

Institutional Equity Research

Yes Bank

Banking | India

1QFY18 Result Update | July 28, 2017

CMP* (Rs)	1,786
Upside/ (Downside) (%)	15
Bloomberg Ticker	YES IN
Market Cap. (Rs bn)	817
Free Float (%)	78
Shares O/S (mn)	456

BUY 

Target Price: Rs2,051

Strong Performance on All Fronts: Upgrade to BUY

YES Bank has delivered higher-than-estimated operating performance in 1QFY18 driven by (a) sharp sequential growth in NII aided by sequential improvement in NIMs of 3.7%; (b) stellar business growth led by consumer loans and corporate banking portfolio; and (c) sequential decline in provisioning expenses owing to higher upgrades and recovery coupled with lower fresh slippages. The Bank demonstrated all round improvement in asset quality front led by 89.5% QoQ decline in fresh slippages, 32.4% QoQ decline in gross NPA and 49.1% decline in net NPA, while PCR improved by 1,315bps QoQ to 60%.

Management Commentary & Guidance

- ▶ YES Bank has exposure to 2 corporate accounts out of total 12 accounts referred to Insolvency & Bankruptcy Code (IBC) by the RBI. It has total exposure of Rs3.4bn towards these accounts, which are currently classified as standard assets. Further, the Bank has exposure of Rs2.9bn towards other stressed accounts, which can be potentially referred to NCLT/IBC in future.
- ▶ The Bank has downwardly revised its physical footprint expansion plan to 1,800 branches by Mar'20 from earlier 2,500 branches. Currently, the Bank has 1,020 branches. Further, the Bank is also planning to rationalise its ATM network. We expect that change in physical expansion strategy would have significant positive impact on its profitability in coming period.
- ▶ Yes Bank has announced stock split in 1:5 ratio. It expects the process to be completed in next three months.
- ▶ The Management looks forward to 25-30% growth in loan book in FY18. It also expects 3.7-3.8% growth in NIMs in current fiscal.
- ▶ The Bank maintains credit cost guidance in range of 50-70bps for FY18. Credit cost stood at 18bps in 1QFY18 compared to 19bps and 15bps in 4QFY17 and 1QFY17, respectively.

Outlook & Valuation

YES Bank is making sustained progress towards building a strong retail franchise, which we expect would add depth to its balance sheet and boost earnings. Further, a detailed study of loan book indicates that the Bank has been able to manage the issues of asset quality front effectively. Further, the Bank also raised capital to support its aggressive growth plan over next 2-3 years. Looking ahead, we expect the Bank will sustain continued improvement in operating metrics led by dwindling headwinds on asset quality front and improving balance sheet growth especially from retail segment. **Hence, we upgrade our recommendation on the stock to BUY from HOLD with an upwardly revised Target Price of Rs2,051 (from Rs1,483 earlier) based on 3.1x FY19E (earlier 1.9x) Adjusted Book Value.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
NII	45,667	57,973	74,629	94,344
PPP	43,025	58,375	72,858	91,231
PAT	25,394	33,301	42,262	54,024
EPS (Rs)	60.4	73.0	92.6	118.3
P/E (x)	29.6	24.5	19.3	15.1
Adj. BV (Rs)	321.5	477.3	556.6	661.6
P/Adj. BV (x)	5.6	3.7	3.2	2.7
Gross NPA (%)	0.8	1.5	1.1	1.0
Net NPA (%)	0.3	0.8	0.6	0.5
Avg. ROA (%)	1.7	1.8	1.8	1.9
Avg. ROE (%)	18.4	15.1	16.5	17.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	24.4	12.9	48.8
Relative to Nifty	19.8	5.7	32.2

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	20.2	20.1
Mutual Funds	10.5	11.1
Insurance Companies	12.7	11.5
Foreign Portfolio Investors	46.7	45.8
Others	10.0	11.5
Total	100.0	100.0

1 Year Stock Price Performance



Note: * CMP as on Jun 27, 2017

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Risks to view

- Failure to build retail business on both liability as well as assets side
- Sharp drop in Fee income, which is relatively large part of overall revenue
- Any Negative surprise on assets quality.

