

October 20, 2016

R Sreesankar

rsreesankar@plindia.com / +91-22-66322214

Pritesh Bumb

priteshbumb@plindia.com / +91-22-66322232

Vidhi Shah

vidhishah@plindia.com / +91-22-66322258

Rating	Accumulate
Price	Rs1,309
Target Price	Rs1,380
Implied Upside	5.4%
Sensex	28,130
Nifty	8,699

(Prices as on October 20, 2016)

Trading data

Market Cap. (Rs bn)	550.4
Shares o/s (m)	420.5
3M Avg. Daily value (Rs m)	5119.7

Major shareholders

Promoters	21.85%
Foreign	42.63%
Domestic Inst.	23.14%
Public & Other	12.38%

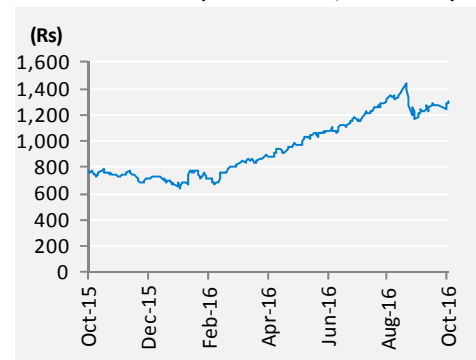
Stock Performance

(%)	1M	6M	12M
Absolute	8.7	48.4	69.9
Relative	10.0	39.6	66.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	78.7	72.6	8.3
2018	95.7	90.7	5.6

Price Performance (RIC: YESB.BO, BB: YES IN)



Source: Bloomberg

Yes Bank continued to report strong quarter with net earnings growing at 31% YoY to Rs14.46bn (PL: Rs13.5bn) mainly on back of strong income profile and robust loan growth of 38% YoY. Liability profile continues to improve with CASA at 30% of deposits on back of robust 50% YoY growth. Asset quality saw marginal deterioration but credit cost remained within guidance of 50-70bps. The bank lowered its credit cost guidance to 50-60bps for FY17. We have maintained our credit cost assumptions of 60bps and loan growth of 28% for FY17E, while have slightly tweaked estimates on opex front. Capital-raising remains an impediment to ensue strong b/s growth. We downgrade to ACCUMULATE with PT of Rs1,380 (from Rs1,250) based on 2.9x Mar-18E ABV (earlier at 2.7x) mainly on reduction in Cost of Equity assumption

■ **Operational performance continues to be robust:** NII growth of 31% YoY remained strong on back of robust loan growth of 38% YoY and stable margins of 3.4%. Cost of funds continued its reducing trend of back of reducing cost of SA (down 20-25bps QoQ), but also saw some yield re-pricing on older assets keeping overall margins stable. Bank has reduced its SA rate on the upper threshold from Sept 2016 which will benefit further on cost of funds. Liability franchise continues to be better with strong CASA growth of +50% YoY though CA growth was mainly float related coming at the end of the quarter.

■ **Slight deterioration in Asset quality:** GNPL/NNPL increased marginally by 3bps/0bps to 0.83%/0.29% respectively and maintained PCR at ~65%. Credit cost was 26bps for H1 (52bps annualized) and remained within the revised guidance of 50-60bps. Restructured book slightly came off to 0.46% of loans from 0.49%, while added one account under 5:25 refinancing of Rs1.03bn. Bank saw no addition to SDR with o/s remaining at Rs343mn.

■ **Capital-raising remains an important factor to support growth:** Bank's Tier-I stands at 10.1% with CET-I at 9.8% and has consumed overall capital by 50bps QoQ mainly on regulatory requirement & high asset growth. The bank has approval to raise Tier-I capital of up to US\$1bn. Although, we will continue to see robust performance & better operating metrics, capital issuance is likely to remain an overhang. We downgrade to "Accumulate" with increased PT of Rs1,380 (from Rs1,250) based on 2.9x Mar-18E ABV.

