Yes Bank Ltd — Jul 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat on Profitability; Guidance Beat on RoA Trajectory. **One-line:** The thesis has evolved from "survival and cleanup" to "structural profitability," evidenced by the 7th consecutive quarter of profit growth and the entry of SMBC as a marquee anchor investor.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	RoA hit 0.8% (annualized), tracking ahead of the "1% by FY27" roadmap; Net Profit of ₹801 Cr (+59% YoY) beat street expectations.	🟢
Earnings Quality	High (Core & Recovery)	Growth driven by sequential NIM stability (2.5%) and ₹338 Cr recovery from fully written-off SRs; Opex ex-PSLC grew only 5.7% YoY.	🟢
Guidance Confidence	Neutral	Management remains confident in 1% RoA but warned of significant NIM headwinds in Q2/Q3 due to repo-linked asset repricing.	🟡
Management Credibility	Strong	Delivered on the SMBC secondary stake sale (20%), a massive validation of the franchise; achieved NIL Net SR carrying value.	🟢
Business Quality Signal	Improving	Liability franchise is becoming highly granular; Retail & Branch-led deposits grew 20% YoY, outperforming the industry.	🟢
Key Q&A Exchange	Q2 (Growth)	Analysts questioned the 2.1% QoQ contraction in advances; Mgmt defended it as "seasonal" and "profitable growth" over volume.	🟡
The Street's Primary Anxiety	NIM Compression	Fear that repo-linked loan repricing (60% of book) will outpace deposit rate cuts; Mgmt expects a 50bps impact on yield stock in Q2.	🔴
Capital Cycle Stage	Growth/ Harvesting	CET1 at 14.0% provides a substantial cushion to accelerate lending as the RIDF drag (now 8.9% of assets) continues to recede.	🟢
Margin / Return Trajectory	Improving	RoA expanded to 0.8% from 0.7% in Q4FY25; NIMs held at 2.5% despite liquidity tightening.	🟢
Pricing Power	Stable	Savings Account rate cuts in April helped mitigate yield compression; Bank is shifting from "rate-led" to "service-led" acquisition.	🟡
FCF Conversion & Quality	Strong	₹1,170 Cr in total recoveries/upgrades provides a potent P&L buffer against credit costs.	🟢
Competitive Moat Signals	Widening	#1 in UPI Payee PSP (55.3% share) and #1 in AePS (29.7% share) creates a low-cost transaction banking "flywheel."	🟢
Balance Sheet Strength	Strong	Capital Adequacy (16.2%) and LCR (135.8%) are both significantly above regulatory minimums.	🟢
Working Capital Efficiency	Improving	RIDF deposits fell by ₹7,000 Cr YoY; these funds are being recycled from 3-4% yield into 10%+ yield assets.	🟢
Mgmt Guidance Track Record	Reliable	Consistent delivery on profitability metrics and asset quality stabilization over the last 24 months.	🟢
Key Vulnerability	Asset Repricing	High proportion of repo-linked loans makes NIMs vulnerable to a rate-cut cycle before deposits reprice.	🔴
Management Tone	Confident/ Disciplined	MD & CEO Prashant Kumar emphasized "disciplined execution" and "profitable growth" over reckless balance sheet expansion.	🟢

