

Yes Bank reported good set of numbers with NII growth of 44% y-o-y on the back of improved C/D ratio (+674bps y-o-y) and higher other income resulting in 32% y-o-y growth in PAT. NIMs improved by 10bps y-o-y to 3.70% due to better spreads, higher loan book growth of 32.1% y-o-y and an improved CASA ratio. GNPA / NNPA / PCR stood at 0.97% / 0.39% / 60% respectively for the quarter. We expect return ratios to remain stable at ~18% for FY19E despite branch additions and asset quality to remain a key monitorable for the bank which is focused on corporate loan book in a weak macro environment. We recommend a BUY on the stock with a TP of INR 2,142 in 18 months, implying a multiple of 3.4x P/ Adj. BV on FY19E BV.

PPOP remains strong led by core earnings

PPOP grew by 30.4% y-o-y largely due to higher NII growth of 44% y-o-y and robust loan book growth of 32.1% y-o-y. Retail & Business Banking grew by 29.7% y-o-y, despite MSME / MSE witnessed slowdown due to seasonality and Corporate & Institutional Banking continues to see strong growth with 33.3% y-o-y. NIMs for the quarter stood at 3.7% (+10bps y-o-y) and expects to exit FY18 with NIMs of ~3.7-3.8%. Further, the bank has also targeted 4.0%+ NIMs for FY20 on the back of strong traction in CASA and reduction in SA rates. Retail fee income showed robust grow of 45.9% y-o-y, while corporate fees remained subdued (-12.6% y-o-y). Cost to Income ratio stood at 42.1% vs 41.1% in Q1 FY17.

Asset Quality Back to Normal

Fresh slippages stood at INR 2bn of which INR 1.28bn were from corporate book where one account fell from SDR book and three accounts fell from restructured book. GNPA / NNPA decreased by 55bps / 42bps q-o-q to 0.97%/0.39% mainly on 60% recovery seen from one large a/c which slipped in Q4FY17. Bank expects further 15% recovery by Q2 FY18. On the provision front, bank has made INR 946mn on 2 accounts out of 12 taken from NCLT. Gross stress assets (GNPLs + restructured + 5:25/SRs/SDR/S4A etc) came down to 1.63% from 2.24% in Q4 FY17. Bulk of the telecom exposure is towards 3 top group companies, so bank is not seeing any pressure in this portfolio in any manner whatsoever. Credit cost stood at 18 bps for Q1FY18 and the guidance for FY18 of 50-70bps is maintained. No new restructuring; Sale to ARC; SDR; 5:25 Refinancing; S4A during the quarter

Other Highlights

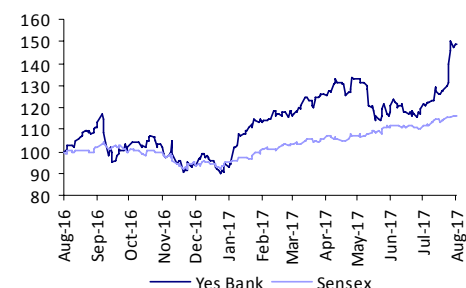
- The bank has reduced its branch expansion target to 1800 from 2500 by FY20.
- The bank aims to maintain a PCR of 60%
- 75% of the corporate portfolio is rated A and above.
- Board has decided towards 5 for 1 stock split. This will be referred to shareholder and RBI for further approval.
- The Bank added 20 branches during the quarter taking the total strength to 1020.
- As per Basel III norms, CAR stands at 17.1% at the end of Q1FY18 with tier1 capital at 13.8%.

Outlook and Valuation

Yes Bank continues to give stellar results and its Q1 FY18 performance should instill more confidence. Skeptics have been expressing doubts over the bank's asset quality, however ~28% CAGR loan book growth for the last 5 years and steady improvement in margin on the back of a gradual increase in CASA showcases an optimistic view on the bank. We expect return ratios to remain stable at ~18% for FY19E despite branch additions and asset quality to remain a key monitorable for the bank which is focused on corporate loan book in a weak macro environment. We recommend a BUY on the stock with a TP of INR 2,142 in 18 months, implying a multiple of 3.4x P/ Adj. BV on FY19E BV.

