

YES BANK

BANKS & FINANCIAL SERVICES

27 APR 2017

Quarterly Update

BUY

Target Price: Rs 1,840

Asset quality hiccups emerge; PAT in line

PAT at Rs 9.1 bn was in line with expectations, but GNPA's spiked up to 1.5% (almost 2x QoQ), led by slippage of a large cement sector asset, despite sales worth Rs 8.9 bn to ARCs. Management however expects this account to get resolved in Q1FY18. PCR came down significantly to 46.9% (down ~1900 bps QoQ), which to some extent is disconcerting.

Operational performance remained healthy – advances and deposits grew 35% and 28%, respectively. Terminal CASA improved ~300 bps QoQ to 36.3% largely a seasonal trend (sharp growth in CA deposits - up 75% YoY). Management is hopeful of achieving ~40% CASA ratio much before FY20. We expect YESBank to continue growing significantly ahead of the industry, gaining market share.

CMP : Rs 1,605
Potential Upside : 15%

MARKET DATA

No. of Shares : 456 mn
Free Float : 78%
Market Cap : Rs 733 bn
52-week High / Low : Rs 1,638 / Rs 871
Avg. Daily vol. (6mth) : 2.5 mn shares
Bloomberg Code : YES IB Equity
Promoters Holding : 22%
FII / DII : 42% / 24%

Q4FY17 highlights: (a) Advances grew ~35% YoY supported by healthy growth in both corporate and retail assets. Corporate banking accounted for ~67.7% of advances (vs. 68.9% in Q3FY17); retail and business banking (incl. MSME) constituted 32.3%; (b) Strong traction in SA deposits continued with YES accruing ~Rs 34 bn during Q4. SA deposits grew by 61% YoY; (c) Stock of stressed assets: Standard restructured advances (0.36% of loans amounting to Rs 4.8 bn); Security Receipts (0.73% amounting to Rs 9.8 bn); Standard SDR advances (0.22% amounting to Rs 3 bn) and 5:25 Refinancing (0.09% worth Rs 1.3 bn).

Maintain BUY with rolled forward TP of Rs 1,840: Flush with new capital raised, YES is now well capitalized for growth (Tier 1 CAR: 13.3%). We build in continued growth momentum, NIM expansion and improvement in CASA. We roll forward our estimates to FY19, valuing YES at 2.9x FY19E P/ABV to arrive at a TP of Rs 1,840 (15% upside from CMP). At CMP, YES is trading at 3x/2.6x FY18E/FY19E ABV of Rs 538/Rs 626.

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	25,394	33,301	42,589	52,700
EPS (Rs)	60	73	93	115
EPS chg (%)	25.8	20.8	27.9	23.7
Book value (Rs)	328	483	560	656
Adj. BV (Rs)	323	467	538	626
PE (x)	26.6	22.0	17.2	13.9
P/ABV (x)	5.0	3.4	3.0	2.6
RoE (%)	19.9	18.6	17.9	19.0
RoA (%)	1.7	1.8	1.8	1.8
Net NPA (%)	0.3	0.8	0.9	0.9

Source: Company, Axis Capital, Axis Capital

Key drivers

(%)	Q1'17	Q2'17	Q3'17	Q4'17
Loan growth (YoY)	33	38	39	35
NIM	3.4	3.4	3.5	3.6
CASA	30	30	33	36
GNPA Ratio	0.8	0.8	0.9	1.5

