



RESULT UPDATE

YES BANK

Intrinsic strength shines amidst stress

India Equity Research | Banking and Financial Services



Yes Bank clocked an impressive core operating performance (NII >30% YoY) in Q2FY18, but high asset quality stress played spoilsport (GNPLs doubled to >INR27bn, 1.82%). Key highlight was INR63.6bn of NPL divergence with RBI. However, of this merely INR12.2bn slipped into NPL as balance was repaid/sold/upgraded. This is similar to trend demonstrated in earlier divergence of FY15/FY16, wherein only 10-15% had slipped. Beyond this too stress came in higher—2.2% versus 1.4-1.5% run rate, driven by 1 NCLT account. Meanwhile, retailisation sustained momentum—retail & business banking jumped ~37%, savings accounts catapulted >50% and retail fees surged >29% YoY. While the divergence is a concern, we believe Yes Bank's business strength (loan underwriting and structuring) and superior loan structuring skills will restrict loss given default (LGD; corroborated by historical evidence). Also, we believe robust growth and NIM improvement will aid it post best-in-class return ratios and fuel re-rating. Maintain 'BUY'.

Strong operating performance marred by asset quality woes

The quarter was marred by higher asset quality stress following RBI's annual inspection, wherein the bank reported divergence of INR63.6bn. Having said that, recovery/upgrades have been strong with only 19% slipping into NPLs. Upgrade of >45% from RBI's divergence will be key monitorable; however, no overlap between accounts pertaining to divergence across time period, indicate that even after 2 years recovered or upgraded accounts have not come under stress. We have argued that Yes Bank's underwriting skills have reflected well in its asset quality even through deep cycles—multiple cases in the past wherein loan structuring restricted LGD vis-à-vis peers. Case in point being divergence in FY15 and FY16, wherein only 10% and 15%, respectively, had slipped and balance had been resolved ([refer table 1 for details](#)). Despite hullabaloo on asset quality, FY16 and FY17 credit cost was restricted to sub 75bps and sub 80bps, respectively. We are building in credit cost of 100bps for FY18E and 90bps for FY19E.

Outlook and valuations: Structural levers intact; maintain 'BUY'

Going ahead, while some divergence could persist, the Bank's superior loan structuring skills will restrict overall LGD (FY18 credit cost guidance maintained). Moreover, progress in branch banking will lead to best-in-class return ratios and reduce volatility. At CMP, the stock trades at 2.6x FY19E P/ABV, attractive for a bank that has delivered >30% EPS CAGR over past 5 years and estimated to clock >29% CAGR over FY17-19. With anticipated economic recovery and the bank's commendable retail effort, focus in ensuing quarters will be on growth than stress. Maintain 'BUY/SO' with INR418 TP (3.3x FY19E P/BV).

Financials

(INR mn)

Year to March	Q2FY18	Q2FY17	Growth %	Q1FY18	Growth %	FY17	FY18E	FY19E
Net revenue	31,335	23,340	34.3	29,411	6.5	99,542	128,387	162,979
Net profit	10,027	8,015	25.1	9,655	3.9	33,302	41,846	56,138
Dil. EPS (INR)	4.3	3.7	15.6	4.1	3.9	14.6	18.3	24.6
Adj. BV (INR)						93.3	106.1	126.1
Price/Adj book (x)						3.5	3.1	2.6
Price/Earnings (x)						22.7	18.1	13.5

Edelweiss Research is also available on www.edelresearch.com, Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: YESB.BO, B: YES IN)

CMP	: INR 331
Target Price	: INR 418
52-week range (INR)	: 383 / 218
Share in issue (mn)	: 2,290.1
M cap (INR bn/USD mn)	: 758 / 11,698
Avg. Daily Vol.BSE/NSE('000)	: 12,880.6

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	20.1	20.1	20.2
MF's, FI's & BK's	24.6	22.9	23.3
FII's	45.5	45.8	46.7
Others	9.8	11.2	9.9
* Promoters pledged shares (% of share in issue)			1.0

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(8.2)	4.8	4.0
3 months	(3.3)	3.2	1.3
12 months	28.3	20.1	26.8

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Edelweiss Securities Limited

Levers intact for NIMs to sustain

Yes Bank, once again, impressed with sturdy operating profitability (up >30% YoY), gaining impetus from strong loan growth and superior NIMs. We expect NIMs to sustain/improve following: a) better CASA traction (up >50% YoY, thereby crossing 37%); b) tailwinds on SA rates; and c) self reliance on PSL requirements. Consequently, we estimate >38% PPoP CAGR over FY17-19.

