

Yes Bank Ltd.



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Stellar performance on profitability & asset quality; momentum to continue

CMP INR 1782	Target INR 2131	Potential Upside 20%	Market Cap (INR Mn) 783724	Recommendation BUY	Sector BFSI
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Result highlights

The bank posted a robust advances growth of 32%, led by 48% growth in consumer banking and 33% growth in corporate banking. On the income front, NII grew by 44% yoy and 10.3% qoq, primarily led by NIM expansion on account of increase in CASA deposits (CASA at 36.8% vs. 29.6% for Q1FY17). NIM for the quarter stood at 3.7%, up 30 yoy and 10 bps qoq. Non-interest income saw a growth of 17.8% yoy and de-growth of 10% qoq. Total income, therefore, grew 32.7% yoy and 1.5% qoq (qoq growth impacted by lower non-interest income). On the operational front, the performance was stable with cost/income holding steady at 42% (negligible change yoy and qoq). Despite provisioning growing by 38.3% yoy, PAT growth was healthy, at 31.9% yoy (5.6% qoq) leading to an RoA of 1.7%, stable yoy and qoq. Asset quality improvement was a positive, with gross NPAs declining by 55 bps qoq, net NPAs declining by 42 bps qoq and PCR improving to 60%.

MARKET DATA

Shares outs (Mn)	458
EquityCap (INR Mn)	4576
Mkt Cap (INR Mn)	783724
52 Wk H/L (INR)	1723/1091
Volume Avg (3m K)	2753.2
Face Value (INR)	10
Bloomberg Code	YES IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	34,878	45,667	57,973	77,505	1,00,831	1,28,364
Pre-provision profits	32,496	43,025	58,375	80,596	1,07,144	1,38,132
Net Profit	20,054	25,394	33,301	47,316	63,369	81,984
EPS (₹)	43.9	60.6	78.9	103.7	138.8	179.6
BVPS (₹)	279.6	327.8	483.1	566.0	677.1	820.8
ABVPS (₹)	277.5	321.1	459.6	538.7	646.9	789.4
P/ABV (x)	2.9	2.7	3.4	3.3	2.8	2.3

Source: Company, KRChoksey Research

Strong asset quality with further improvement in the vicinity

The improvement of 55 bps in gross NPAs to 0.97% was on account of strong recovery (of Rs. 545.6 crore) from one of the extraordinary accounts that was classified as an NPA during Q4FY17. The recovery was to the extent of 60% and the management expects further recovery of 15% by August-end to take up the recovery to a total of 75%. Net NPAs were at 0.39%, improving 42 bps qoq.

Currently, from asset quality perspective, the bank is only concerned about their power sector exposure. Within this, they are most concerned about exposure to conventional power because of significant drop in tariff rates. Further, the bank sees risk in high tariff rates as they maybe be subject to review later on. However, the bank is quite comfortable with their exposure on the renewable side.

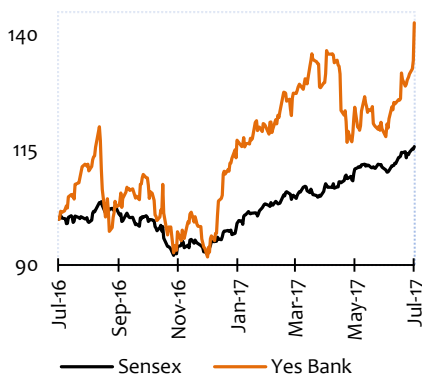
Total exposure to the stressed sectors stands at 23.7%, down 160 bps qoq. Within this, exposure to power sector has reduced by 70 bps to 10.6%, exposure to iron/steel has increased by 10 bps to 1.9% and exposure to telecom has reduced by 100 bps to 3.9% (telecom exposure to top 3 of the 4 large players with 3.85% rated A and above).

With respect to exposure to the 12 accounts identified by the RBI, the bank has exposure to only two of them. The total exposure is Rs. 343 crore to these accounts which are yet to be submitted to the NCLT. The bank sees a maximum downside of Rs. 290 crore (1.3% of net worth) on these accounts which are fully secured with provisioning in excess of 50% ahead of time.

More than 75% of the total corporate exposure for the bank is rated 'A' and above.

Slippages for the quarter were Rs. 201 crore, annualizing which comes to an annualized slippage ratio of less than 1% for the quarter which is quite impressive given the mounting NPA situation at hand for the industry. On back of strong risk management practices and loan underwriting, we expect asset quality to improve going forward.