Price performance

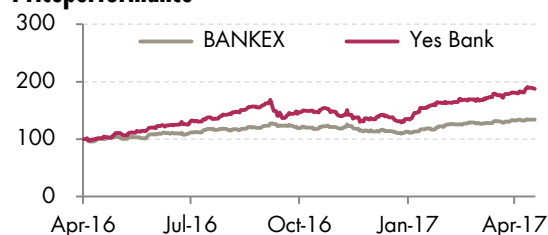
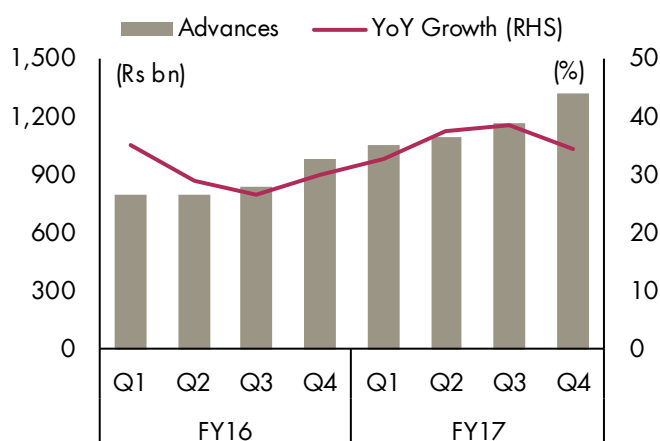
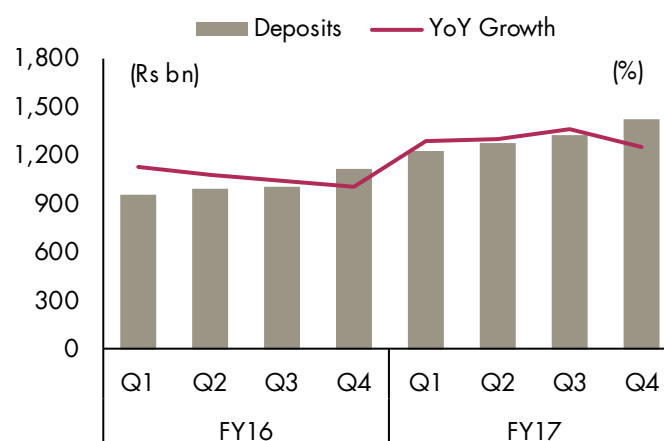
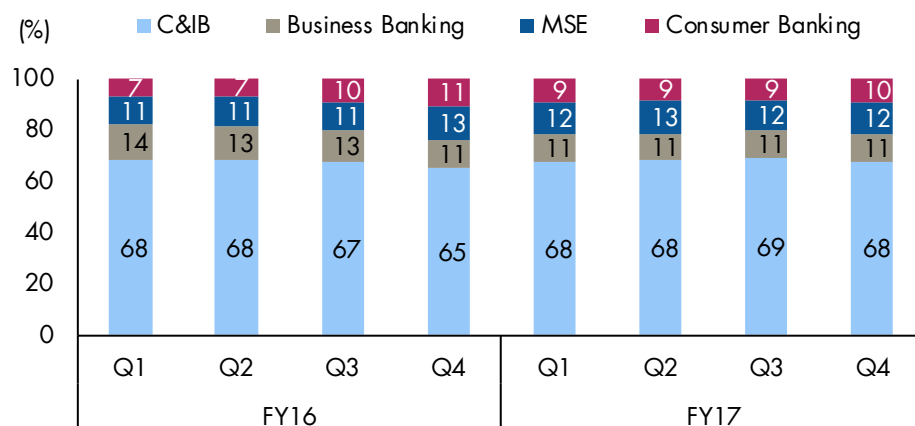


Exhibit 1: Advances growth robust at 35%


Source: Company, Axis Capital

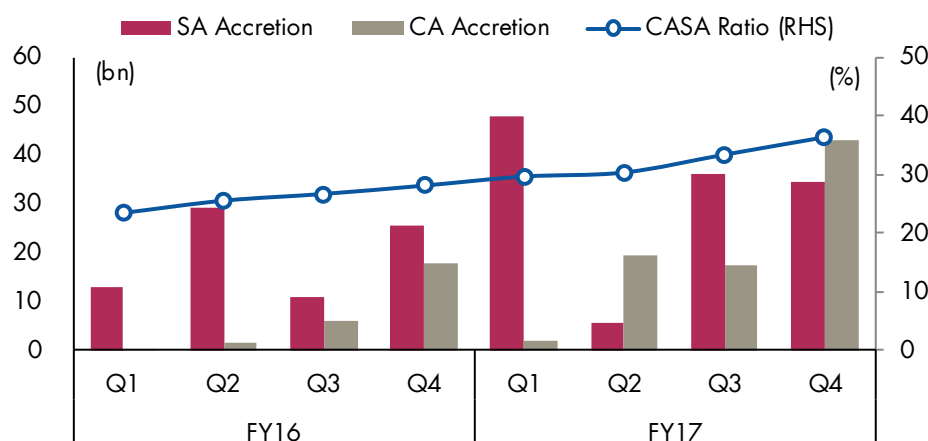
Exhibit 2: Deposits grow slower, but far above industry