Key financials (Y/e March)	2015	2016	2017E	2018E
Net interest income	34,878	45,667	59,713	74,123
Growth (%)	28.4	30.9	30.8	24.1
Operating profit	32,496	43,025	56,918	69,596
PAT	20,054	25,394	33,082	40,250
EPS (Rs)	51.5	60.6	78.7	95.7
Growth (%)	14.5	17.6	29.8	21.7
Net DPS (Rs)	9.0	10.0	13.0	17.9

Profitability & Valuation	2015	2016	2017E	2018E
NIM (%)	2.85	3.03	3.23	3.24
RoAE (%)	21.3	19.9	21.9	22.3
RoAA (%)	1.64	1.68	1.79	1.76
P / BV (x)	4.7	4.0	3.3	2.8
P / ABV (x)	4.9	4.2	3.3	2.8
PE (x)	25.4	21.6	16.6	13.7
Net dividend yield (%)	0.7	0.8	1.0	1.4

Source: Company Data; PL Research

Exhibit 1: Q2FY17 results – Operating performance continues to remain buoyant with strong business growth

P&L (Rs million)	Q2FY17	Q2FY16	YoY chg.	Q1FY17	QoQ chg.
Interest Income	40,944	33,772	21.2	38,623	6.0
Interest Expense	26,482	22,688	16.7	25,457	4.0
Net interest income (NII)	14,462	11,085	30.5	13,166	9.8
Other income	5,887	4,658	26.4	6,982	(15.7)
Total income	23,340	17,266	35.2	22,171	5.3
Operating expenses	9,481	7,074	34.0	9,103	4.1
-Staff expenses	4,334	3,128	38.6	4,074	6.4
-Other expenses	5,147	3,947	30.4	5,030	2.3
Operating profit	13,860	10,191	36.0	13,068	6.1
Core operating profit	10,868	8,668	25.4	11,045	(1.6)
Total provisions	1,617	1,039	55.5	2,066	(21.8)
Profit before tax	12,243	9,152	33.8	11,001	11.3
Tax	4,228	3,048	38.7	3,683	14.8
Profit after tax	8,015	6,104	31.3	7,318	9.5
Balance Sheet					
Deposits	12,80,238	9,93,443	28.9	12,25,811	4.4
Advances	11,02,162	8,00,151	37.7	10,59,420	4.0
Profitability ratios					
Yield on Advances	10.9	11.6	(70)	11.1	(20)
Cost of Deposits	6.8	7.3	(50)	7.0	(20)
NIM	3.4	3.3	10	3.4	-
RoAA	1.8	1.7	10	1.7	10
RoAE	21.4	19.4	200	20.7	70
Asset Quality					
Gross NPL (Rs m)	9,167	4,914	86.6	8,446	8.5
Net NPL (Rs m)	3,230	1,586	103.6	3,024	6.8
Gross NPL ratio	0.8	0.6	22	0.8	4
Net NPL ratio	0.3	0.2	9	0.3	0
Coverage ratio	64.8	67.7	(295)	64.2	57
Business & Other Ratios					
CASA mix	30.3	25.5	480	29.6	70
Cost-income ratio	40.6	41.0	(35)	41.1	(44)
Non int. inc / total income	38.0	35.8	224	40.6	(258)
Credit deposit ratio	86.1	80.5	555	86.4	(34)
CAR	15.0	14.9	10	15.5	(50)
Tier-I	10.1	10.9	(80)	10.3	(20)

Source: Company Data, PL Research

Key Q2FY17 Concall Highlights:

Assets & Liability franchise:

- **Assets – Outlook** – Will continue to show higher growth
 - **Retail assets** – Have completed full product suite of offerings in the retail book. Growth was lower sequentially on lower PSL build-up required as bank started taking PSL Certificates which doesn't show in balance sheet but has a P&L impact only. Bank bought Rs7-8 bn certificates with blended cost of 2-3% (recorded as other operating expense) as these certificates are on base of PSL gap of FY16 which was 33-34% as compared to 38% in Q2FY17.
 - **Corporate assets** – Corporate loan book continues to remain strong. The bank's share to iron & steel/EPC has moved down. Have also built up \$700 mn book to overseas clients from GIFT city branch. Banks exposure to high debted Essar group is through Essar Oil only. Deal may not immediately resonate into action in terms of debt repayment.
 - **SME** should continue to be in strong growth trajectory on back of strong platform built over last few years.
- **Liabilities** – Bank has seen robust 52% growth in both CA & SA and reaching 30% of deposits. Higher CA growth has come in from higher floats at the end of the quarter. SA growth though sharp YoY, have consolidated some growth on the overshooting trends to more predictable growth.
- **Customer acquisition** – Bank continues to add 40-50k customers per month on average. Bank is adding 40% of new customer for salary a/c, while 60% is non salary. But value wise Salary contribution is 15-20% v/s 80-85% value contribution of a new customer as salary takes some lag to build-up from cross sell.