Table 1: Historical anecdotes on divergences (annual inspection + AQR) suggest strong recovery, with <20% being NPLs

(INR mn)	FY15		FY16		FY17		Total	
	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%) of total
Divergences	28,200	100.0	41,770	100.0	63,550	100.0	1,33,520	100.0
of which Recovered	12,260	43.5	25,310	60.6	16,790	26.4	54,360	40.7
of which Standard	9,040	32.1	1,440	3.4	29,870	47.0	40,350	30.2
of which Sold to ARCs	3,990	14.1	8,650	20.7	4,700	7.4	17,340	13.0
of which NPLs	2,910	10.3	6,370	15.3	12,190	19.2	21,470	16.1
Credit cost	< 70bps		< 75bps		< 80bps			

Source: Company

Table 2: Divergence reported by bank Yes Bank on asset quality

	(INR mn)
Gross NPAs as on March 31, 2017 as reported by the Bank	20,186
Gross NPAs as on March 31, 2017 as assessed by RBI	83,738
Divergence in Gross NPAs (2-1)	63,552
Net NPAs as on March 31, 2017 as reported by the Bank	10,723
Net NPAs as on March 31, 2017 as assessed by RBI	58,916
Divergence in Net NPAs (5-4)	48,194
Provision for NPAs as on March 31, 2017 as reported by the Bank	9,463
Provision for NPAs as on March 31, 2017 as assessed by RBI	24,821
Divergence in provisioning (8-7)	15,359
Reported Net Profit after Tax (PAT) for the year ended March 31, 2017	33,301
Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2017 after taking into account the divergence in provisioning	23,161

Source: Company

Table 3: Summary of Q2FY18 results

(INR mn)	Q2FY18	Q2FY17	Growth (%)	Q1FY18	Growth (%)	Comments
Net interest income	18,851	14,122	33.5	18,089	4.2	Gaining impetus from strong loan growth and superior NIMs . We expect NIMs to sustain/improve following: a) better CASA traction; b) tailwinds on SA rates; and c) self reliance on PSL requirements.
Other income	12,484	9,219	35.4	11,322	10.3	
Operating expenses	12,269	9,481	29.4	12,369	(0.8)	
Staff expense	5,628	4,334	29.9	5,461	3.0	
Other opex	6,641	5,147	29.0	6,908	(3.9)	
Pre prov profit (PPP)	19,067	13,860	37.6	17,042	11.9	
Provisions	4,471	1,617	176.5	2,858	56.4	Impact of RBI divergence has led to higher credit cost. With this, for H1FY18, the credit cost is 48bps, having said that management still maintained the credit cost guidance of 70bps by FY18.
Profit before tax	14,596	12,243	19.2	14,184	2.9	
Provision for tax	4,569	4,228	8.1	4,529	0.9	
Profit after tax	10,027	8,015	25.1	9,655	3.9	
EPS (INR)	4.3	3.7	15.6	4.1	3.9	
Balance sheet data (INR bn)						
Advances	1,487	1,102	34.9	1,400	6.2	Loan growth sustained momentum , largely broadbased in nature. Core retail book growth was pegged at > 100% (albeit on smaller base).
Deposits	1,580	1,280	23.4	1,502	5.2	
CD ratio	94	86		93		
Asset quality (INR mn)						
Gross NPA	27,203	9,167	196.8	13,644	99.4	The quarter saw much higher slippages following impact of RBI divergence. Otherwise also slippages were relatively higher than normalised run-rate. While divergences have been higher, we expect overall LGD to be lower, as vindicated by historical anecdotes.
Gross NPA (%)	1.8	0.8		1.0		Additionally, of the total cumulative exposures toward RBI's first and second list of INR14.3bn, the standard is only INR1.68bn while the balance is NPLs. Consequently bank doesn't expect any major hiccup on asset quality pertaining to these list.
Net NPA	15,433	3,230	377.8	5,453	183.0	
Net NPA (%)	1.0	0.3		0.4		
Provision coverage (%)	43.3	64.8		60.0		
Restructured book	0.1	0.5		0.2		
Overall stress pool	1.9	1.3		1.2		Overall stress pool (GNPLs plus restructured book) rose to 1.9%.

