

Yes bank reported strong momentum on most of the metrics in P&L with 35% y-o-y loan book growth driving 30% y-o-y NII growth, 35% y-o-y other income growth and 34% y-o-y PPOP growth. Credit cost spiked 1.8 x y-o-y resulting in to 25% y-o-y growth in PAT to INR 10bn. However, on the balance sheet front, it was a disappointment as there was high divergence on loan classification pertaining to FY17.

Strong loan growth led by retail and business banking book and stable NIMs q-o-q at 3.7%

Loan book grew by 35% y-o-y (6% q-o-q) to INR 1,486bn led by growth in the retail and business banking (37% y-o-y & 8.5% q-o-q). Growth in retail and business banking was led by growth in consumer banking (78% y-o-y & 15% q-o-q) which comprises 35% of retail and business banking. Corporate banking too showed robust growth of 34% y-o-y (5% q-o-q). The bank continues to be cautious on their power sector exposure (3.4% exposure) and mentioned that the entire thermal exposure is operational. Fee Income momentum was strong, largely driven by corporate banking fees (54% y-o-y & 16% q-o-q). NIMs were stable at 3.7% q-o-q and CASA ratio improved by 40bps q-o-q to 37.2%.

Asset quality weakens as high divergence in FY17 GNPA

GNPA / NNPA in absolute terms increased to INR 27.2bn (up 99% y-o-y) / 15.4bn (183% y-o-y) respectively and GNPA / NNPA ratio increased to 1.8% / 1.0% from 0.97% / 0.39% in Q1 FY18 respectively. PCR dropped to 43% from ~60% in Q1FY18. The bank reported high divergence with RBI on loan impairment recognition for FY17. Post RBI audit, NPAs should have been 6.3% of loans for FY17 as compared to 1.5% reported by the bank. For FY17, the divergence in NPA was INR 63.5bn (19 accounts) of which 19% is under NPA, 27% have been repaid in partial or full, 7% has been sold to ARC and the remaining 47% has been classified as standard accounts on grounds of satisfactory account conduct.

Based on the last 3 investigations by RBI, the total divergence in NPA amounts to INR 133.6bn. Out of this amount, 41% has been repaid fully or partially, 30% are standard assets, 13% has been sold to ARC and only 16% is the remaining NPA outstanding. Over the last 3 years, the bank has been able to upgrade or recover a

substantial amount of loans with only a small proportion being declared as NPA.

For the initial 12 accounts under IBC, the bank had an exposure to 2 accounts amounting to INR 3.4bn on which there is a provision of 50%. One of them slipped to NPA. Of the remaining 30 accounts that RBI is expected to refer to IBC, the bank expects to have an exposure to 7 accounts amounting to INR 11bn on which there is 39% coverage.

Other Highlights

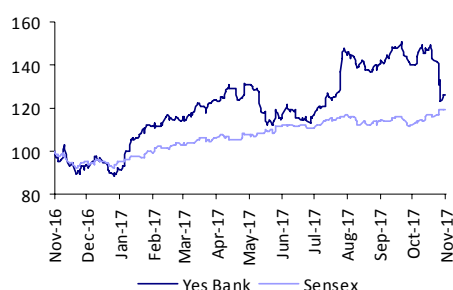
- 75% of the corporate portfolio is rated A and above.
- Telecom exposure stands at 3.9% (of which 3.7% is rated A and above).
- Iron & Steel exposure stands at 2.0% (of which 1.2% is rated A and above).
- The Bank added 20 branches during the quarter taking the total strength to 1040.
- As per Basel III norms, CAR stands at 17.8% at the end of Q1FY18 with tier1 capital at 13.2%.
- Improved C/I ratio at 39.2% (-290bps q-o-q) as expenses declined by 1% q-o-q driven by the bank's digitization efforts.

Outlook & Valuation

Yes Bank has been delivering a strong performance over a decade now. However, the divergence with RBI on loan impairment has been an issue for the bank for the last 3 years. The bank has been able to upgrade / recover a substantial amount of loans with only a small proportion declared as NPA. However, its ability to do the same at such a short notice is something useful to understand. We increase our cautiousness on the bank's asset quality and lower our valuation multiple from 3.4x to 3.0x FY19E P/Adj. BV and recommend a BUY on the stock with a TP of INR 359 in 18 months.

Shareholding (%)	Sep-17
Promoters	20.11
FII's	45.96
DII's	24.57
Others	9.36

Relative Price Performance



Key Data	
BSE Code	532648
NSE Code	YESBANK
Bloomberg Code	YES IN
Reuters Code	YESB.BO
Shares Outstanding (mn)	2290.7
Face Value	2
Mcap (INR bn)	720.08
52 Week H/L	383.25/218.25
2W Avg. Qty.NSE	23661930
Free Float (INR Bn)	575.26
Beta	1.35