NIMs/Funding cost:

- Margins have been stable sequentially as both cost and yields have come down mostly from re-pricing in both assets & liabilities.
- Cost of funds reduced by 16bps QoQ to 6.68%, while cost of deposits stood at 6.8% and cost of savings has come down to between 6-6.5% from 6.50% in Q1FY17. Bank has reduced SA rates on upper threshold from 1st Sept 2016 which will benefit in ensuing quarters. Will further look to reduce rates on SA on back of reducing interest rates in economy.

Fees/Treasury/Opex/Branches:

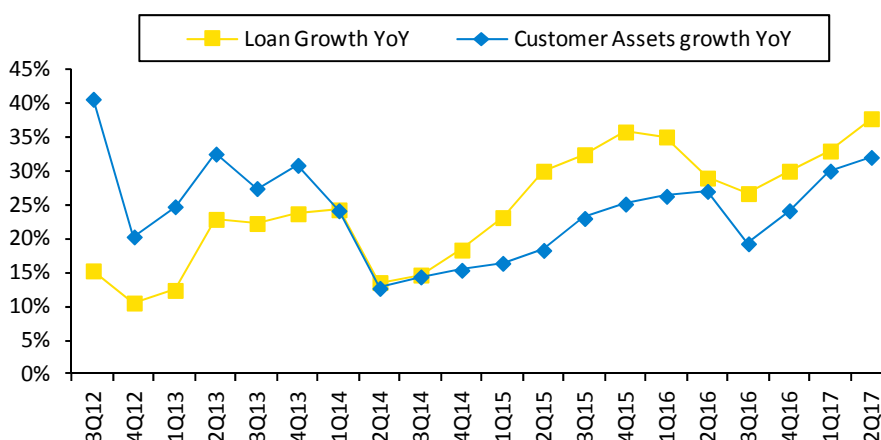
- **Fees/Treasury** – Bank witnessed good treasury income of Rs1.5bn compared to Rs1.0 bn in 1QFY17. Core fees growth was strong from retail, Fx and corporate on the back of strong loan book growth.

- **Branches/Opex/Employees** – Bank has added over 2000 employees over 1QFY17 on the back of increased branch presence.

Asset quality:

- **Impaired assets** – Witnessed slippages of Rs3.01bn in Q2FY17 (similar as in Q1FY17), while saw reductions of Rs2.29bn with higher write offs. Slippages were mainly from mid market mid-corporate segment. **Restructured book** remained steady at 0.46% of loans and has not seen any additions. **SDR book** did not have any addition to Rs343mn o/s (1 a/c from Construction/EPC) while did **5:25 refinancing** for one a/c of Rs1.03bn. **Net SRs** moved up on account of sale to ARC and stands at 0.23% of loans. The Bank continues to hold 0.3% of loans as contingent provisions and has done additional contingent provisions of Rs0.7bn in Q1FY17.
- **Credit cost** - Credit cost for H1FY17 was 27bps (54bps annualized). Bank has lowered its guidance on credit cost by 10bps on the upper end to 50-60bps from 50-70bps.

Exhibit 2: Loan growth continued to be buoyant



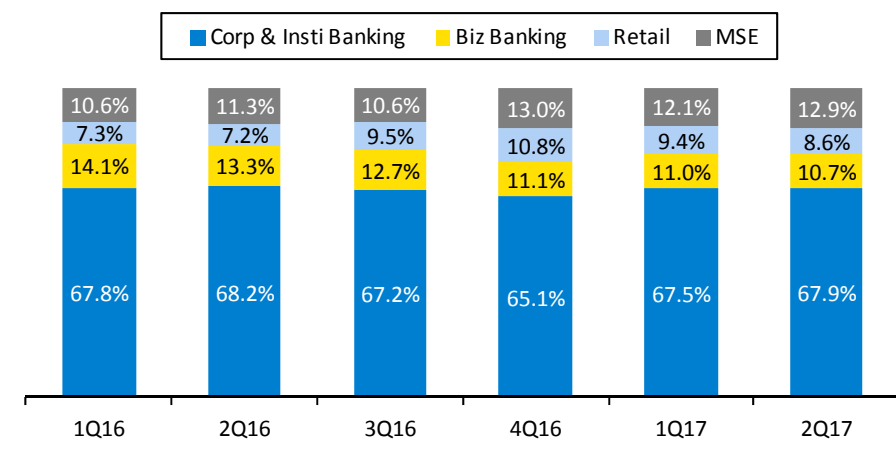
Source: Company Data, PL Research

Exhibit 3: Loan book growth mainly being contributed from corporate & small enterprises