Source: Company, Edelweiss research

Table 4: Advances clocked ~35% YoY growth, CASA ratio at ~37%

	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Advances (INR mn)	800,750	843,962	982,099	1,059,420	1,102,162	1,170,870	1,322,627	1,399,718	1,486,753
Advances growth Q-o-Q (%)	0.5	5.4	16.4	7.9	4.0	6.2	13.0	5.8	6.2
Advances growth Y-o-Y (%)	29.1	26.7	30.0	33.0	37.6	38.7	34.7	32.1	34.9
Deposits (INR mn)	993,443	1,014,372	1,117,195	1,225,811	1,280,238	1,323,758	1,428,739	1,502,409	1,579,898
Deposit growth Q-o-Q (%)	4.2	2.1	10.1	9.7	4.4	3.4	7.9	5.2	5.2
Deposit growth Y-o-Y (%)	24.0	23.1	22.5	28.6	28.9	30.5	27.9	22.6	23.4
CD ratio (%)	80.6	83.2	87.9	86.4	86.1	88.5	92.6	93.2	94.1
CASA (%)	25.5	26.6	28.1	29.6	30.3	33.3	36.3	36.8	37.2

Source: Company

Table 5: Loan growth broad-based, driven by both corporate and retail banking

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Corporate Banking	68.2	67.2	65.1	67.5	67.9	68.9	67.7	68.1	67.4
Retail & Business Banking	31.8	32.8	34.9	32.5	32.1	31.1	32.3	31.9	32.6

Source: Company

Table 6: Profitability supported by continued traction in non-interest income

(%)	Q117	Q217	Q317	Q417	Q118	Q218
Corporate Trade & Cash Management	11.6	11.2	9.8	9.4	11.9	11.6
Forex, Debt Capital Markets & Securities	21.1	32.5	30.3	18.5	28.4	28.3
Corporate Banking Fees	48.9	33.6	35.3	46.6	36.2	38.3
Retail Banking Fees	18.5	22.7	21.1	24.9	22.8	21.8
Recovery from Write Offs	0.0	0.0	3.6	0.6	0.7	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Table 7: Non-interest income contributed ~38.5% of net revenue

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Fees income growth Q-o-Q	13.4	20.7	7.6	12.2	2.4	10.3	23.7	(10.0)	10.3
Non interest income/Net revenue	35.8	39.2	39.3	40.6	39.5	40.6	43.4	38.5	39.8

Source: Company

Table 8: NIMs sustained, outlook positive

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Spreads	4.3	4.4	4.2	4.1	4.1	4.3	4.4	4.2	4.1
NIM	3.3	3.4	3.4	3.4	3.4	3.5	3.6	3.7	3.7
COF	7.3	7.1	7.0	7.0	6.8	6.6	6.3	6.2	6.1
YoA	11.6	11.5	11.2	11.1	10.9	10.9	10.7	10.4	10.2

Source: Company

Table 9: Tier I ratio at 13.2%

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Tier-I	10.9	10.9	10.7	10.3	10.1	12.2	13.3	13.8	13.2
Tier-II	3.2	4.0	5.8	4.8	4.0	3.4	3.7	3.3	3.8

Source: Company

Chart 1: Strong traction in SA balances feeds into CASA ratio rising to >37% mark

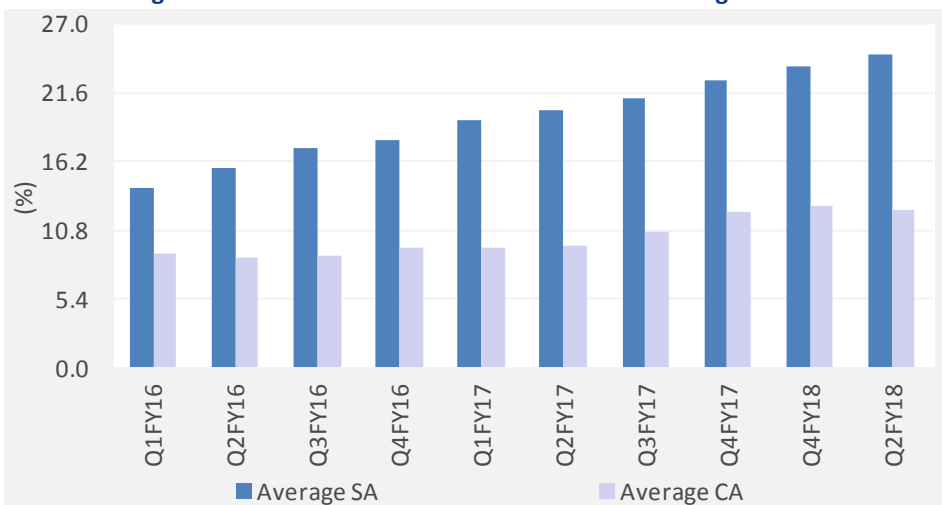


Table 10: Sensitive sector disclosure, management sounded cautious on power sector outlook which is key monitorable