Source: Company, Axis Capital

Exhibit 3: Break-up of advances book


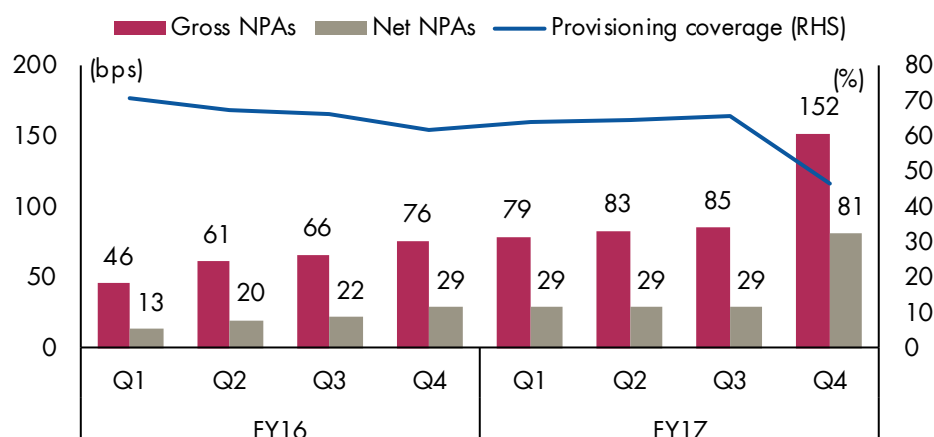
Source: Company, Axis Capital

Management expects the mix of corporate and non-corporate mix to reach 55:45 by 2020 (currently 68:32)

Exhibit 4: SA accretion strong; CASA ratio above 36%


Source: Company, Axis Capital

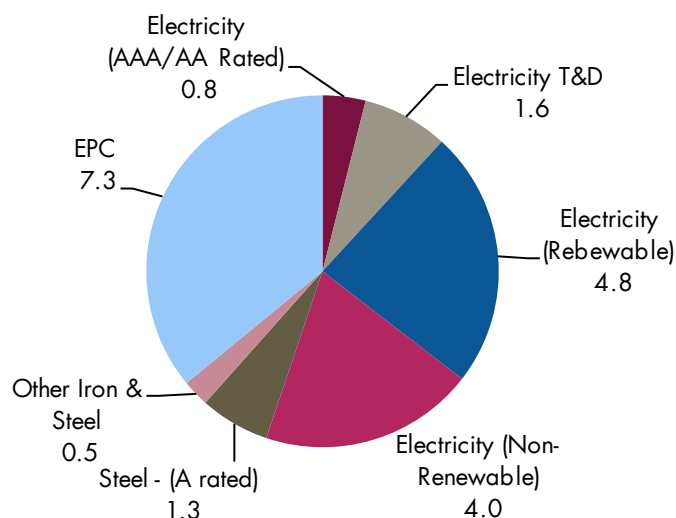
Exhibit 5: GNPA's saw a sharp uptick due to recognition of a large cement asset, which management suggested would reverse in coming quarters



Source: Company, Axis Capital

Ignoring ~69 bps of incremental GNPA's due to a large cement account, GNPA's would have improved 2 bps QoQ to ~83 bps

