

Stock Update

Attractive franchise shaping up, good bet for long term

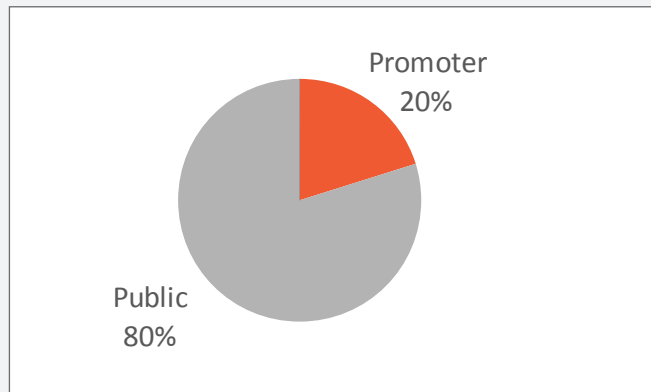
Yes Bank

Reco: Buy | CMP: Rs1,879

Company details

Price target:	Rs2,100
Market cap:	Rs86,074 cr
52-week high/low:	Rs1884/1091
NSE volume: (No of shares)	24.7 lakh
BSE code:	532648
NSE code:	YESBANK
Sharekhan code:	YESBANK
Free float: (No of shares)	36.54 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.5	30.4	24.8	59.9
Relative to Sensex	5.4	25.3	13.2	39.4

Key points

- Retail growing strong, with more product offerings:** With most of the key retail offerings in place, Yes Bank has successfully completed its retail product bouquet (has 13 products in the retail space). Headed by veteran staff having rich experience of top private and MNC banks, Yes Bank is well placed to tap the growth opportunity in the retail segment. Given that, at present, the bank's market share is not yet in double digits, it can potentially grab market share from other banks. Yes Bank, with its corporate banking segment, is present at the back-end of the value chain. Further, the bank's growing retail presence gives it access to the complete ecosystem, which is not only positive for growth but also for credit quality monitoring and early warnings about probable overheating in segments. We believe this is an important ability, given the high chances of risk mispricing in the retail and SME segments. Though Yes Bank has been growing its retail assets at higher-than-book growth, retail assets are still at a small base and developing in a calibrated manner. With retail growth picking up, leading to salaried products and other cross-sell opportunities available, the bank is well placed to maintain its profitability and grow its business in new directions.
- Outlook - Despite requiring regular equity dilutions, the bank has been able to maintain ROEs:** We believe that while intermittent asset quality hiccups may continue, the long-term trajectory appears positive. Despite regular capital raising, Yes Bank has been able to maintain a consistency in its ROE and ROA, which are strong indicators of a sustainably profitable business. Moreover, despite rate cycles, it has been able to maintain its NIMs at 2.5-3.5%, which indicates management's capability to weather interest rate cycles and asset quality cycles.
- Valuation:** At current valuations, Yes Bank is available at 2.9x FY2019E BV, which we believe is attractive as we opine most of the bad news is already discounted by the markets. Going forward, with its track record and business growth potential, we believe it can be an attractive franchise developing. We upgrade our rating to Buy with a revised price target of Rs.2,100, valuing the bank at 3.4x FY2019E book value per share (BVPS).

♦ **Savings deposit rate reduction to help pare down costs, align better with peers:**

Developments such as banks reducing their savings bank deposit rates have been positive news for players like Yes Bank, allowing it to reduce its savings bank rates (cut SA rates by 100BPS to 5%, for deposits <Rs.1lakh) as well. We believe the move by other banks only facilitated Yes Bank's move, which was largely in line with the bank's plans. Already the bank had been able to scale up its CASA ratio significantly (36.8% in Q1FY2018 from 23% in FY2015) over the years, leveraging its increasing network/manpower presence (branches, employee base up 62% and 86% in the same period) and attracting customers by higher interest rates on savings bank deposits. Hence, despite starting as a wholesale asset-heavy model, Yes Bank today had built up a significant CASA and retail advances franchise critical mass and the weaning away of high-cost deposits should

have little impact on its business momentum. On the other hand, the same may add 4-5BPS in NIMs going forward, ceteris paribus, and help it align better with peers.