Sector / Rating	Q2FY18	Q1FY18	Sector / Rating	Q2FY18	Q1FY18
(A) Electricity	9.80%	10.60%	(B) Iron & Steel	2.00%	1.90%
AAA/AA rated investments	-	0.20%	A or above rated	1.60%	1.40%
T&D	-	1.40%	(C) EPC	-	7.30%
Renewable Exposures(Green-Financing)	-	4.9% (2.8% is operational)	A or above rated	-	4.90%
Non-Renewable	3.4% (all operational)	4.1% (all operational)	(D) Telecom	3.90%	3.90%
Exposure to SEBs	Nil	Nil	A and above rated	3.70%	3.80%

Source: Company

Table 11: Corporate banking rating breakup

% of total exposures	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
AAA	18.4	17.8	17.1	20.9	20.8	19.7
AA	17.6	19.9	19.5	15.6	14.0	14.8
A	40.4	39.6	39.6	39.6	41.6	41.1
BBB	21.8	21.1	22.1	21.8	21.8	21.5
BB and below	1.8	1.6	1.7	2.1	1.8	2.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Interest income	48,003	40,604	18.2	46,538	3.1	94,541	194,910	236,585
Interest exp	29,153	26,482	10.1	28,449	2.5	57,601	118,800	138,983
Net int. inc. (INR mn)	18,851	14,122	33.5	18,089	4.2	36,940	76,110	97,602
Other income	12,484	9,219	35.4	11,322	10.3	23,806	52,277	65,377
Net revenues	31,335	23,340	34.3	29,411	6.5	60,746	128,387	162,979
Operating expenses	12,269	9,481	29.4	12,369	(0.8)	24,638	52,289	64,543
Staff expense	5,628	4,334	29.9	5,461	3.0	11,089	23,015	28,409
Other opex	6,641	5,147	29.0	6,908	(3.9)	13,549	29,274	36,135
Pre prov op profit(ppop)	19,067	13,860	37.6	17,042	11.9	36,109	76,098	98,436
Provisions	4,471	1,617	176.5	2,858	56.4	7,328	14,105	15,268
Profit before tax	14,596	12,243	19.2	14,184	2.9	28,780	61,994	83,168
Provision for taxes	4,569	4,228	8.1	4,529	0.9	9,098	20,148	27,030
PAT	10,027	8,015	25.1	9,655	3.9	19,683	41,846	56,138
Diluted EPS (INR)	4.3	3.7	15.6	4.1	3.9	8.4	18.3	24.6

Ratios

NII/GII (%)	39.3	34.8		38.9		39.1	39.0	41.3
Cost/income (%)	39.2	40.6		42.1		40.6	40.7	39.6
Provisions / PPOP	23.4	11.7		16.8		20.3	18.5	15.5
Tax rate (%)	31.3	34.5		31.9		31.6	32.5	32.5

Bal. sheet data (INR bn)

Advances	1,487	1,102	34.9	1,400	6.2	1,487	1,693	2,116
Deposits	1,580	1,280	23.4	1,502	5.2	1,580	1,709	2,120

Asset quality

Gross NPA	27,203	9,167	196.8	13,644	99.4	27,203	36,776	51,247
Gross NPA (%)	1.8	0.8		1.0		1.8	2.2	2.4
Net NPA	15,433	3,230	377.8	5,453	183.0	15,433	16,368	19,071
Net NPA (%)	1.0	0.3		0.4		1.0	1.0	0.9
Provision coverage (%)	43.3	64.8		60.0		43.3	55.5	62.8
B/V per share (INR)							111.1	131.9
Adj book value / share							106.1	126.1
Price/ Adj. book (x)							3.1	2.6
Price/ Earnings							18.1	13.5