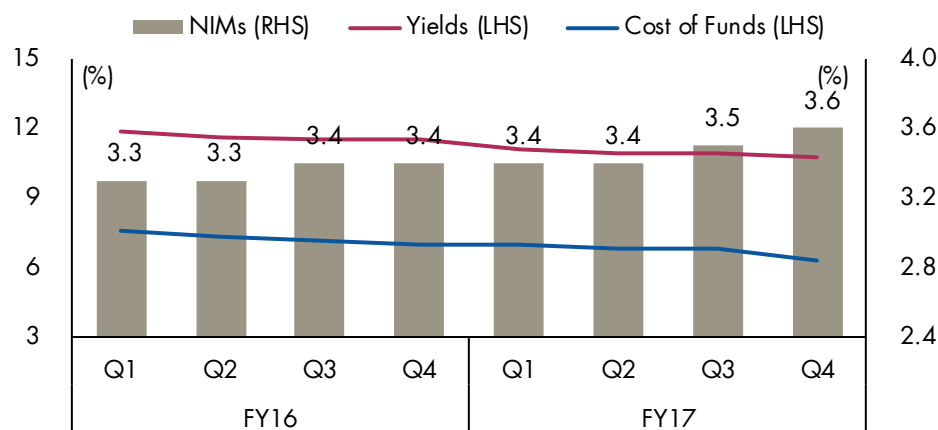
Exhibit 6: Exposure to sensitive sector as % of loans



Source: Company, Axis Capital

Total stressed loan (NNPA + Standard Rest + SR + SDR + 5-25 refinance) is ~2.2% of loan book (up from 1.1% QoQ)

Exhibit 7: NIM improved 10 bps QoQ to 3.6%



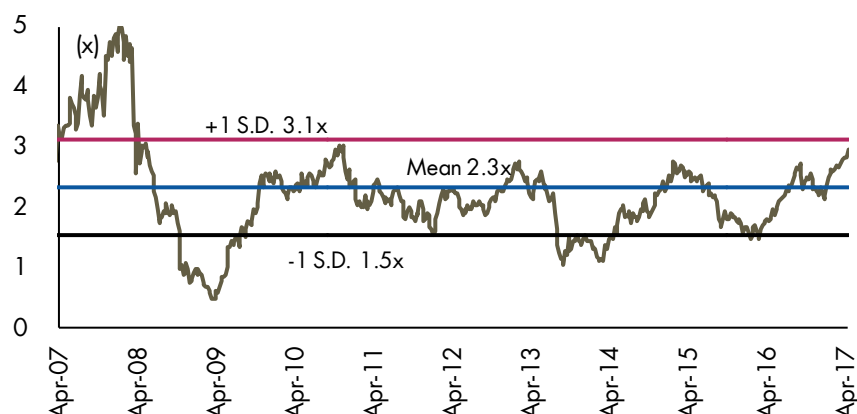
Source: Company, Axis Capital

Exhibit 8: Results update (Rs mn)

	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	Mar-18E	Mar-17	% Chg
Interest income	43,490	35,283	23	42,134	3	203,476	164,246	24
Interest expended	27,093	22,869	18	27,241	(1)	128,414	106,273	21
Net interest income	16,397	12,414	32	14,893	10	75,061	57,973	29
Non-interest income	12,574	8,028	57	10,165	24	52,871	41,568	27
Net income	28,971	20,443	42	25,059	16	127,933	99,541	29
Operating expenses	12,061	8,188	47	10,520	15	52,827	41,165	28
Operating profit	16,910	12,255	38	14,538	16	75,106	58,375	29
Provision & Contingencies	3,097	1,865	66	1,154	168	11,158	7,934	41
PBT	13,813	10,390	33	13,384	3	63,948	50,441	27
Tax	4,671	3,369	39	4,558	2	21,359	17,140	25
Net Profit	9,141	7,021	30	8,826	4	42,589	33,301	28
Yields & Margins (%)								
Yield on advances	10.7	11.5	(80) bps	10.9	(20) bps	10.4	10.6	(20) bps
Cost of funds	6.3	7.0	(70) bps	6.8	(50) bps	6.2	6.5	(29) bps
Net interest margin	3.6	3.4	20 bps	3.5	10 bps	3.4	3.3	5 bps
Cost to income ratio	41.6	40.1	158 bps	42.0	(35) bps	41.3	41.4	(6) bps
Asset quality								
Gross NPAs (Rs mn)	20,186	7,490	170	10,059	101	28,711	20,186	42
Gross NPAs (%)	1.52	0.76	76 bps	0.85	67 bps	1.66	1.52	14 bps
Net NPAs (Rs mn)	10,723	2,845	277	3,425	213	14,930	10,723	39
Net NPAs (%)	0.81	0.29	52 bps	0.29	52 bps	0.87	0.81	6 bps
Provisioning coverage (%)	46.9	62.0	(1,514) bps	66.0	(1,907) bps	48.0	46.9	112 bps
Capital (%)								
Tier-I	13.3	10.7	260 bps	12.2	110	12.6	13.3	(70) bps
CAR	17.0	16.5	50 bps	15.6	140	16.1	17.0	(90) bps
Balance sheet (Rs bn)								
Advances	1,323	982	35	1,171	13	1,718	1,323	30
Deposits	1,429	1,117	28	1,324	8	1,890	1,429	32
CASA (%)	36.3	28.1	825 bps	33.3	297 bps	37.4	36.3	110 bps