Exhibit 1: Income Statement Analysis

(Rs mn)	1Q FY18	1Q FY17	% yoy / bps	4Q FY17	% qoq / bps	FY17	FY16	% yoy / bps
Interest on Advance	35,345	28,401	24.5	32,591	8.4	122,098	97,115	25.7
YoA - Calculated (%)	10.4	11.1	(74)	10.5	(7)	10.6	11.2	(58)
Income on Investment	9,027	9,590	(5.9)	9,423	(4.2)	37,968	35,082	8.2
Interest on Balances	1,794	278	545.9	1,106	62.2	4,180	1,125	271.5
Others Interests	372	355	4.9	370	0.8	1,602	2,012	(20.4)
Interest Earned	46,538	38,623	20.5	43,490	7.0	164,246	135,334	21.4
Interest Expended	28,449	25,457	11.8	27,093	5.0	106,273	89,667	18.5
CoF - Calculated (%)	5.6	6.2	(65)	5.6	2	5.9	6.3	(37)
Net Interest Income	18,089	13,166	37.4	16,397	10.3	57,973	45,667	26.9
NIM - Calculated (%)	3.7	3.5	15	3.3	35	3.3	3.3	0
NIM - Reported (%)	3.7	3.4	30	3.6	10	3.4	3.4	-
NII as % of Oper. Income	61.5	59.4	212	56.6	491	58.2	62.7	(450)
Core Fee Income	8,049	6,982	15.3	10,173	(20.9)	23,879	22,440	6.4
Fee Inc. as % of OI	27.4	31.5	(412)	35.1	(775)	24.0	30.8	(22)
Non Core Fee Income	3,273	2,023	61.8	2,401	36.3	17,689	2,530	599.2
Non core fee Inc. as % of OI	11.1	9.1	200	8.3	284	17.8	3.5	411
Total Other Income	11,322	9,005	25.7	12,574	(10.0)	41,568	27,121	53.3
Other Inc. as % of OI	38.5	40.6	(212)	43.4	(491)	41.8	37.3	450
Operating Income (OI)	29,411	22,171	32.7	28,971	1.5	99,541	72,789	36.8
Core Operating Income	26,138	20,148	29.7	26,570	(1.6)	81,852	68,107	20.2
Employees Expenses	5,461	4,074	34.1	4,968	9.9	18,050	12,968	39.2
Employees Expn. as % of OI	18.6	18.4	19	17.1	142	18.1	17.8	32
Other Operating Expenses	6,908	5,030	37.3	7,093	(2.6)	23,115	16,796	37.6
Other Oper Exp. as % of OI	23.5	22.7	80	24.5	(100)	23.2	23.1	15
Total Operating Expenses	12,369	9,103	35.9	12,061	2.6	41,165	29,764	38.3
Cost to income Ratio (%)	42.1	41.1	100	41.6	42	41.4	40.9	46
Operating Profit (OP)	17,042	13,068	30.4	16,910	0.8	58,375	43,025	35.7
Provisions and Conting.	2,858	2,066	38.3	3,097	(7.7)	7,934	5,363	47.9
Pro Burden as % of OP	16.8	15.8	96	18.3	(155)	13.6	12.5	113
Profit Before Tax	14,184	11,001	28.9	13,813	2.7	50,441	37,662	33.9
Tax Expenses	4,529	3,683	23.0	4,671	(3.0)	17,140	12,268	39.7
Effective Tax Rate (%)	31.9	33.5	(155)	33.8	(189)	34.0	32.6	141
Net Profit	9,655	7,318	31.9	9,141	5.6	33,301	25,394	31.1
EPS	21.1	17.4	21.4	21.6	(2.1)	78.9	60.6	30.2