Q2FY18 earnings call takeaways

With respect to asset quality

- That bank highlighted that total divergence for Yes bank was INR63.6bn (based on RBIs annual inspection), of this ~INR17bn got repaid (27% of amount), resolution (sale to ARC) panned out in ~INR4.6bn (7% , 3 accounts) and upgraded were ~INR29.8bn (47%, 12 accounts) with the balance ~INR12.2bn being reflected in NPLs. The provisions on slippages pertaining to RBI divergence is 4.43bn. Bank has **NO exposure to JSPL.**
- Pertaining to the sectors largely it comprise of infrastructure and infra related sector (and not part of steel / telecom/power) totalling to 19 accounts. Further these were largely not consortium accounts and were sole/multiple banking relationship with company. And thus consequently these might not be system wide exposure.
- The above mentioned upgraded amount (INR29.8bn) has got auditors and additional approval from Board of directors. And based on the historical anecdotes believes that regulator will also be comfortable with that.
- Otherwise also the slippages were marginally higher at INR7.7bn, having said that recoveries/upgrades at INR4.4bn and write-offs at INR1.7bn. **Credit cost for the quarter was higher at 29bps (H1FY18 at 48bps), however bank still maintains full year credit cost of 70bps (higher end of earlier guided range)**
- Management stated that of the 4 inspections by RBI (1 AQR + 3 RBI annual inspection) **the cumulative RBI divergence was INR133.5bn (for FY15 – INR28.2bn, FY16 – INR41.7bn and FY17 – INR63.55bn) , of which INR54.35bn (41%) is fully recovered, INR40.35bn (30%) , INR17.34bn (13%) is sold to ARCs and balance INR21.47bn (17%) is in outstanding NPLs**
- With respect to banks exposure to RBI announced list a) for the first list bank had exposure towards 2 accounts wherein they provided 50% in Q1FY18 itself. Of which 1 account has slipped this quarter and b) of the second list (comprising 28-30 accounts industry wide) the bank has exposure to 7 accounts with funded exposure of INR8.7bn and INR2.2bn in non-funded exposure. **Of the total cumulative exposure towards these (INR14.3bn) , the standard is only INR1.68bn while the balance is NPLs. Consequently bank doesn't expect any major hiccup on asset quality pertaining to the these list.**
- The overall risk environment across sectors are improving but for few sectors (viz. thermal energy, the company has exposure of 3.4% to non-renewable segment which are all operational projects)
- On the sale to ARCs , there were 3 accounts which were sold at BV of INR4.4bn for cash recovery as bank has adequate coverage (building and land). **The gross value of the sale to ARC till date were INR17.3bn and the outstanding of which is INR14bn. The banks expects some redemption (30-40%) in the SRs over next few 18 months.**
- Management highlighted that there were no overlap between divergence seen in FY16 and FY17 for the bank.

With respect to growth

- NII grew > 33% YoY, overall NIMs has improved by 30bps YoY to 3.7% supported by strong > 30% loan growth.

- CASA growth has shown good traction with broad based improvement - CA grew >51% YoY and SA grew > 51% YoY.
- The growth in the retail business continues to be strong (retail and business banking segment grew > 36% YoY). Currently loan mix stands as corporate banking at 67.4% and retail & business banking at 32.6% YoY.
- RWA/asset stood at 84.8%.
- >75% of corporate portfolio is rated A and above

Q1FY18 earnings call takeaways

With respect to asset quality

- Slippages during the quarter were INR2bn with INR1.28bn from corporate segment, 1 a/c slipped from SDR (0.3%), 3 accounts slipped from restructured book (cumulatively forming 0.3%), small business banking – INR200mn and Inclusive & social banking (sourced through BCs) saw INR520mn of slippages.
- *~60% recovered from one extraordinary account classified as NPA in Q4FY17. Another 15% recovery will be staggered over July/ August and thus by August 75% of the asset would have been recovered. Having said that, the bank has not reversed any of the provisions pertaining to this account and holds (INR2.75bn towards it)*
- Outstanding Standard Advances of 0.24% (INR3.4bn) to only 2 borrowers where bank has modest exposure (out of the 12 borrowers to be referred to NCLT under the Insolvency and Bankruptcy Code - IBC) with 50% provision made proactively against the fully secured exposures well in advance of the regulatory prescribed period (thus no follow through impact of these accounts will likely be there)
- *In anticipation of further action, the bank has looked at systemic NPLs till March 17 and for all the exposures (> INR50bn) the bank has exposure to the tune of only INR2.94bn (0.21% of advances).*
- Gross stress (GNPLs + restructured + 5:25/SRs/SDR/S4A etc) came down to 1.63% from 2.24% in previous quarter.
- *Provision composition : NPA - INR1.58bn, Provision towards NCLTs refereed accounts – INR946mn, GLL- INR316mn , Miscellaneous – INR12mn*
- 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. Based on RBI guidelines, the bank has provided incremental 40bps towards these segments.
- *Credit Costs at 18 bps for Q1FY18. Credit cost guidance of 50-70bps for FY18 maintained.*
- No new restructuring; Sale to ARC; SDR; 5:25 Refinancing; S4A during the quarter

With respect to growth

- *NIMs has expanded to 3.7% (3.6% in Q4FY17). Management expects this sort of NIMs to be sustainable and aims to achieve 4% by FY20 .* The improvement in NIMs will come from a) confident that CASA ratio will rise to 40% by September 2018 b) the rate reduction in savings accounts c) capability to raise infra bonds (which are SLR/CRR exempt) and d) self reliance on PSL requirements.