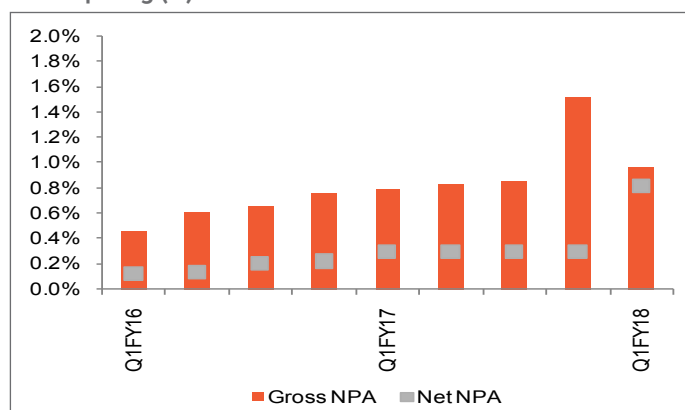
♦ **Asset quality woes appear well contained:**

We find Yes Bank is progressing well on its earlier-stated guidance on asset quality issues. The bank's troubled cement exposure account has been performing well and in-line with expectations. Even in the next list of IBA-referred defaulters, Yes Bank has <25BPS of advances exposure, which reflects well when compared to most peers in the banking system. Hence, while it is notable that despite asset quality stress seen in most of the banking sector, Yes Bank has been able to maintain its asset quality well. We believe occasional hiccups are optically larger due to its (relatively) smaller size and base effect of smaller GNPA's.

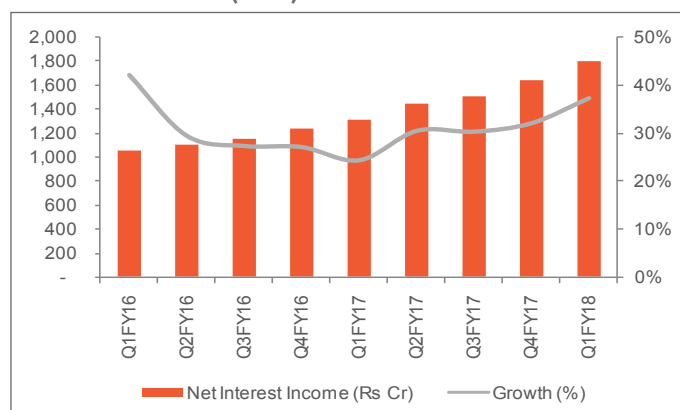
Valuation

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income	3,487.8	4,566.7	5,797.3	7,839.1	10,836.3
Net profit	2,005.4	2,539.4	3,330.1	4,343.9	5,884.0
EPS (Rs)	48.7	60.4	78.9	95.2	128.9
EPS growth (%)	8.57	23.98	30.64	20.62	35.45
PE (x)	38.6	31.1	25.8	19.7	14.6
Book value (Rs/share)	283.0	327.3	482.7	556.6	655.2
P/BV (x)	6.6	5.7	3.9	3.4	2.9
RoE (%)	21.3	19.9	18.6	18.3	21.3
RoA (%)	1.6	1.7	1.8	1.9	2.1

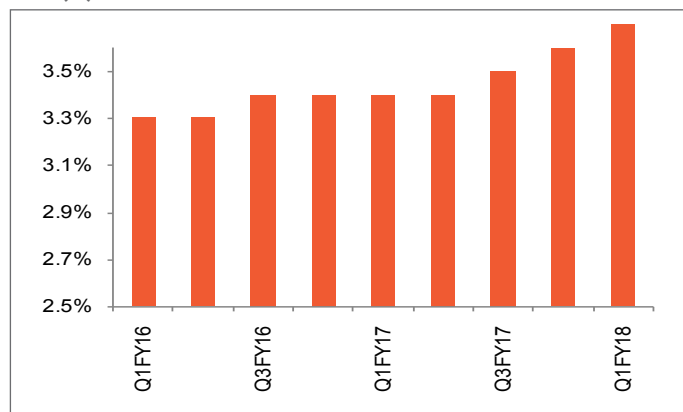
Asset quality (%)



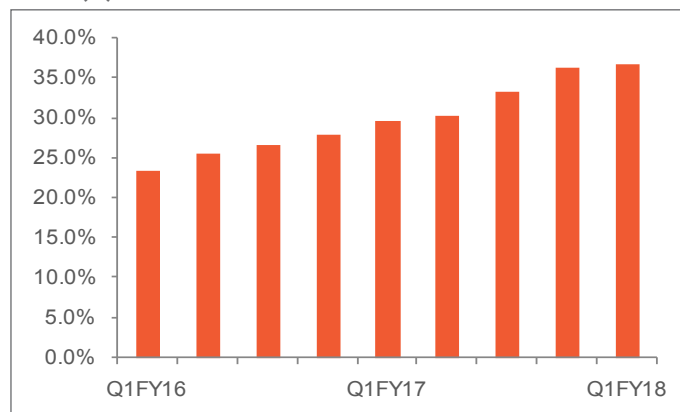
Net interest income (Rs cr)