Source: Company, RSec Research

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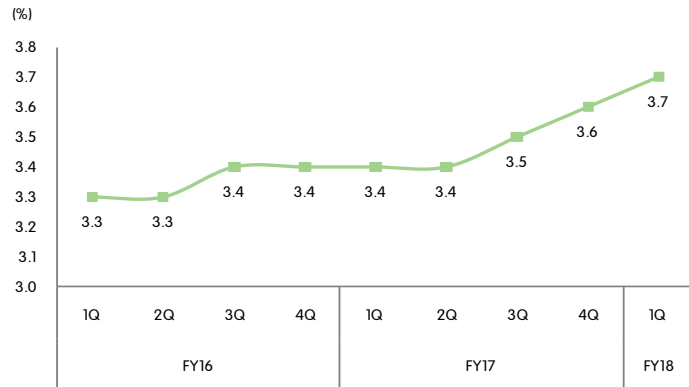
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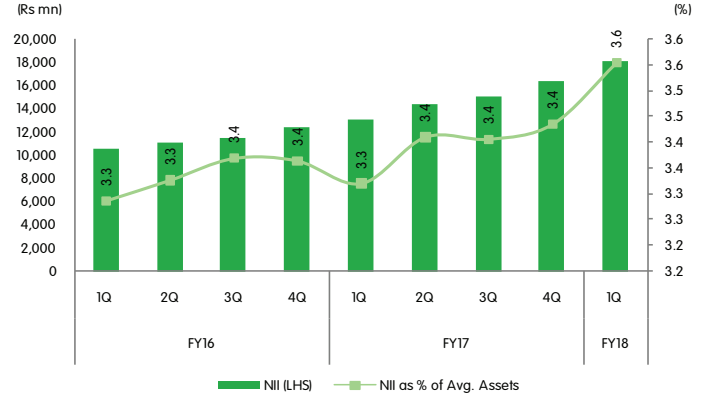
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Exhibit 2: NIM improved by 10bps QoQ to 3.7% led by decline in CoD and positive contribution from capital raising in Mar'17


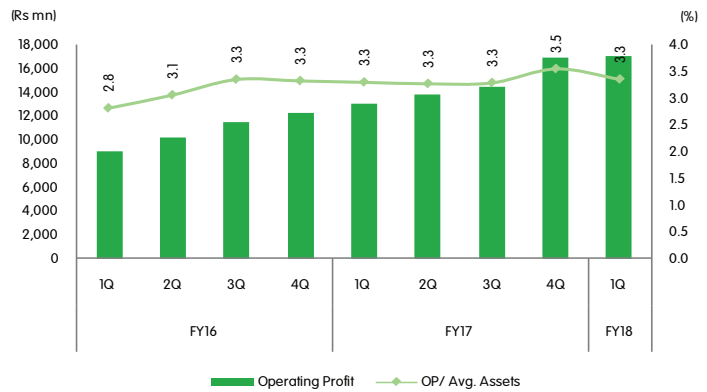
Source: Company, RSec Research

Exhibit 3: Strong growth in NII led by healthy growth in loan book and strong NIM


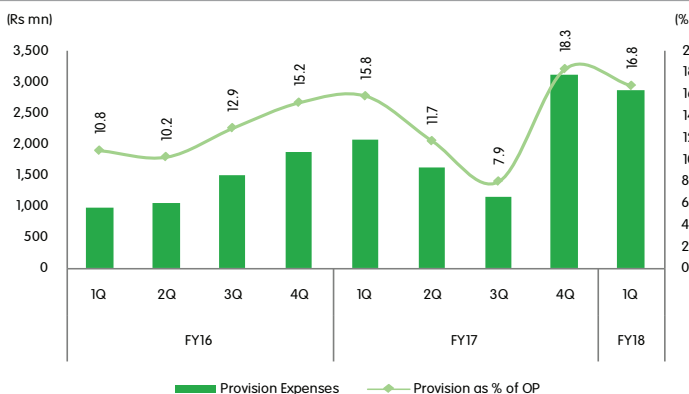
Source: Company, RSec Research

Exhibit 4: Other income growth was led by higher income from Corporate Banking & Financial Market


Source: Company, RSec Research

Exhibit 5: Healthy growth in operating revenue and controlled growth in opex aided the Bank to deliver better operating profit


Source: Company, RSec Research

Exhibit 6: Provisioning expenses declined due to reversal of provisioning on JP exposure and lower fresh slippages


Source: Company, RSec Research

Exhibit 7: PAT growth was led by strong growth in operating revenue and lower provision expenses


Source: Company, RSec Research

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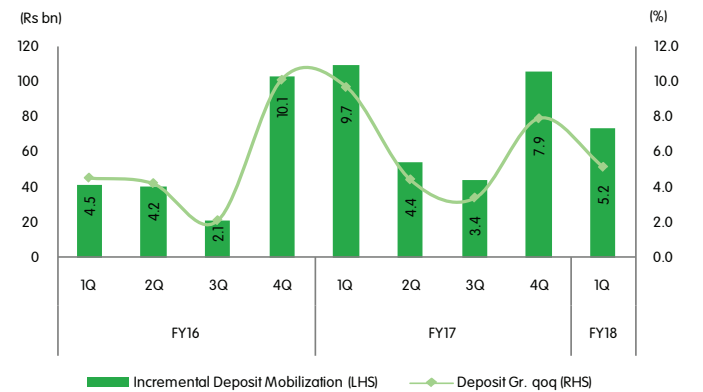
Exhibit 8: Balance Sheet Analysis