Shareholding (%)	Jun-17
Promoters	20.14
FIIIs	46.19
DIIIs	22.88
Others	10.79

Relative Price Performance



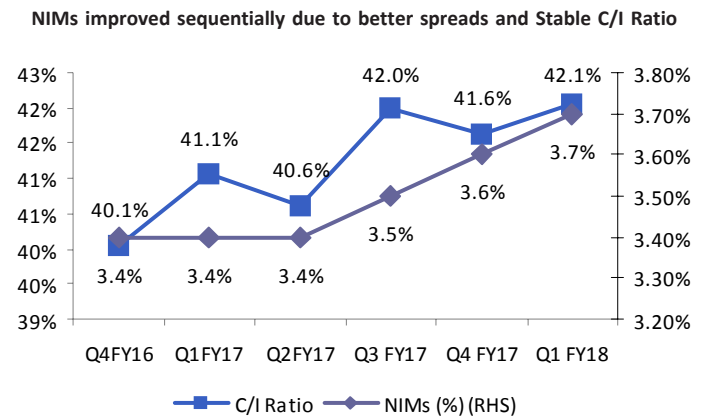
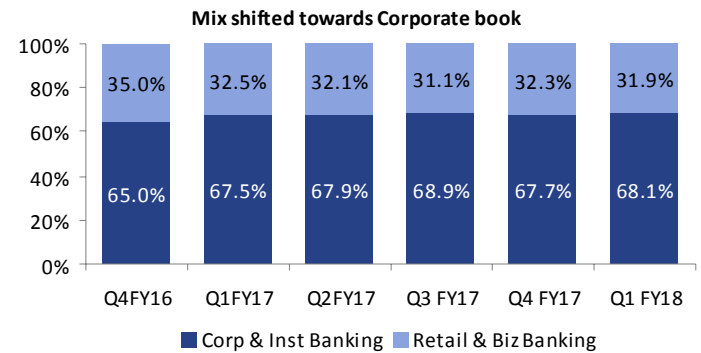
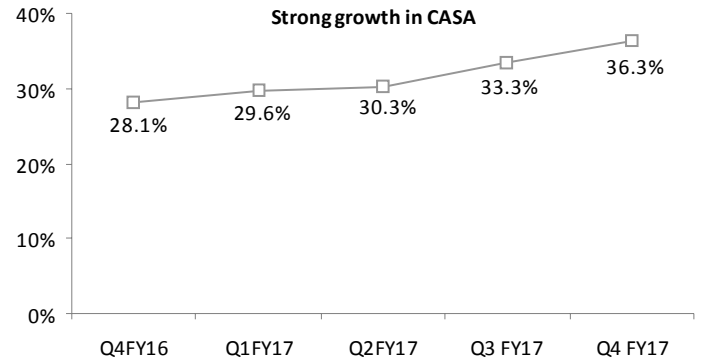
Key Data	
BSE Code	532648
NSE Code	YESBANK
Bloomberg Code	YES IN
Reuters Code	YESB.BO
Shares Outstanding (mn)	457.69
Face Value	10
Mcap (INR bn)	835.76
52 Week H/L	1860.00/1091.25
2W Avg. Qty.NSE	4607875
Free Float (INR Bn)	667.15
Beta	1.42

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	135334	164246	202975	245750
Interest Expended	89667	106273	126737	150947
Net interest income	45667	57973	76238	94803
Growth	30.9%	26.9%	31.5%	24.4%
NIM	3.2%	3.3%	3.4%	3.5%
APAT	25394	33301	41612	53150
Growth	26.6%	31.1%	25.0%	27.7%
Adj. EPS (INR)	60.4	73.0	91.2	116.4
ABV (INR)	321	460	539	630
P/ABV (x)	4.82	3.23	3.36	2.88
Net NPA (%)	0.3%	0.8%	0.5%	0.6%
RoA	1.7%	1.8%	1.7%	1.8%
RoE	19.9%	18.6%	17.5%	19.2%