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways: * **Positives:** The entry of **Sumitomo Mitsui Banking Corporation (SMBC)** as the largest shareholder (~20%) is a game-changer for the bank's global standing and cost of funds. Asset quality is now a non-issue (NNPA 0.3%), and the bank is successfully extracting ~□1,200 Cr annually from the "dead" SR book. RoA of 0.8% brings the 1.0% target within reach sooner than anticipated. * **Negatives:** The sequential balance sheet contraction (-2.1% in Advances, -3.1% in Deposits) indicates a struggle to find high-yield assets in a competitive market. Furthermore, the 50bps anticipated hit to loan yields in Q2 due to repricing creates a temporary earnings valley. * **Forward-looking Watchpoint:** Monitor the "RIDF-to-Loan" transition. With □36,799 Cr still in RIDF deposits (yielding ~3%), every 10% redeployed into the 9.9% yielding loan book adds ~7-8bps to NIM. This is the structural "margin spring" waiting to uncoil.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q1FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	5.7%	--	4.2%	↑	Aided by reduction in RIDF deposits and high-cost borrowings.
NIM (%)	2.5%	↑ 10bps	→ 0bps	→	Flat QoQ as SA/TD rate cuts offset yield pressure.
Cost of Funds (%)	6.3%	↓ 20bps	↓ 10bps	↑	Benefit of retiring high-cost legacy borrowings.
Cost of Deposits (%)	5.9%	↓ 20bps	↓ 20bps	↑	Driven by April rate cuts in SA and TD segments.
CASA Ratio (period end %)	32.8%	↑ 200bps	↓ 150bps	↓	Seasonal dip in Current Accounts (-16.3% QoQ).
Credit-Deposit Ratio %	87.4%	↑ 80bps	↑ 90bps	↓	Advances contracted less than Deposits.
Loans Growth (% YoY)	5.0%	--	↓ 2.1%	→	Contraction in CIB (-3.6%) and Retail (-1.2%) QoQ.
Deposits Growth (% YoY)	4.1%	--	↓ 3.1%	→	Conscious reduction in high-cost wholesale TDs.
GNPA %	1.6%	↓ 10bps	→ 0bps	→	Stable; Retail GNPA at 2.3% vs Wholesale at 0.8%.
NNPA %	0.3%	↓ 20bps	→ 0bps	→	Best-in-class; reflects high PCR and SR cleanup.
Slippage Ratio (%)	2.4%	↑ 40bps	↑ 40bps	↓	Gross slippages □1,458 Cr vs □1,223 Cr in Q4.
Credit Cost (% assets)	0.3%	→ 0bps	→ 0bps	→	Annualized; supported by SR recoveries of □338 Cr.
CET1 %	14.0%	↑ 70bps	↑ 50bps	↑	Boosted by profits and muted RWA growth.
PAT (□Cr)	801	↑ 59.4%	↑ 8.5%	↑	Highest quarterly profit since reconstruction.
Fee Income Growth %	3.0%	--	↓ 21.1%	↓	Core fee impacted by one-time UPI fee adjustment.

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	GNPA %	Trend	vs Co. Avg	Key Development
Retail Banking	118,981	0.3%	2.3%	→	Average	MIB (Micro Enterprise) grew 11.2% YoY.
Commercial Banking	59,652	19.0%	1.3%	↑	Outperformer	Shift toward SME/Mid-Corp providing yield.
Corp & Institutional	62,390	2.7%	0.8%	↓	Defensive	Calibrated de-growth to protect margins.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	RoA	1.0% (Average for FY27).	Current 0.8%. Needs ~5bps expansion per quarter.	Strong	Low
Guidance	Loan Growth	12-15% for FY26.	**Critical:** Needs ~5% QoQ growth for next 3 quarters to hit target.	Weak	High
Guidance	Recoveries	□1,200 Cr from SRs for full year.	Delivered □338 Cr in Q1; on track.	Reliable	Low
Strategy	NIM	~3.0% handle for 1% RoA.	Current 2.5%. Depends heavily on RIDF unwinding.	Improving	Medium
Strategy	SMBC Deal	Close by September 2025.	Pending RBI approval of SMBC application.	First Entry	Medium
Balance	RIDF Reduction	Repayment of □8k-9k Cr in FY26.	□7,000 Cr reduced in last 12 months; on track.	Reliable	Low

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Devdey (Horse Power)	Asset Quality	Financials	Why are NPAs "elevated" and what is the SMBC deal structure?	Mgmt clarified GNPA is flat at 1.6% and the SMBC deal is a secondary purchase from SBI/other banks for a 20% stake. The stable NPA ratios despite low loan growth signal high-quality asset management.	None	5.0	Quantified & Clear
2	4.5	Ravishankar	RIDF	Financials	What is the update on RIDF maturity (□25k Cr expected)?	Mgmt corrected the figure, noting RIDF deposits fell by □7,000 Cr YoY and total expected maturity for the year is □8k-9k Cr. This confirms a slower but steady margin tailwind rather than a massive one-time gain.	None	4.0	Fact Check
3	4.0	Ruchit Kapadia	Tech/AI	Strategy	How is the bank using Gen-AI and will KPIs be provided?	Mgmt acknowledged AI is currently in the "use case" testing phase for costs/ efficiency and agreed to provide KPIs in future decks. This indicates the bank is in the investment phase for AI, not yet harvesting	None	3.0	Work in Progress