(Rs bn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ% / bps	YoY % / bps
Net Worth	137.9	145.4	153.7	162.5	220.5	223.9	1.5	54.0
Deposit	1,117	1,226	1,280	1,324	1,429	1,502	5.2	22.6
Savings Deposits	204	252	257	293	328	367	11.8	45.5
Current Deposits	109	111	130	148	191	186	(2.8)	67.1
CASA Deposit	313	363	388	441	519	552	6.4	52.2
Term Deposit	804	863	892	882	910	950	4.4	10.1
Investments	488	461	496	497	500	521	4.2	13.1
Advances	982	1,059	1,102	1,171	1,323	1,400	5.8	32.1
Total Business	2,588	2,746	2,878	2,992	3,252	3,423	5.3	24.7
Avg Int. Earning Assets	1,461	1,549	1,701	1,723	1,822	1,956	7.3	26.3
Risk Weighted Assets (Rs mn)	1,329	1,443	1,541	1,590	1,863	1,852	(0.6)	28.4
CAR (%)	16.5	15.5	15.0	16.9	17.0	17.6	60	210
Tier I Capital (%)	10.7	10.3	10.1	12.2	13.3	13.8	50	350

Source: Company, RSec Research

Exhibit 9: Robust growth in Consumer Banking and Corporate portfolio led to strong growth in loan book


Source: Company, RSec Research

Exhibit 10: Deposit growth was led by strong growth in current and saving deposits


Source: Company, RSec Research

Exhibit 11: Loan Book Analysis

(Rs mn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ%	YoY %
Corporate Banking	639,346	715,109	748,368	806,729	895,418	953,208	6.5	33.3
Business Banking (Medium)	109,013	116,536	117,931	125,283	138,876	138,572	(0.2)	18.9
Micro & Small Enterprises	127,673	128,190	141,077	138,163	162,683	160,968	(1.1)	25.6
Consumer Banking (Urban and Rural)	106,067	99,585	94,786	100,695	125,650	146,970	17.0	47.6

Source: Company, RSec Research

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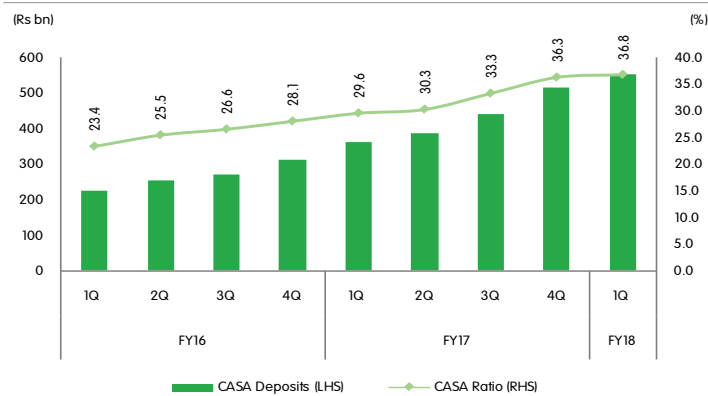
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Exhibit 12: Loan Book Analysis (% Break-up)

	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ bps	YoY bps
Corporate Banking	65.1	67.5	67.9	68.9	67.7	68.1	40	60
Business Banking (Medium)	11.1	11.0	10.7	10.7	10.5	9.9	(60)	(110)
Micro & Small Enterprises	13.0	12.1	12.8	11.8	12.3	11.5	(80)	(60)
Consumer Banking (Urban and Rural)	10.8	9.4	8.6	8.6	9.5	10.5	100	110