Advances Break-up	Q2FY17	Q2FY16	YoY gr.	Q1FY17	QoQ gr.
Corporate Banking	7,48,368	5,45,703	37.1	7,15,109	4.7
Commercial Banking	3,53,794	2,54,448	39.0	3,44,312	2.8
Branch Banking	1,17,931	1,06,420	10.8	1,16,536	1.2
Retail	94,786	57,611	64.5	99,585	(4.8)
MSE	1,41,628	90,417	56.6	1,28,190	10.5
Total	11,02,162	8,00,151	37.7	10,59,420	4.0

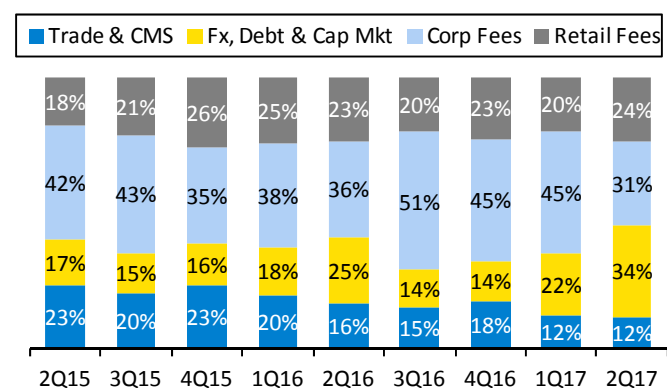
Source: Company Data, PL Research

Exhibit 4: Corporate book mix continued to be steady, while micro & small enterprises see increased mix in loan book



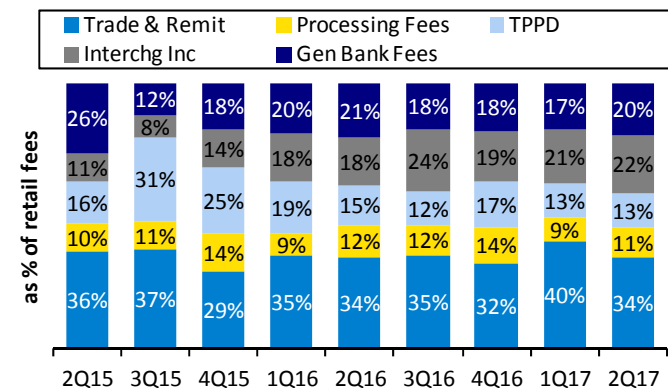
Source: Company Data, PL Research

Exhibit 5: Fx & retail fees growth was strong, while CMS fees continues to be soft from some quarters