SHARE PRICE PERFORMANCE

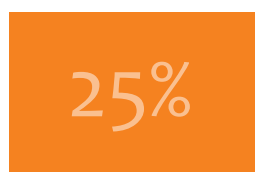


MARKET INFO

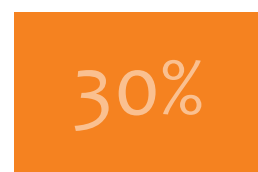
SENSEX	32382
NIFTY	10021

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep 16
Promoters	20.14	20.19	21.79
FIIIs	45.76	46.65	42.02
DIIIs	22.88	23.31	23.83
Others	11.23	9.86	12.38
Total	100	100	100



Advances CAGR between FY 17 and FY 19E



NII CAGR between FY 17 and FY 19E

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Strong NII growth on back of NIM expansion to continue; subdued corporate fee income impacted non-interest income

During the quarter, NII grew by 44% yoy and 10.3% qoq on back of robust loan book growth and NIM expansion of 30 bps yoy and 10 bps qoq (on account of improved CASA – 36.8% vs. 36.3% for Q4FY17 and 29.6% for Q1FY17 and cost of funds declining to 6.2%, down 80 bps yoy). NIM for the quarter stood at 3.7% with management aiming for 4% going forward while keeping 3.4-3.5% as a sustainable level. On the other hand, non-interest income grew at a lesser pace of 17.8% yoy and -10% qoq with corporate banking fees, which forms 36% of the total non-interest income, declining 13% yoy. Though growth in retail banking fees, forming 23% of the total, was strong at 46%, mostly led by facility/processing fees which grew at 196% yoy, third party sales growth of 26% and interchange income growth of 83%. Income from forex, debt capital markets & securities was strong at 59.2% yoy and 38.6% qoq. As a result, total income grew by 32.7% yoy and 1.5% qoq.

CASA traction during the quarter was also strong with CA growing 69% yoy and SA growing 46% yoy. The bank aims to bring the share of CASA + retail TDs up to 70% (currently 61.8%) by September 2018 which should help in aiding NIM expansion. Also, the bank's current cost of SA deposits is 6.1-6.2% has some scope of reduction which will help in reducing the overall cost of funds further resulting in value unlocking.

Operational expense held stable; expected to improve on account of network rationalization

Operating expenses for the quarter grew by 35.9% yoy (2.6% qoq), led by growth of 32.7% in employee costs and 34.1% in other costs. Part of the growth in employee costs can be attributed to increase in employee base which is up 27% yoy at 20,851 employees. Branch network is up 13% yoy at 1020 branches. Despite the increase in expenses, cost income has held stable at 42% for the quarter on account of strong income growth. Going forward, we expect the cost/income ratio hold at current levels which declining gradually over the longer term as the bank goes on about rationalizing its future branch expansion plan. From an earlier guidance of establishing 2500 branches by FY20, the bank has now decided to settle down on 1800 branches thereby signaling more output per branch and possibly major productivity gains. Also, the bank plans to convert some ATMs into express banking branches while simultaneously shutting some other ATMs. The bank has taken such steps in light of increasing cashless transactions and changing consumer preferences.

Advances growth led by retail and corporate segments

While the balance sheet grew by 25.3% yoy, advances grew by 32.1% yoy, led by retail and corporate segments which grew 48% and 33% respectively. Growth in business banking and MSE was lower at 19% and 26% respectively. Increasing share of advances in total assets (63% as of Q1FY18 vs. 60% for Q1FY17) signals enhanced productivity of the balance sheet and is reflective of management's efforts towards utilizing more funds towards the core business of lending.

We expect a 25% loan book CAGR up to FY20E on back of strong traction in both retail and corporate segment as well as on account of the management's vision for Yes Bank.

Valuation & Recommendation: On back of management's vision of 'building the finest quality bank in India by 2025', we expect the bank to deliver on all the fronts. Specifically, we expect the bank to maintain a robust growth rate with respect to its advances, aided by retail, and corporate and SME (expected to start picking up by year-end) and deliver reduction in cost of funds through reduction in savings rate coupled with higher share of CASA (CASA + retail TDs to be 70% before FY20). Along with a robust earnings profile, we expect the bank to maintain a healthy asset quality as has been the case during the current quarter (strong recoveries leading to reduction in gross NPAs), despite the industry grappling with the same. We thus assign the stock of Yes Bank a multiple of 2.7x FY20E ABVPS which values it at Rs. 2131 per share, offering an upside of 20%. We recommend to BUY the stock.

Key Ratios	Q1FY18	Q1FY17	Q4FY17	Y-o-Y	Q-o-Q
Yield on avg advances	10.1%	10.5%	9.9%	-39	24
NIM %	3.70%	3.40%	3.60%	30	10
Cost to income ratio	42%	41%	42%	100	42
Effective tax rate	32%	33%	34%		
Gross NPAs	13644	8446	20186	61.5%	-32.4%
Net NPAs	5453	3024	10723	80.3%	-49.1%
GNPA %	0.97%	0.79%	1.52%	18	-55
NNPA %	0.39%	0.29%	0.81%	10	-42
Provision coverage %	60.0%	64.2%	46.9%		
CD ratio	93%	86%	93%	674	59
Capital adequacy ratio	17.60%	15.50%	17%	210	60
Tier I	11.90%	9.90%	11.40%	200	50