- Growth momentum sustained with loan growth of > 32%, largely supported by corporate and core retail segment (> 160% YoY growth, albeit on lower base)
- Non-interest income was below trend , particularly following slower traction in corporate fees while retail fees continued to maintain traction. Treasury income of INR2bn during the quarter.
- CASA ratio has seen strong growth momentum (up > 50% YoY) , and now stands at 36.8%. The CA/SA growth has been > 60/45% YoY
- Interest on other resources was higher as this quarter saw the entire benefit of capital through Q1FY18.

Other highlights

- The branch target of 2500 by FY20 is being reduced to 1800 branches by FY20. The decision is being driven by various reasons given availability of various channels among others.
- CASA plus retail TD now stands at 61.8%. Aims to get to this proportion to 70% by FY30
- RWA – INR1.85tn taking RWA /assets at 83.4%.
- Aims to maintain coverage at 60%.
- I&S – 1.9% of this 1.4% is A and above rated. One of the NCLT account belongs to this sectors.
- EPC segment has seen significant improvements over time.
- 75% of the corporate portfolio is rated A and better.
- While there are many moving parts, but there are no major impact on the conversion. Three four things that will get impacted are a) stage 2 provisions (tentatively INR3-4bn negative impact will be adjusted on opening balance) b) gains from bond book (based on yields movements) and c) impact on corporate fees (this will have to be amortised).
- Board has decided towards 5 for 1 stock split. This will be referred to shareholder and RBI for further approval.



Company Description

Yes Bank is a private Indian bank promoted by Rana Kapoor with financial support from Rabobank Nederland, and global institutional private equity investors - AIF Capital, and ChrysCapital. It is operational since November 2004 and is the only greenfield bank approved by RBI in last decade. It has market cap of INR758bn and balance sheet of ~INR2.37tn. It has branch network of 1040 at the end of Q2FY18 and a CASA ratio of >37.2%. Corporate lending forms 67.4% of advances, commercial / retail ~32.6%.

Investment Theme

Yes Bank is one of the few private sector banks with product depth, sustainable competitive edge, and strong growth. Bank has over a period demonstrated its ability to navigate challenging times (interest risk - July 13 + economic moderation) with limited impact on their earnings profile and continue to deliver best in class return ratios. We believe as benefits of building granularity in business model (retails - fees, liability) kicks in coupled with gradual improvement in macro environment- (absence of asset quality baggage), we expect bank well placed to capitalize on the opportunity.

Key Risks

Any blip in CASA traction for the bank at this point of time when most banks are banking on their franchise network.

In the event of demand for credit dying down as in the current scenario, lack of pricing power can impact its margins adversely (due to nascent deposit franchise).

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth	8.6	14.0	12.0	13.0
CRR	4.0	4.0	4.0	4.0
SLR	20.8	20.0	20.0	20.0
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assump. (%)				
Yield on advances	11.2	10.6	10.2	10.0
Yield on investments	7.4	7.7	7.2	7.0
Yield on asset	9.5	9.2	8.9	9.0
Cost of funds	6.5	6.2	5.8	5.7
Net interest margins	3.2	3.2	3.5	3.7
Cost of deposits	7.1	6.4	6.2	6.1
Cost of borrowings	6.2	6.9	6.1	6.0
Spread	3.0	3.0	3.1	3.2
Tax rate (%)	32.6	34.0	32.5	32.5
Balance sheet assumption (%)				
Credit growth	30.0	34.7	28.0	25.0
Deposit growth	22.5	27.9	19.6	24.1
SLR ratio	24.5	19.6	21.0	20.0
Low-cost deposits	28.1	36.3	38.6	40.1
Gross NPA ratio	0.8	1.5	2.2	2.4
Net NPA / Equity	2.1	4.9	6.5	6.3
Capital adequacy	16.5	17.0	16.2	15.5
Incremental slippage	1.2	2.7	2.8	2.5
Provision coverage	62.0	46.9	55.5	62.8