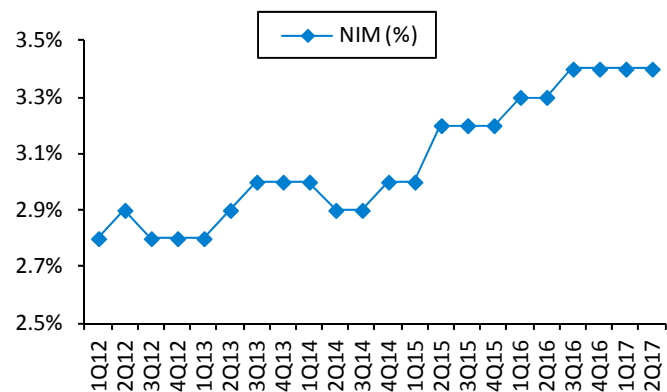
Source: Company Data, PL Research

Exhibit 6: Retail fees growth continues to be contributed from all segments



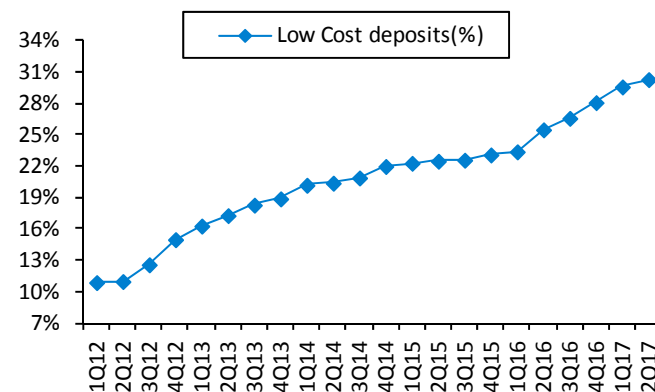
Source: Company Data, PL Research

Exhibit 7: Reported margins remain stable at 3.4%



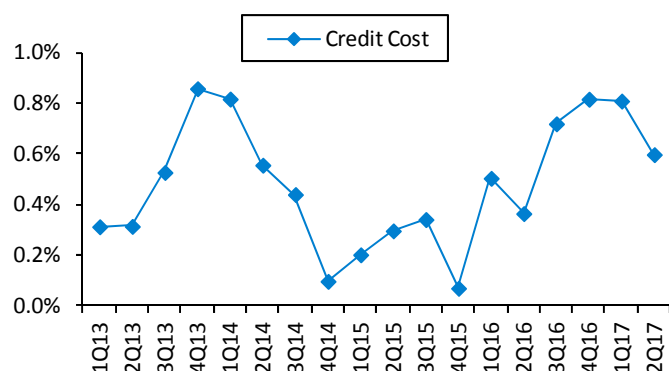
Source: Company Data, PL Research

Exhibit 8: CASA growth remains robust reaching 30% of deposits



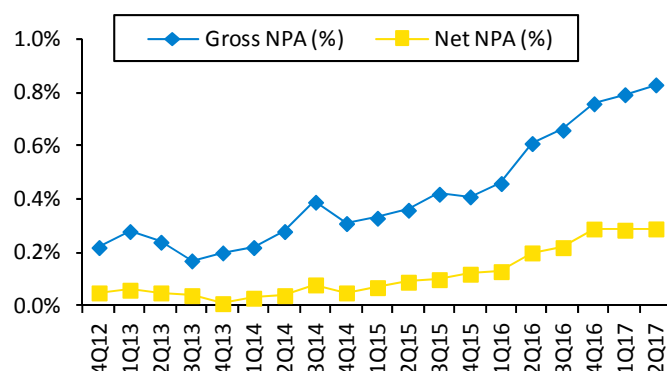
Source: Company Data, PL Research

Exhibit 9: Loan loss credit cost were at 54bps (annualized) well within guidance



Source: Company Data, PL Research

Exhibit 10: Asset quality largely remained stable with slippages in similar trend from sequential quarter



Source: Company Data, PL Research

Exhibit 11: We slightly tweak our estimates on the opex front and adjust only 70% of Net NPAs to our ABV estimates

(Rs mn)	Old		Revised		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net interest income	59,688	74,089	59,713	74,123	0.0	0.0
Operating profit	55,914	70,198	56,918	69,596	1.8	(0.9)
Net profit	32,409	40,654	33,082	40,251	2.1	(1.0)
EPS (Rs)	77.1	96.7	78.7	95.7	2.1	(1.0)
ABVPS (Rs)	387.8	464.7	391.8	468.1	1.0	0.7
Price target (Rs)	1,250		1,380		10.4	
Recommendation	BUY		ACCUMULATE			

Source: Company Data, PL Research

Exhibit 12: We increase our PT to Rs1,380 from Rs1,250 as we change our COE assumptions