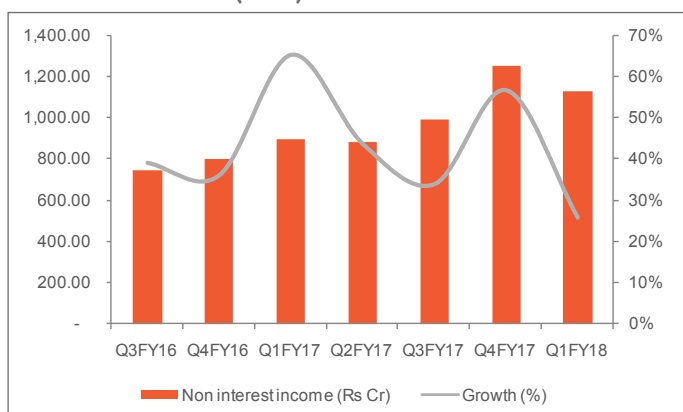
NIM (%)



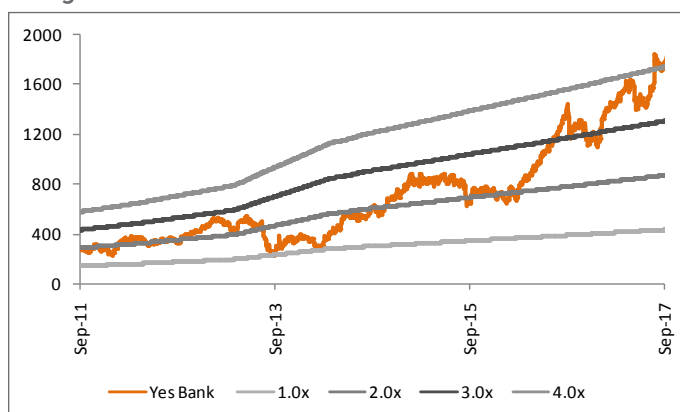
CASA (%)



Non-interest income (Rs cr)



One-year forward P/BV SD band



Profit and loss statement

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net interest income	3,488	4,567	5,797	7,839	10,836
Non-interest income	2,046	2,712	4,157	4,999	5,999
Net total income	5,534	7,279	9,954	12,838	16,836
Operating expenses	2,285	2,976	4,117	5,469	7,133
Pre-provisioning profit	3,250	4,302	5,838	7,370	9,703
Provision & Contingency	339	536	793	886	921
Profit before tax	2,910	3,766	5,044	6,483	8,782
Tax	905	1,227	1,714	2,140	2,898
Profit after tax	2,005	2,539	3,330	4,344	5,884

Balance sheet

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Networth	11,674	13,787	22,054	25,428	29,929
Deposits	91,176	111,720	142,874	175,020	214,400
Borrowings	26,220	31,659	38,607	49,881	64,320
Other liabilities & provisions	7,100	8,098	11,525	20,733	29,411
Total liabilities	136,170	165,263	215,060	271,063	338,061
Assets					
Cash & balances with RBI	5,241	5,776	6,952	7,701	9,434
Balances with banks & money at call	2,316	2,442	12,597	3,500	4,288
Investments	43,228	48,838	50,032	78,759	96,480
Advances	75,550	98,210	132,263	171,941	223,524
Fixed assets	319	471	684	786	904
Other assets	9,516	9,526	12,532	8,375	3,431
Total assets	136,170	165,263	215,060	271,063	338,061

Key ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share Data (Rs)					
Earnings	48.7	60.4	78.9	95.2	128.9
Dividend	9.1	10.0	12.0	18.1	25.8
Book value	283.0	327.3	482.7	556.6	655.2
Adj. book value	280.9	320.5	459.2	532.8	626.3
Spreads (%)					
Yield on Advances	12.2	11.2	10.8	10.4	10.2
Cost of Deposits	7.9	7.1	6.6	6.3	6.3
Net interest margins	3.2	3.4	3.4	3.7	4.0
Operating ratios (%)					
Credit to Deposit	82.9	87.9	92.6	98.2	104.3
Cost to income	41.3	40.9	41.4	42.6	42.4
CASA	23.1	28.1	36.3	38.2	40.3
Non interest income / Total income	37.0	37.3	41.8	38.9	35.6
Return ratios (%)					
RoE	21.3	19.9	18.6	18.3	21.3
RoA	1.6	1.7	1.8	1.9	2.1
Assets/Equity (x)	13.0	11.8	10.1	9.4	10.1
Asset Quality ratios (%)					
Gross NPA	0.4	0.8	1.0	0.9	0.8
Net NPA	0.1	0.3	0.4	0.6	0.6
Growth Ratios (%)					
Net interest income	28.4	30.9	26.9	35.2	38.2
Pre-provisioning profit	20.9	32.4	35.7	26.2	31.7
Profit after tax	24.0	26.6	31.1	30.4	35.5
Advances	35.8	30.0	34.7	30.0	30.0
Deposits	22.9	22.5	27.9	22.5	22.5
Valuation ratios (x)					
P/E	38.6	31.1	25.8	19.7	14.6
P/BV	6.6	5.7	3.9	3.4	2.9
P/ABV	6.7	5.9	4.1	3.5	3.0

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