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	135,335	164,247	194,910	236,585
Interest expended	89,667	106,273	118,800	138,983
Net interest income	45,668	57,974	76,110	97,602
Non interest income	27,122	41,568	52,277	65,377
- Fee & forex income	24,416	32,419	45,894	58,220
- Misc. income	99	2,036	2,883	3,657
- Investment profits	2,606	7,113	3,500	3,500
Net revenue	72,790	99,542	128,387	162,979
Operating expense	29,764	41,166	52,289	64,543
- Employee exp	12,968	18,050	23,015	28,409
- Other opex	16,796	23,115	29,274	36,135
Preprovision profit	43,026	58,376	76,098	98,436
Provisions	5,363	7,934	14,105	15,268
Loan loss provisions	5,361	7,466	13,855	15,018
Investment depreciation	25	522	250	250
Other provisions	(23)	(54)	-	-
Profit Before Tax	37,663	50,442	61,994	83,168
Less: Provision for Tax	12,268	17,140	20,148	27,030
Profit After Tax	25,395	33,302	41,846	56,138
Reported Profit	25,395	33,302	41,846	56,138
Adj. Diluted EPS (INR)	12.1	14.6	18.3	24.6
Dividend per share (DPS)	2.0	2.4	3.3	3.3
Dividend Payout Ratio(%)	19.1	19.0	20.8	15.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	30.9	26.9	31.3	28.2
Fees growth	27.9	32.8	41.6	26.9
Opex growth	30.3	38.3	27.0	23.4
PPOP growth	30.1	26.8	41.6	30.8
PPP growth	32.4	35.7	30.4	29.4
Provisions growth	58.0	47.9	77.8	8.2
Adjusted Profit	26.6	31.1	25.7	34.2

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	11.2	10.6	10.2	10.0
Yield on investments	7.4	7.7	7.2	7.0
Yield on assets	9.5	9.2	8.9	9.0
Cost of funds	6.5	6.2	5.8	5.7
Net interest margins	3.2	3.2	3.5	3.7
Cost of deposits	7.1	6.4	6.2	6.1
Cost of borrowings	6.2	6.9	6.1	6.0
Spread	3.0	3.0	3.1	3.2
Cost-income	40.9	41.4	40.7	39.6
Tax rate	32.6	34.0	32.5	32.5



Balance sheet				
(INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	4,205	4,565	4,565	4,565
Reserves & Surplus	133,661	215,976	249,126	296,568
Net worth	137,866	220,541	253,691	301,133
Sub bonds/pref cap	-	-	1,000	2,000
Deposits	1,117,195	1,428,739	1,708,528	2,120,453
Total Borrowings	316,590	386,067	332,970	395,585
Other liabilities	80,983	115,254	132,460	150,749
Total liabilities	1,652,634	2,150,599	2,428,648	2,969,921
Loans	982,099	1,322,627	1,692,962	2,116,203
Cash and Equivalents	82,184	195,494	93,140	115,441
Gilts	351,863	355,127	428,715	503,208
Others	136,522	145,191	155,024	166,217
Fixed assets	4,707	6,835	5,671	4,408
Other Assets	95,259	125,325	53,136	64,445
Total assets	1,652,634	2,150,599	2,428,648	2,969,921
Credit growth	30.0	34.7	28.0	25.0
Deposit growth	22.5	27.9	19.6	24.1
EA growth	19.7	30.0	17.4	22.4
SLR ratio	24.5	19.6	21.0	20.0
C-D ratio	96.5	100.4	105.9	105.5
Low-cost deposits	28.1	36.3	38.6	40.1
Provision coverage	62.0	46.9	55.5	62.8
Gross NPA ratio	0.8	1.5	2.2	2.4
Net NPA ratio	0.3	0.8	1.0	0.9
Incremental slippage	1.2	2.7	2.8	2.5
Net NPA / Equity	2.1	4.9	6.5	6.3
Capital adequacy	16.5	17.0	16.2	15.5
- Tier 1	10.7	13.3	12.5	11.8

RoE decomposition (%)				
Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	3.2	3.2	3.5	3.7
Fees/Assets	1.7	1.9	2.2	2.3
Invst. profits/Assets	0.2	0.4	0.2	0.1
Net revenues/assets	5.1	5.6	5.9	6.2
Operating expense/assets	(2.1)	(2.3)	(2.4)	(2.4)
Provisions/assets	(0.4)	(0.4)	(0.6)	(0.6)
Taxes/assets	(0.9)	(1.0)	(0.9)	(1.0)
Total costs/assets	(3.3)	(3.7)	(3.9)	(4.1)
ROA	1.8	1.9	1.9	2.1
Equity/assets	8.9	10.0	10.8	10.5
ROAE (%)	19.9	18.6	17.6	20.2