PT calculation and upside

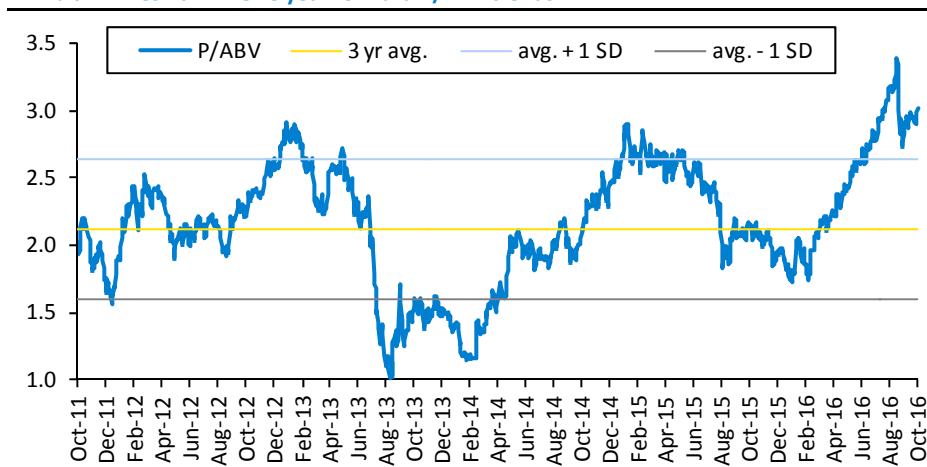
Fair price - EVA, Rs	1,375
Fair price - P/ABV, Rs	1,385
Average of the two, Rs	1,380
Target P/ABV (x)	2.9
Target P/E (x)	14.4
Current price, Rs	1309
Upside (%)	5.5%
Dividend yield (%)	1.0%
Total return (%)	6.5%

Source: Company Data, PL Research

Exhibit 13: RoAE tree - Return ratios to move up led by margins

RoAE decomposition (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Interest income	8.47	9.51	9.60	9.59	9.44	8.98	8.92	8.73
Interest expenses	5.86	7.07	7.03	6.98	6.59	5.95	5.69	5.49
Net interest income	2.61	2.44	2.57	2.61	2.85	3.03	3.23	3.24
Treasury income	0.05	0.10	0.26	0.35	0.06	0.22	0.06	0.07
Other Inc. from operations	1.26	1.19	1.20	1.30	1.61	1.58	1.87	1.89
Total income	3.92	3.73	4.02	4.26	4.51	4.83	5.17	5.19
Employee expenses	0.76	0.72	0.76	0.75	0.80	0.86	0.93	0.95
Other operating expenses	0.67	0.69	0.79	0.93	1.06	1.11	1.15	1.20
Operating profit	2.50	2.32	2.48	2.58	2.65	2.85	3.08	3.04
Tax	0.77	0.71	0.72	0.68	0.74	0.81	0.41	0.42
Loan loss provisions	0.21	0.14	0.25	0.35	0.28	0.36	0.88	0.87
RoAA	1.52	1.47	1.51	1.55	1.64	1.68	1.79	1.76
RoAE	21.13	23.07	24.81	25.02	21.33	19.94	21.89	22.32

Source: Company Data, PL Research

Exhibit 14: Yes Bank – One year forward P/ABV trends


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Int. Earned from Adv.	80,161	97,115	123,263	153,011
Int. Earned from Inv.	33,557	35,082	39,195	44,590
Others	2,002	3,138	2,450	2,373
Total Interest Income	115,720	135,334	164,908	199,975
Interest expense	80,842	89,667	105,195	125,852
NII	34,878	45,667	59,713	74,123
Growth (%)	28.4	30.9	30.8	24.1
Treasury Income	1,421	2,606	—	—
NTNII	19,044	24,515	35,800	44,750
Non Interest Income	20,465	27,121	35,800	44,750
Total Income	136,185	162,456	200,709	244,725
Growth (%)	16.4	19.3	23.5	21.9
Operating Expense	22,847	29,764	38,595	49,277
Operating Profit	32,496	43,025	56,918	69,596
Growth (%)	20.9	32.4	32.3	22.3
NPA Provisions	1,300	4,979	6,723	8,540
Investment Provisions	(584)	25	—	—
Total Provisions	3,395	5,363	7,543	9,520
PBT	29,101	37,662	49,375	60,076
Tax Provisions	9,047	12,268	16,294	19,826
Effective Tax Rate (%)	31.1	32.6	33.0	33.0
PAT	20,054	25,394	33,082	40,250
Growth (%)	24.0	26.6	30.3	21.7

Balance Sheet (Rs m)

