Yes Bank delivers again

Yes Bank Ltd has delivered another quarter of robust earnings in the three months ended 31 March. Net profit grew by about one-third from a year ago to ₹362 crore, the bank now depicting the metronomic consistency of its larger rival **HDFC Bank Ltd.** Net profit growth was driven by a strong 42.4% increase in net interest income and an identical gain in non-interest income. The quality of the latter was decent as well, with trading gains making up less than 19%.

Three other things of interest can be noted in the March quarter numbers.

One, Yes Bank could have reported higher earnings, but it has chosen to increase its provision coverage ratio. The bank's provision increased almost three-and-a-half times from a year ago, even as gross non-performing assets (NPAs) gained ₹18 crore over the quarter to reach ₹94.32 crore. Thus, net NPAs as a proportion of total advances is 0.01%, the best in the industry. The loan loss coverage again is 92.6%, among the highest for all lenders.

Two, at a time when all banks are struggling to grow deposits as high inflation leads to lower real rates of returns, Yes Bank has managed to beat the trend. In the March quarter, its deposits grew 36.2% from a year ago. This was mainly driven by a 72% rise in low-cost current and savings account deposits (Casa). Casa deposits are now 18.9% of the total and a reason why the bank has been able to keep its net interest margin at 3%. Overall, the share of retail deposits—which are more sticky in nature—has increased to 35.5% compared with 32.7% a year ago.

Three, Yes Bank's loan growth of 23.7%, the most in seven quarters, was powered by an increase in its corporate loan book. That is surprising, given that other lenders are complaining that projects are not taking off. Another point here is that investments have grown at a faster rate of 54.8%, another indicator of a weak macro environment.

Yes Bank's corporate loan book is now 64.7% of total advances compared with 60.2% a year ago. On the flip side, if asset quality problems materialize, they are likely to be lumpy in nature. With economic indicators not improving, it remains to be seen whether the lender can sustain this performance.

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