by the JC Flowers ARC transaction where □43,715.79 Cr of stressed exposures were transferred, though the bank still carries □3,161.34 Cr in Security Receipts and faces a "sword of Damocles" in the □8,415.00 Cr AT-1 Bond litigation.
- **Depreciation** of □433.00 Cr is supported by accelerated policies for IT assets (3-4 years vs 6 years), while Fixed Assets grew to □2,156.00 Cr following □792.00 Cr in Capex, reflecting ongoing digital transformation.
- **Working Capital** changes of -□28,281.00 Cr in the Cash Flow Statement highlight a significant cash trap, as Operating Deposits growth (□20,320.00 Cr) was insufficient to offset the cash outflow into the loan book.
- **ROE** diluted significantly to 1.81% from 3.16%, as the increase in Net Worth from equity issuance outpaced the growth in PAT, while Interest Coverage remains thin at 1.07x.
- **Other Assets** are dominated by the DTA (□8,941.15 Cr), a non-earning asset that inflates the balance sheet; Other Expenses were impacted by a 72.79% jump in Professional Fees and a 45.41% jump in IT spend, reflecting the heavy cost of the ARC transaction and digital transformation.
- The bank's financial character this year is defined by a massive structural de-risking through the JC Flowers ARC deal and a successful retail pivot, yet these strategic gains are currently masked by high customer acquisition costs, a significant cash burn in **CFO**, and persistent capital risks from legacy AT-1 litigation.

3.3 Contingent liabilities & commitments

- **AT-1 Bond Write-down Litigation: □8,415.00 Cr** write-down challenged in court. The Bombay High Court set aside the write-down; the Supreme Court has stayed this, but it remains a critical threat to Tier 1 capital.
- **SEBI Penalty: □25.00 Cr** penalty related to AT-1 bond mis-selling.
- **Capital Commitments: □2,798.57 Cr** in total lease liabilities for physical infrastructure expansion, representing significant fixed-cost commitments.
- **Guarantees & Letters of Credit:** Significant volume of forward exchange and derivative contracts requiring high-quality collateral management.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings lack cash backing; ₹25,816 Cr CFO outflow driven by loan growth.	—	Divergence caused by ₹20,751 Cr increase in loans and ₹15,630 Cr operating investments.
2	Receivables & channel-stuffing signal	Neutral — banking model; advances growth of 14% aligns with 19% revenue growth.	—	Receivables are minimal in banking; core advances growth is consistent with retail pivot strategy.
3	Revenue timing	Revenue ↑↓ — conservative recognition; PSLC fees amortized and NPA interest on cash basis.	—	Note 17.5.1 and 17.5.20 ensure revenue is not front-loaded, following strict RBI prudential norms.
4	Revenue from related parties %	Neutral — transparency risk; secrecy provisions limit disclosure of specific related party transaction terms.	—	Note 17.6.9 limits detailed disclosure of individual RPTs, reducing visibility into specific deal pricing.
5	Inventory vs revenue growth	Neutral — sector specific; inventory is not a material factor for financial services entities.	—	As a bank, traditional inventory is non-existent; manufacturing costs relate to minor consumables.
6	Inventory valuation method change	Neutral — consistent policy; no inventory held; investment valuation follows standard RBI Swiss Challenge.	—	No inventory to value; investment accounting for JC Flowers transaction followed RBI-approved smoothing.
7	Exceptional items in operating profit	Profit ↑ — non-recurring gain; ₹511 Cr profit from JC Flowers ARC sale inflates earnings.	—	Note 17.6.5 highlights a one-time gain where cash recovery exceeded net book value.
8	Depreciation rate vs useful life policy	Profit ↓ — conservative accounting; accelerated depreciation on IT assets reduces current period net profit.	—	Note 17.5.8 uses shorter useful lives for hardware/software, leading to more conservative book values.
9	Provision reversals boosting PAT	Profit ↑ — non-cash boost; ₹166 Cr provision reversals cushion P&L against investment impairment hits.	—	Note 17.6.5 reversals helped offset the ₹2,408 Cr spike in non-performing investment provisions.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — non-cash tax; ₹67 Cr cash tax vs ₹245 Cr P&L tax provision.	—	Significant gap between P&L tax and actual cash paid due to high DTA utilization.
11	CWIP age and stalling projects	Neutral — infrastructure growth; CWIP increase of ₹171 Cr reflects ongoing IT and branch expansion.	—	Increase aligns with the 45% jump in IT expenditure noted in the expense analysis.
12	Deferred tax asset recognition adequacy	Profit ↑ — valuation risk; ₹8,941 Cr DTA depends on virtual certainty of future taxable profits.	—	Note 17.6.13; DTA is 12x PAT; realization depends on aggressive multi-year profit forecasts.
13	RPT quantum and trend	Neutral — governance backstop; SBI associate status provides liquidity support despite limited transaction-level transparency.	—	Note 17.6.9 confirms SBI's ongoing role, providing a significant institutional safety net for the bank.
14	Dividend paid vs FCF adequacy	Neutral — capital conservation; zero dividends paid as negative FCF necessitates internal capital retention.	—	Negative FCF driven by asset de-risking and retail loan growth precludes any dividend distribution.
15	AT-1 Bond Litigation Risk	Profit ↑↓ — capital risk; non-provisioning for ₹8,415 Cr write-down based on legal stay.	—	A final adverse Supreme Court verdict would represent a massive capital hit not currently provisioned.
16			—	