Y/e March	2015	2016	2017E	2018E
Par Value	10	10	10	10
No. of equity shares	418	421	421	421
Equity	4,177	4,205	4,205	4,205
Networth	116,800	137,866	164,348	196,361
Adj. Networth	115,923	135,021	161,021	191,442
Deposits	911,758	1,117,195	1,397,611	1,777,762
Growth (%)	22.9	22.5	25.1	27.2
Low Cost deposits	210,790	313,428	466,802	657,772
% of total deposits	23.1	28.1	33.4	37.0
Total Liabilities	1,361,704	1,652,634	2,045,105	2,536,117
Net Advances	755,498	982,099	1,259,051	1,587,664
Growth (%)	35.8	30.0	28.2	26.1
Investments	432,285	488,385	559,249	665,229
Total Assets	1,361,704	1,652,634	2,045,105	2,536,117

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Interest Income	33,761	35,283	38,623	40,944
Interest Expense	22,191	22,869	25,457	26,482
Net Interest Income	11,570	12,414	13,166	14,462
Non Interest Income	7,461	8,028	9,005	8,879
CEB	5,317	5,454	5,870	4,853
Treasury	1,025	1,163	2,023	2,992
Net Total Income	19,031	20,443	22,171	23,340
Operating Expenses	7,534	8,188	9,103	9,481
Employee Expenses	3,426	3,528	4,074	4,334
Other Expenses	4,108	4,659	5,030	5,147
Operating Profit	11,496	12,255	13,068	13,860
Core Operating Profit	10,471	11,092	11,045	10,868
Provisions	1,479	1,865	2,066	1,617
Loan loss provisions	1,700	1,315	—	1,150
Investment Depreciation	—	—	—	—
Profit before tax	10,017	10,390	11,001	12,243
Tax	3,260	3,369	3,683	4,228
PAT before EO	6,757	7,021	7,318	8,015
Extraordinary item	—	—	—	—
PAT	6,757	7,021	7,318	8,015

Key Ratios

Y/e March	2015	2016	2017E	2018E
CMP (Rs)	1,309	1,309	1,309	1,309
Equity Shrs. Os. (m)	418	421	421	421
Market Cap (Rs m)	546,733	550,392	550,392	550,392
M/Cap to AUM (%)	40.2	33.3	26.9	21.7
EPS (Rs)	51.5	60.6	78.7	95.7
Book Value (Rs)	280	328	391	467
Adj. BV (100%) (Rs)	268	314	392	468
P/E (x)	25.4	21.6	16.6	13.7
P/BV (x)	4.7	4.0	3.3	2.8
P/ABV (x)	4.9	4.2	3.3	2.8
DPS (Rs)	9.0	10.0	13.0	17.9
Dividend Yield (%)	0.7	0.8	1.0	1.4

Profitability (%)

Y/e March	2015	2016	2017E	2018E
NIM	2.8	3.0	3.2	3.2
RoAA	1.6	1.7	1.8	1.8
RoAE	21.3	19.9	21.9	22.3

Efficiency

Y/e March	2015	2016	2017E	2018E
Cost-Income Ratio (%)	41.3	40.9	40.4	41.5
C-D Ratio (%)	82.9	87.9	90.1	89.3
Business per Emp. (Rs m)	165	180	199	219
Profit per Emp. (Rs lacs)	19.8	21.8	24.7	26.2
Business per Branch (Rs m)	2,382	2,399	2,429	2,462
Profit per Branch (Rs m)	29	29	30	29

Asset Quality

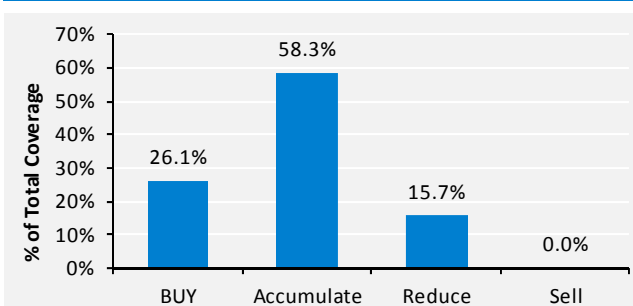
Y/e March	2015	2016	2017E	2018E
Gross NPAs (Rs m)	3,134	7,490	9,333	13,300
Net NPAs (Rs m)	877	2,845	3,326	4,919
Gr. NPAs to Gross Adv. (%)	0.4	0.8	0.7	0.8
Net NPAs to Net Adv. (%)	0.1	0.3	0.3	0.3
NPA Coverage (%)	72.0	62.0	64.4	63.0

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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