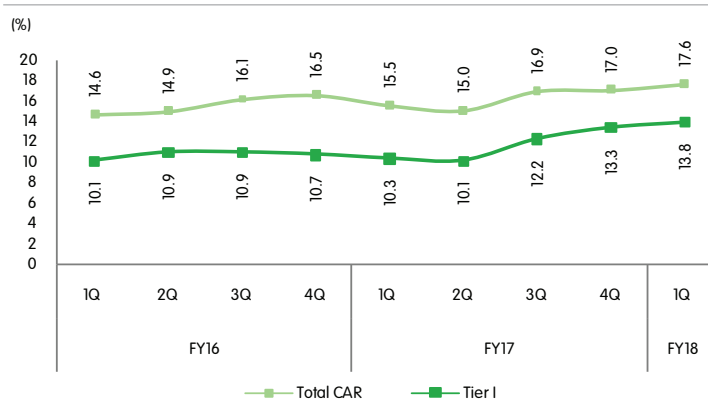
Source: Company, RSec Research

Exhibit 13: CASA ratio surged by 50bps QoQ led by 11.8% QoQ growth in saving deposits


Source: Company, RSec Research

Exhibit 14: C/D ratio improved to 93.2% led by sustained growth in loan book


Source: Company, RSec Research

Exhibit 15: Raising of core capital helped the Bank to improve its CRAR to 17.6%


Source: Company, RSec Research

Exhibit 16: RWA growth remained below the credit growth of the Bank


Source: Company, RSec Research

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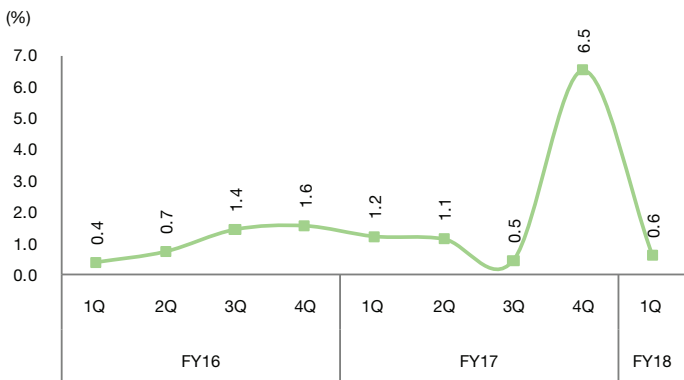
BUY

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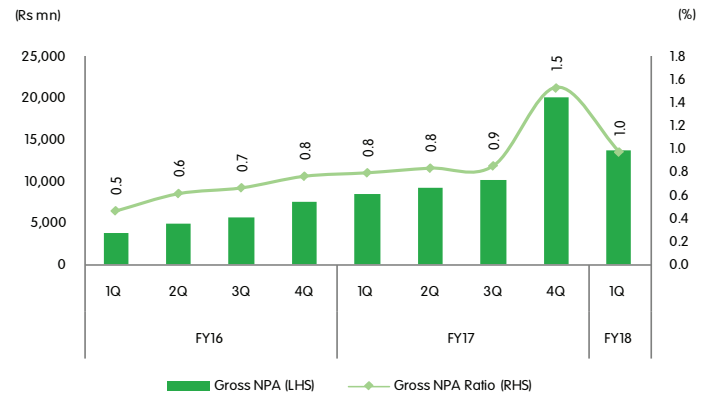
Exhibit 17: Asset Quality Analysis

(Rs mn)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	QoQ% / bps	YoY % / bps
Gross Non Performing Assets	7,490	8,446	9,167	10,059	20,186	13,644	(32.4)	61.5
Fresh Slippages	3,290	2,996	3,015	1,265	19,048	2,010	(89.4)	(32.9)
Net Non Performing Assets	2,845	3,024	3,230	3,425	10,723	5,453	(49.1)	80.3
GNP Ratio (%)	0.8	0.8	0.8	0.9	1.5	1.0	(56)	18
NNP Ratio (%)	0.3	0.3	0.3	0.3	0.8	0.4	(42)	10
NPA Coverage Ratio	62.02	64.20	64.76	65.95	46.88	60.03	1,315	(416)
Restructured Gross Loans	5,240	5,229	5,115	5,002	4,816	3,433	(28.7)	(34.3)
Restructured Loan as % of Adv.	0.5	0.5	0.5	0.4	0.4	0.2	(12)	(25)