#	Check	Impact	Status	Notes detail
	Provisioning Arbitrage Check	Profit ↑ — valuation judgment; smoothing of □608.61 Cr shortfall over two quarters.		Management smoothed the impact of the ARC transaction shortfall, aiding short-term earnings stability.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit opinion type:** Unqualified. * **KAM - AT-1 Bond Litigation:** Auditor highlighted the □8,415.00 Cr write-down. Concern involves legal uncertainty following the Bombay High Court setting aside the write-down. Management maintains the write-down was contractually valid. * **KAM - Valuation of Security Receipts (SRs):** Focused on judgment required to value SRs from the JC Flowers deal (□48,000 Cr portfolio). Management used independent valuations and smoothed a □608.61 Cr shortfall over two quarters. * **KAM - Recognition of Deferred Tax Assets (DTA):** Flagged the □8,941.15 Cr DTA. Concern is the "virtual certainty" of future profits required for recognition. * **Auditor Fees:** Professional Fees & Commission: □572.35 Cr. The 72.79% YoY jump suggests high consultancy costs related to the ARC transaction, which may pose an independence risk if non-audit services dominate.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | State Bank of India | Associate | Investing Company | Not disclosed | Significant influence over governance/liquidity | | KMP & Relatives | KMP | Deposits | 5.82 Cr | Potential preferential interest rates | | Key Managerial Personnel | KMP | Remuneration | 1.98 Cr | Transparency limited by "Secrecy Provisions" |

- **Concern:** Management invoked "Secrecy Provisions" under RBI circulars to limit detailed disclosures of individual RPTs, a transparency red flag.
- **SBI Dependency:** The bank remains an associate of SBI, providing a backstop but indicating a lack of full independence.

C. Shareholding * **Equity Capital:** □5,751.00 Cr. * **Reserves:** □34,967.00 Cr. * **Promoter Pledging:** Not disclosed; bank is largely held by institutional investors (Carlyle, Advent, SBI) post-reconstruction.

D. Board Composition + KMP Compensation * **Total Directors:** 13; **Independent %:** 53.85%; **Women Directors:** 3. * **MD & CEO Remuneration:** □1.98 Cr (0.06% of Operating Profit). * **CEO Pay Ratio:** 46.29x the median employee remuneration. * **YoY Growth:** KMP remuneration was not disclosed in the prior year summary. * **Note:** Compensation is heavily linked to non-financial KPIs, including ESG and climate change targets.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | -------- | ---------- | ---------- | -------- | | Capex | 792.00 Cr | 410.00 Cr | — | | Equity Issuance | 5,088.00 Cr | 0.00 Cr | **Text** | | Net Debt Change | 5,414.00 Cr | 11,113.00 Cr | — | | Working Capital Investment | 28,281.00 Cr | (18,648.00) Cr | — |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** CFO/Capex ratio is -32.59, indicating zero self-funding capability; capex is entirely dependent on external capital.
  - **Nature of Capex:** Primarily IT-related expenditure (□**597.23 Cr**, up 45.41%) and physical branch expansion.
  - **Deployment Efficiency:** Revenue grew 19.37% while IT spend grew 45.41%, suggesting a high "burn rate" for digital transformation.
  - **Key Takeaway: The 93% increase in fixed asset purchase (□792.00 Cr) reflects a push to modernize legacy systems and expand the retail footprint.**