Source: Company, KRChoksey Research

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Income Statement (INR Mn)	Q1FY18	Q1FY17	Q4FY17	Y-o-Y	Q-o-Q
Interest income	46538	38018	43490	22.4%	7.0%
Interest expense	28449	25457	27093	11.8%	5.0%
Net interest income	18089	12561	16397	44.0%	10.3%
Noninterest income	11322	9610	12574	17.8%	-10.0%
Total income	29411	22171	28971	32.7%	1.5%
- Employee costs	5461	4074	4968	34.1%	9.9%
- Other operating expenses	6908	5030	7093	37.3%	-2.6%
Operating expenses	12369	9103	12061	35.9%	2.6%
Pre-provision profit	17042	13068	16910	30.4%	0.8%
Provisions	2858	2066	3097	38.3%	-7.7%
Profit before tax	14184	11001	13813	28.9%	2.7%
Tax expense	4529	3683	4671	23.0%	-3.0%
Net profit	9655	7318	9141	31.9%	5.6%

Source: Company, KRChoksey Research

Balance Sheet items	Q1FY18	Q1FY17	Q4FY17	Y-o-Y	Q-o-Q
Deposits	1502409	1225811	1428739	22.6%	5.2%
CASA deposits	552151	362883	518697	52.2%	6.4%
Net worth	223874	145369	220541	54.0%	1.5%
Advances	1399718	1059420	1322627	32.1%	5.8%
Total assets	2221452	1772289	2150599	25.3%	3.3%

Source: Company, KRChoksey Research

Key highlights from Q1FY18 earnings call:

• **5 for 1 stock-split:** The bank's board has approved a 5 for 1 stock split.

• **Performance led by growth across retail and corporate:** The quarter was a satisfactory one led by growth in both retail as well as corporate businesses, leading to a PAT growth of 31.9% yoy. Though, there was some slowdown in the SME book, the bank expects this segment to be doing well by the year-end.

• **Balance sheet growth was also robust** with CASA improving to 36.8% on back of CA growing 66% yoy and SA growing 45.8% qoq. The bank is aiming to CASA + retail term deposits share of 70% by FY20 but expects to achieve this target much earlier.

• Non-interest-income grew slower on account of subdued corporate fee income.

• **Profitability remains intact:** RoE fell on account of capital raised recently. It was 17.3% for Q1FY18, 20.1% for Q1FY17 and 16.6% for Q4FY17.

• **Robust asset quality with substantial recovery during the quarter:** The bank has made 60% recovery from one extraordinary account that slipped into NPA during Q4FY17. The bank expects to make another 15% recovery by August-end, taking up total recovery to 75%. Provisioning on this one account is 58% and combined overall PCR target is 60%.

• **Negligible risk from the 12 accounts identified by the RBI:** Of the 12 accounts identified by the RBI, bank has exposure to only 2 accounts worth Rs. 343 crore. These two accounts, which are yet to be submitted to the NCLT, are fully secured accounts and the bank has already made provisioning against them in excess of 50%. The bank sees downside limited to Rs. 290 crore.

• The bank has guided for a credit cost of 50-70 bps.

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Key highlights from Q1FY18 earnings call (contd.):

- **Power sector exposure/stress remains a concern on account of weak fundamentals:** The bank is only concerned about its power sector exposure which it has been proactively de-risking the conventional electricity portfolio. The concern is based on significant drop in tariff rates. Also, the bank sees risk in high tariff rates as these may become questionable and subject to review. On the renewable side – the bank is building this portfolio which currently comprises of strong developers.
- **EPC exposure may not be a worry anymore:** The bank has seen improvement in the EPC segment with capex spending increasing. As per the bank, the EPC sector is under control.
- **Telecom exposure** is to top 3 of the 4 large ones with zero exposure to one of the weaker telecom companies.
- 75% of the corporate portfolio is well rated.
- Of the total slippages of Rs 201 crore, ~65% were from the corporate sector and 10% from the business banking segment.
- **Tweaking in branch expansion plans:** The bank has reduced the number of branches it would have by FY20, from 2500 to 1800, reasing being emergence of new alternatives. The bank would also convert some ATMs into express banking branches along with closing some of the ATMs. The move has come on account of substantial increase in cashless transactions and change in consumer preferences witnessed by the bank
- **Bank's sustainable NIM is 3.7% however, it is targeting towards 4%** on account of 40% CASA by September 2018. With SA costing 6-1%-6.2%, the bank feels there could be some value unlocking/NIM expansion as and when the bank decides to reduce these rates.

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Date	CMP (INR)	TP (INR)	Recommendation
27-Jul-17	1782	2131	BUY
20-Jan-17	1372	1441	ACCUMULATE
24-Oct-16	1320	1,441	ACCUMULATE
27-July-16	1200	1,302	ACCUMULATE
28-Apr-16	940	1,069	ACCUMULATE
01-Feb-16	749	860	ACCUMULATE
30-Oct-15	744	845	ACCUMULATE
23-Apr-15	851	930	ACCUMULATE
13-Apr-15	843	900	ACCUMULATE
15-Jan-15	787	855	ACCUMULATE
7-Jan-15	772	807	HOLD
3-Nov-14	684	730	ACCUMULATE

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

Analyst Certification

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