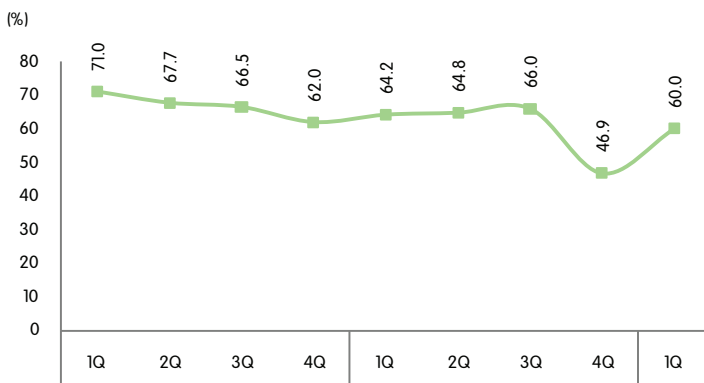
Source: Company, RSec Research

Exhibit 18: Slippages declined sequentially led by lower slippages from corporate portfolio


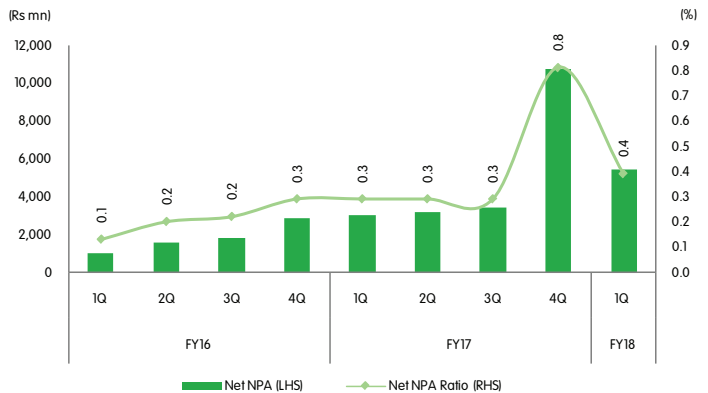
Source: Company, RSec Research

Exhibit 19: Gross NPA also declined in line with slippages and higher upgrades and recovery


Source: Company, RSec Research

Exhibit 20: PCR improved to 60% led by reversal of provisioning n on JP exposure and lower increase in net GNPA


Source: Company, RSec Research

Exhibit 21: Net NPA declined in line with gross NPA and higher PCR


Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Interest Earned	135,334	164,246	192,494	233,247
Interest Expenditure	89,667	106,273	117,865	138,902
Net Interest Income	45,667	57,973	74,629	94,344
Fee Income	24,592	31,400	37,511	45,482
Non Fee Income	2,530	10,168	11,597	13,503
Other Income	27,121	41,568	49,108	58,985
Net Operating Income	72,789	99,541	123,737	153,330
Core Operating Income	70,259	89,373	112,140	139,826
Employee Expenses	12,968	18,050	22,563	27,978
Other Expenses	16,796	23,115	28,316	34,121
Operating Expenses	29,764	41,165	50,879	62,099
Operating Profit	43,025	58,375	72,858	91,231
Provisions and Contingencies	5,363	7,934	11,161	12,365
Profit Before Tax	37,662	50,441	61,697	78,867
Taxes	12,268	17,140	19,435	24,843
Profit After Tax	25,394	33,301	42,262	54,024

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Capital & Liabilities				
Capital	4,205	4,565	4,565	4,565
Reserves Total	133,661	215,976	252,193	300,117
Net Worth	137,866	220,541	256,757	304,682
Deposits	1,117,195	1,428,739	1,793,067	2,259,264
Current deposits	109,251	190,878	183,789	231,575
Saving deposits	204,177	327,818	461,715	598,705
Term Deposits	803,768	910,042	1,147,563	1,428,985
Borrowings	316,590	386,067	406,667	454,167
Other Liabilities & Provisions	80,983	115,253	135,256	141,164
Total Liabilities	1,652,634	2,150,599	2,591,748	3,159,277
Assets				
Cash & Cash Equivalents	82,184	195,495	174,301	197,658
Investments	488,385	500,318	579,884	669,001
Advances	982,099	1,322,627	1,692,962	2,133,132
Fixed Assets	4,707	6,835	7,369	7,847
Other Assets	95,259	125,325	137,230	151,640
Total Assets	1,652,634	2,150,599	2,591,748	3,159,277

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Per Share Data and Valuation

	FY16	FY17	FY18E	FY19E
No. of Shares (Mn)	420.5	456.5	456.5	456.5
Earnings Per Share (Rs.)	60.4	73.0	92.6	118.3
Book Value / Share (Rs.)	327.8	483.1	562.5	667.4
ABV/Share (Rs.)	321.5	477.3	556.6	661.6
Dividend Per Share (Rs.)	10.0	12.0	11.3	11.4
Price/ Earnings (X)	29.6	24.5	19.3	15.1
Price/ BV (X)	5.4	3.7	3.2	2.7
Price/Adjusted BV (X)	5.6	3.7	3.2	2.7