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						efficiency gains.			
4	3.5	Devdey (Follow-up)	Growth	Management Outlook	Why is credit growth (5% YoY) below the 12% guidance?	Mgmt explained Q1 is seasonally slow and the bank is prioritizing "profitable growth" over volume in a high-interest environment. The target remains 12-15%, but is now contingent on a significant H2 pickup.	None	4.0	Seasonality Defense
5	5.0	Jai (ICICI Sec)	SR Recoveries	Financials	Are SR recoveries of □338 Cr sustainable for the full year?	Mgmt confirmed an expected run-rate of □1,200 Cr for the year, which flows directly as provision write-backs. This provides a clear, high-visibility cushion for the P&L through FY26.	None	5.0	Specific Guidance
6	5.0	Jai (Follow-up)	NIM Outlook	Financials	How will NIMs trend with repo-linked repricing and RIDF?	Mgmt warned of Sept quarter "headwinds" (repricing impact) but expects recovery by March as CRR benefits and RIDF redemptions kick in. This suggests a "U-shaped"	None	4.0	Realistic Caution

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						margin profile for the year.			
7	4.5	Harsh Modi (JPM)	NIM Compression	Financials	Quantification of NIM decline and deposit beta?	Mgmt noted that 60% of the book is floating (repo-linked) and will see a 50bps yield hit in Q2, partly offset by retail loan yields operating 150bps above stock. This highlights a critical "spread compression" risk in the near term.	Specific beta %	3.0	Directional Only
8	4.0	Madhuchanda (MC Pro)	RoA Targets	Management Outlook	Is the 1% RoA target at risk due to NIM pressure?	Mgmt reiterated the 1% target for exit FY26 and average FY27, betting on RIDF falling below 5% of advances by FY27. This anchoring of the RoA target to RIDF unwinding makes it a high-probability event despite near-term NIM volatility.	None	4.0	Structural Optimism

PATTERN FLAGS & SENTIMENT Analysts were primarily anxious about two things: the **SMBC deal timeline** and the **NIM "valley"** expected in Q2/Q3. Management was very confident on the structural cleanup (SRs, RIDF) but notably cautious about loan yields, acknowledging that a rate cut cycle will squeeze margins before deposit costs catch up. The sequential decline in the loan book was a point of friction, suggesting the bank is struggling to compete for high-quality assets without sacrificing yield.

Analyst Sentiment Verdict: Generally positive on the SMBC validation but skeptical regarding the 12-15% growth target given the Q1 contraction. The shift in focus from "cleanup" to "repricing risk" indicates that analysts now view YES Bank as a normal bank facing industry-wide headwinds, rather than a distressed asset.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY25)	This Quarter (Q1FY26)	Direction
Shareholding	SBI + Private Banks were anchors.	**SMBC** to acquire 20% (announced).	↑ (Marquee validation)
Return on Assets	0.7%	**0.8%**	↑ (Profitability pivot)
Capital (CET1)	13.5%	**14.0%**	↑ (Stronger buffer)
Slippages	₹1,223 Cr (2.0%)	**₹1,458 Cr (2.4%)**	↓ (Retail/Micro stress)
Advance Growth	₹246,188 Cr	**₹241,024 Cr**	↓ (Sequential contraction)
Credit Ratings	A+ / A (Senior/Tier II)	**AA- (Stable)** by ICRA/CARE	↑ (Lower cost of funds)
NIM Outlook	Improving trend.	**Near-term "Headwinds"** (Sept Q).	↓ (Repricing risk)
Staff Count	28,687	**28,386**	↑ (Efficiency/Attrition)

STOP HERE.