Source: Company, Axis Capital, Axis Capital

Note: Full year ratios are on calculated basis & may be different from reported nos.

Exhibit 9: 10 years P/ABV movement


Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	135,334	164,246	203,476	249,772
Interest expended	(89,667)	(106,273)	(128,414)	(159,269)
Net interest income	45,667	57,973	75,061	90,503
Non interest income	27,121	41,568	52,871	65,304
Net income	72,789	99,541	127,933	155,807
Operating expenses	(29,764)	(41,165)	(52,827)	(63,783)
Staff expenses	(12,968)	(18,050)	(23,726)	(28,356)
Other operating expenses	(16,796)	(23,115)	(29,101)	(35,427)
Operating profit	43,025	58,375	75,106	92,024
Provisions & contingencies	(5,363)	(7,934)	(11,158)	(13,950)
Pre-tax profit	37,662	50,441	63,948	78,074
Tax expense	(12,268)	(17,140)	(21,359)	(25,374)
Profit after tax	25,394	33,301	42,589	52,700
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	25,394	33,301	42,589	52,700

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	1,652,634	2,150,599	2,676,110	3,274,964
Cash & Balances with RBI	82,184	195,494	195,135	212,635
Investments	488,385	500,318	607,076	700,356
Advances	982,099	1,322,627	1,717,936	2,179,383
Fixed assets	4,707	6,835	5,419	5,735
Other assets	95,259	125,325	150,544	176,854
Total liabilities	1,652,634	2,150,599	2,676,110	3,274,964
Equity capital	4,205	4,565	4,565	4,565
Preference capital	-	-	-	-
Reserves & surplus	133,661	215,976	251,088	294,708
Networth	137,866	220,541	255,652	299,273
Borrowings	316,590	386,067	405,558	425,836
Deposits	1,117,195	1,428,739	1,890,151	2,409,302
Other liabilities & prov.	80,983	115,253	124,749	140,554

Source: Company, Axis Capital, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	60	73	93	115
BV (Rs.)	328	483	560	656
Adj. BV (Rs.)	323	467	538	626
DPS (Rs.)	10	12	14	17
Dividend payout (%)	17	16	15	15
Yields & Margins (%)				
Yield on advances	11.2	10.6	10.4	10.2
Cost of deposit	7.1	6.7	6.3	6.2
Net interest margin	3.3	3.3	3.4	3.3
Asset quality (%)				
Gross NPAs	0.8	1.5	1.7	1.8
Net NPAs	0.3	0.8	0.9	0.9
Credit cost	0.6	0.6	0.7	0.7
Provisioning coverage	62.0	46.9	48.0	50.0
Capital (%)				
Tier-I	10.7	13.3	12.6	11.9
CAR	16.5	17.0	16.1	15.1
Efficiency (%)				
ROA	1.7	1.8	1.8	1.8
ROE	19.9	18.6	17.9	19.0
Cost to income	41	41	41	41
CASA	28	36	37	38
Effective tax rate	33	34	33	33
Growth (%)				
Net interest income	31	27	29	21
Fee income	28	54	27	24
Operating expenses	30	38	28	21
Profit after tax	27	31	28	24
Advances	30	35	30	27
Deposits	23	28	32	27
Total assets	21	30	24	22

Source: Company, Axis Capital, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Sankar Narayanan	Database Manager	sankar.narayanan@axissecurities.in
2	Poonam Darade	Research Associate	poonam.darade@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.