Key Assumptions

	FY16	FY17	FY18E	FY19E
Loan Growth	30.0	34.7	28.0	26.0
Deposit Growth	22.5	27.9	25.5	26.0
RWA Growth	28.4	40.2	16.4	26.2
Slippages Ratio	1.2	2.7	1.1	1.1
Cost of Fund	6.3	5.9	5.2	5.1
Yield on Fund	9.9	9.5	8.9	8.8
NIM	3.3	3.3	3.4	3.6
Other Income Growth	32.5	53.3	18.1	20.1
Cost to Income Ratio	40.9	41.4	41.1	40.5
Average Credit Cost	0.7	0.8	0.8	0.7
Effective Tax Rate	32.6	34.0	31.5	31.5

Growth Rate

	FY16	FY17	FY18E	FY19E
Net interest Income	30.9	26.9	28.7	26.4
Other Income	32.5	53.3	18.1	20.1
Operating Profit	32.4	35.7	24.8	25.2
Provisions Expense	58.0	47.9	40.7	10.8
PAT	26.6	31.1	26.9	27.8
Risk Weighted Assets	28.4	40.2	16.4	26.2

Yields / Margins

	FY16	FY17	FY18E	FY19E
Cost of Funds (CoF)	6.3	5.9	5.2	5.1
Yield on Advance	11.2	10.6	9.9	9.7
Yield on funds	9.9	9.5	8.9	8.8
Net Interest Margin (NIM)	3.3	3.3	3.4	3.6

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Balance Sheet Ratio

	FY16	FY17	FY18E	FY19E
Credit / Deposit Ratio	87.9	92.6	94.4	94.4
Incremental C/D Ratio	110.3	109.3	101.6	94.4
Investment-Deposit Ratio	43.7	35.0	32.3	29.6
CASA Ratio	28.1	36.3	36.0	36.8

Asset Quality

	FY16	FY17	FY18E	FY19E
Gross NPA/Gross Advances	0.8	1.5	1.1	1.0
Net NPA/Net Advances	0.3	0.8	0.6	0.5
Provisioning Burden as % of PPP	12.5	13.6	15.3	13.6
Provisioning Coverage Ratio	62.0	46.9	48.1	45.7
Slippage ratio (%)	1.2	2.7	1.1	1.1
Provis. Exp. to Avg. Advance (%)	0.6	0.7	0.7	0.6

RoA Tree Analysis

	FY16	FY17	FY18E	FY19E
NII / Avg. Assets	3.0	3.0	3.1	3.3
Core Fee / Avg. Assets	1.6	1.7	1.6	1.6
Core Rev. / Avg. Assets	4.7	4.7	4.7	4.9
Ope. Exp. / Avg. Assets	2.0	2.2	2.1	2.2
Cost to Income	40.9	41.4	41.1	40.5
Emp. cost / Avg. Assets	0.9	0.9	1.0	1.0
Oprt. Exp. / Avg. Assets	1.1	1.2	1.2	1.2
Core OP/ Avg. Assets	2.7	2.5	2.6	2.7
Trading & Ot/ Avg. Assets	0.2	0.5	0.5	0.5
OP/ Avg. Assets	2.9	3.1	3.1	3.2
Provisions / Avg. Assets	0.4	0.4	0.5	0.4
NPA prov. / Avg. Assets	0.3	0.3	0.4	0.3
PBT / Avg. Assets	2.5	2.7	2.6	2.7
Tax / Avg. Assets	0.8	0.9	0.8	0.9
Effective Tax Rate	32.6	34.0	31.5	31.5
RoA	1.7	1.8	1.8	1.9
Leverage (x)	12.0	9.8	10.1	10.4
RoE	18.4	15.1	16.5	17.7

Capital Adequacy Ratio

	FY16	FY17	FY18E	FY19E
Total CAR	16.5	17.0	15.8	14.3
Tier 1	10.7	13.3	12.4	11.2

Institutional Equity Research

Yes Bank

Banking | India

CMP* (Rs)	1,786
Upside/ (Downside) (%)	15
Bloomberg Ticker	YES IN

BUY 

Target Price: Rs2,051

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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