Valuation parameters				
Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	12.1	14.6	18.3	24.6
Y-o-Y growth (%)	25.8	20.8	25.7	34.2
BV per share (INR)	65.6	96.6	111.1	131.9
Adj. BV per share (INR)	64.6	93.3	106.1	126.1
Diluted P/E (x)	27.4	22.7	18.1	13.5
Price/ Adj. BV (x)	5.1	3.5	3.1	2.6
Dividend Yield (%)	0.6	0.7	1.0	1.0

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Yes Bank	11,698	18.1	13.5	3.1	2.6	17.6	20.2
Axis Bank	17,908	25.8	13.3	2.3	2.0	7.9	14.1
DCB Bank	844	20.3	16.5	2.2	1.9	11.8	11.9
Federal Bank	3,590	20.6	16.5	2.0	1.8	10.6	10.9
HDFC Bank	71,475	25.2	20.8	4.5	3.8	18.9	19.5
ICICI Bank	29,611	16.1	11.7	2.5	2.2	11.9	14.9
IndusInd Bank	14,938	26.4	21.0	4.2	3.6	16.5	17.9
Karnataka Bank	906	8.6	7.1	0.9	0.8	9.6	10.8
Kotak Mahindra Bank	29,916	33.1	26.9	4.3	3.7	14.5	14.6
Median	-	20.6	16.5	2.5	2.2	11.9	14.6
AVERAGE	-	21.6	16.4	2.9	2.5	13.3	15.0

Source: Edelweiss research

Additional Data

Directors Data

Ashok Chawla	Non-Executive Part-time Chairman	Rana Kapoor	Managing Director & CEO
Mukesh Sabharwal	Director	Ajai Kumar	Director
Brahm Dutt	Director	Vasant Gujarathi	Director
Saurabh Srivastava	Director	Debjani Ghosh	Director

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Birla Sun Life Asset Management	4.05	BlackRock	3.25
Vanguard Group	3.17	Franklin Resources	3.07
Templeton Asset Management	2.04	Max New York Life Ins	1.78
Nomura	1.64	T Rowe Price Group Inc	1.43
DSP Blackrock Investment Manager	1.27	Abu Dhabi Investment Authority	1.25

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
02 Mar 2017	Ajay Mehta	Sell	15000.00
17 Feb 2017	Kingshuk jagat Chakraborty	Sell	21000.00
18 Nov 2016	Vinod Bahety	Sell	20000.00
28 Oct 2016	P.RAKESH	Sell	15000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	HOLD	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SP	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Oct-17	MMFS	Core steady; NPL transitioning hits earnings; <i>Result Update</i>	417	Hold
25-Oct-17	Kotak Mahindra Bank	Growth perking up; asset quality stable; <i>Result Update</i>	1011	Hold
25-Oct-17	Banking	Mega recapitalisation: The much needed succor; <i>Result Update</i>		

Distribution of Ratings / Market Cap

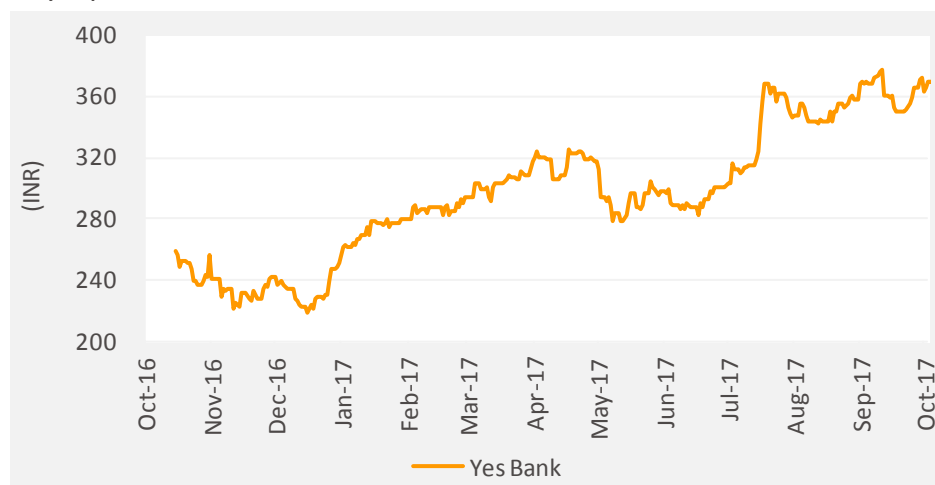
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart





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