H. Risks * **AT-1 Bond Litigation (High):** Potential ₹**8,415.00 Cr** hit to Tier-1 capital if Supreme Court rules against the bank. * **DTA Realization (High):** ₹**8,941.15 Cr** asset depends on "virtual certainty" of future profits; failure to meet forecasts would force a massive write-down. * **Information Security (Medium):** 17 substantiated privacy complaints in FY23; risk of reputation loss. * **Asset Concentration (Medium):** ₹**3,161.34 Cr** provision against Security Receipts; recovery is uncertain.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	59% Retail/SME mix; 38% UPI share	Strong digital moat but high competition and attrition (42.7%).
Financial health	2	↓	D/E 1.91x; CFO -₹25,816 Cr	Negative CFO and thin interest coverage (1.07x) indicate stress.
Earnings quality	2	↓	DTA 12x PAT; CFO < PAT	Earnings lack cash backing and rely on DTA/ provision reversals.
Management & governance	3	→	53% Independent; Secrecy Provisions used	Compliant but transparency limited by secrecy clauses on RPTs.
Capital allocation & visibility	2	↓	ROCE 4.44% < Cost of Capital	Capex is aggressive but not yet translating to cash flow or ROE.

Business positives (for this company this year) * **Structural Cleanup:** Successfully transferred ₹**43,715.79 Cr** of stressed assets to JC Flowers ARC, reducing Net NPA to 0.8%. * **Digital Dominance:** Maintained a **38.3%** market share in UPI P2M transactions, providing a unique "New Economy" hedge. * **Capital Infusion:** Raised ₹**8,900 Cr** from Carlyle and Advent, bolstering Capital Adequacy to 17.9%. * **Retail Pivot:** Retail Banking now constitutes **41.93%** of total segment revenue, diversifying away from lumpy corporate risk.

Business negatives / concerns (for this company this year) * **Cash Flow Stress: CFO** swung to a massive negative ₹25,816.00 Cr, indicating growth is heavily consuming liquidity. * **Human Capital Risk:** Voluntary attrition stands at a staggering **42.7%**, threatening the service-led growth model. * **Valuation Risk: Deferred Tax Asset (DTA)** of ₹8,941.15 Cr is 12x the annual PAT, sensitive to future profit misses. * **Legal Overhang:** The ₹**8,415.00 Cr** AT-1 bond litigation remains a "sword of Damocles" over Tier 1 capital. * **Margin Pressure: Financing Margin** deteriorated to -11.00% due to rising interest costs and high retail acquisition fees.

Overall scorecard summary Yes Bank has successfully completed its "cleanup" phase, achieving a lean NPA profile and securing blue-chip institutional capital. However, the financial trajectory is currently characterized by a massive cash burn in operations and a heavy reliance on non-cash assets like the DTA for balance sheet strength. While the digital engine is high-octane, the bank's inability to generate positive CFO and the extreme human capital churn suggest a business on a stable but fragile recovery path. The investment thesis rests entirely on the successful conversion of digital leadership into operating leverage, which is not yet visible in the ROE (1.81%).

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 10/10 — Governance Rating: 4"

Part c: investor verdict

Thesis: A structurally de-risked digital banking franchise in a high-cost transition phase toward retail granularity.

Overall stance: Watch

Rationale: Strategic cleanup is complete, but negative CFO and high attrition make the path to 1.5% RoA highly uncertain. Re-evaluate when: CFO/PAT ratio turns positive or Attrition drops below 25%. BULL CASE: Successful Supreme Court verdict on AT-1 bonds + NIM expansion to 3.5% leads to RoA of 1.2% by FY25. BEAR CASE: Reversal of AT-1 write-down forces a ₹8,415 Cr capital hit, necessitating further dilutive equity raises. Key monitorable: Voluntary Attrition Rate: 42.7% → watch threshold < 30%.