Quarterly Financials

Particulars (INR mn)	Q1 FY18	Q1 FY17	Q4 FY17	YoY	QoQ
Interest Earned	46538	38018	43490	22.4%	7.0%
Interest Expended	28449	25457	27093	11.8%	5.0%
Net Interest Income	18089	12561	16397	44.0%	10.3%
NIM (%)	3.7	3.4	3.6	30 bps	10 bps
Other Income	11322	9610	12574	17.8%	-10.0%
Net Total Income	29411	22171	28971	32.7%	1.5%
Operating Expenses	12369	9103	12061	35.9%	2.6%
Employee Cost	5461	4074	4968	34.1%	9.9%
Other operating expenses	6908	5030	7093	37.3%	-2.6%
Cost/Income Ratio (%)	42.1%	41.1%	41.6%	100 bps	42 bps
Operating Profits	17042	13068	16910	30.4%	0.8%
Provisions & Contingencies	2858	2066	3097	38.3%	-7.7%
Profit Before Tax	14184	11001	13813	28.9%	2.7%
Provision for Tax	4529	3683	4671	23.0%	-3.0%
Net Profit	9655	7318	9141	31.9%	5.6%
EPS	21.1	17.4	20.0	21.4%	5.4%
Equity	4575	4211	4565	8.6%	0.2%
Advances	1399718	1059420	1322627	32.1%	5.8%
GNPA	13644	8446	20186	61.5%	-32.4%
NNPA	5453	3024	10723	80.3%	-49.1%
GNPA (%)	1.0	0.8	1.5	18 bps	-55 bps
NNPA (%)	0.4	0.3	0.8	10 bps	-42 bps
RoA (%)	1.8	1.7	1.8	10 bps	0 bps

Source: Company, SPA Research



Financials

Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	135334	164246	202975	245750
<i>Growth (%)</i>	16.9%	21.4%	23.6%	21.1%
Interest Expended	89667	106273	126737	150947
Net interest income	45667	57973	76238	94803
<i>Growth</i>	30.9%	26.9%	31.5%	24.4%
Other Income	27121	41568	48202	60081
Net Income	72789	99541	124440	154884
Operating Expenditure	29764	41165	51439	62024
Pre Provisioning Profit	43025	58375	73000	92861
Provisions & Contingencies	5363	7934	9971	12354
PBT	37662	50441	63029	80506
Tax	12268	17140	21418	27356
PAT	25394	33301	41612	53150
<i>Growth</i>	26.6%	31.1%	25.0%	27.7%
EPS (INR)	60	73	91	116

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	4205	4565	4565	4565
Reserves	133661	215976	250131	294760
Total Shareholders Funds	137866	220541	254696	299324
Total Deposits	1117195	1428739	1771636	2161396
<i>Growth</i>	22.5%	27.9%	24.0%	22.0%
Borrowings	316590	386067	463280	555936
Other Liabilities & Provisions	80983	115253	122107	129441
Total Liabilities	1652634	2150599	2611719	3146097
APPLICATION OF FUNDS				
C/B with RBI and Call Money	82184	195494	193067	214676
Investments	488385	500318	586495	667906
Advances	982099	1322627	1692962	2116203
<i>Growth</i>	30.0%	34.7%	28.0%	25.0%
Fixed Assets	4119	6089	7604	9142
Other Assets	95259	125325	131591	138170
Total Assets	1652046	2149852	2611719	3146097

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
EPS	60.4	73.0	91.2	116.4
BVPS	327.8	483.1	557.9	655.7
ABVPS	321.1	459.6	538.7	630.1
DPS	10.0	12.0	14.0	16.0
Profitability Ratios				
Yield on Advances	11.2%	10.6%	10.3%	10.1%
Cost of Deposits	7.8%	7.3%	7.1%	6.9%
Net Interest Margin (Calc)	3.2%	3.3%	3.4%	3.5%
RoA	1.7%	1.8%	1.7%	1.8%
RoE	19.9%	18.6%	17.5%	19.2%
Balance Sheet Ratios				
Credit/Deposit Ratio	87.9%	92.6%	95.6%	97.9%
Investment/Deposit Ratio	29.6%	23.3%	22.5%	21.2%
CASA Ratio	28.1%	36.3%	36.6%	38.7%
Capital Adequacy Ratio (CAR)	16.5%	17.0%	16.3%	15.6%
Asset Quality Ratios				
Gross NPA (%)	0.8%	1.5%	1.3%	1.4%
Net NPA (%)	0.3%	0.8%	0.5%	0.6%
Provision Coverage Ratio	62.0%	46.9%	60.0%	60.0%
Efficiency Ratios				
Cost to Income Ratio	40.9%	41.4%	41.3%	40.0%
Business per Employee (in INR mn)	140.0	136.7	145.9	158.4
Profit per Employee (in INR mn)	1.7	1.7	1.8	2.0
Valuation Ratios				
P/E (x)	25.6	20.4	19.9	15.6
P/ABV (x)	4.8	3.2	3.4	2.9
Dividend Yield	0.6%	0.8%	0.8%	0.9%

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