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	135334	164246	204490	249640
Interest Expended	89667	106273	127960	153954
Net interest income	45667	57973	76530	95686
Growth	30.9%	26.9%	32.0%	25.0%
NIM	3.25%	3.25%	3.39%	3.44%
APAT	25394	33301	39053	49332
Growth	26.63%	31.13%	17.27%	26.32%
Adj. EPS (INR)	60.39	72.95	17.02	21.50
ABV (INR)	321	460	103	120
P/ABV (x)	4.82	3.23	3.00	2.59
Net NPA (%)	0.29%	0.81%	0.90%	0.82%
RoA	1.68%	1.75%	1.63%	1.68%
RoE	19.94%	18.58%	16.52%	18.11%

NPA divergence based on RBI's annual audit for the last 3 years

Particulars (INR bn)	FY15	FY16	FY17	Total
Divergence reported by Yes Bank (Rs bn)				
GNPA (reported)	3.1	7.5	20.2	30.8
GNPA as accessed by RBI	31.3	49.3	83.7	164.3
Divergence in GNPA	28.2	41.8	63.6	133.6
NNPA (reported)		2.8	10.7	13.5
NNPA as accessed by RBI		36	58.9	94.9
Divergence in NNPA		33.2	48.2	81.4
Provision for NPA (reported)		4.6	9.5	14.1
Provision for NPA as accessed by RBI		13.2	24.8	38
Divergence in provisioning		8.6	15.4	24
Reported PAT		25.4	33.3	
Adjusted PAT		19.8	23.2	

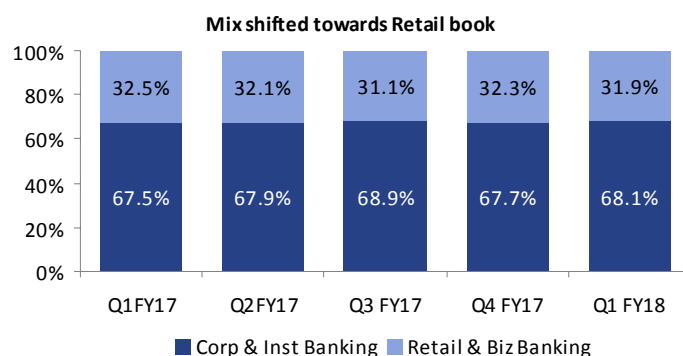
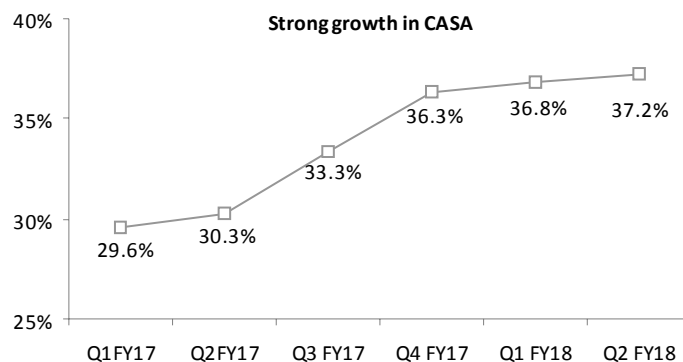
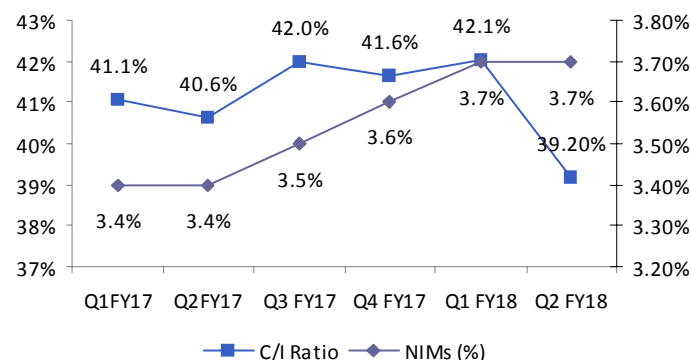
Impact on the accounts under divergence of GNPA with no overlap (Rs bn)

Recovered (partially/ fully)	12.3	25.3	16.9	54.5
(% of divergence)	44%	61%	27%	41%
Upgraded	9	1.4	29.8	40.3
(% of divergence)	32%	3%	47%	30%
Sale to ARC	4	8.7	4.6	17.3
(% of divergence)	14%	21%	7%	13%
NPA	2.9	6.4	12.2	21.5
(% of divergence)	10%	15%	19%	16%

Quarterly Financials

Particulars (INR mn)	Q2 FY18	Q2 FY17	Q1 FY17	Y-o-Y	Q-o-Q
Interest Earned	48003	40944	46538	17%	3%
Interest Expended	29153	26482	28449	10%	2%
Net Interest Income	18851	14462	18089	30%	4%
NIM (%)	3.70	3.40	3.70	30 bps	0 bps
Other Income	12484	9219	11322	35%	10%
Net Total Income	31335	23680	29411	32%	7%
Operating Expenses	12269	9481	12369	29%	-1%
Employee Cost	5628	4334	5461	30%	3%
Other operating expenses	6641	5147	6908	29%	-4%
Cost/Income Ratio (%)	39%	40%	42%	-88 bps	-290 bps
Operating Profits	19067	14200	17042	34%	12%
Provisions & Contingencies	4471	1617	2858	177%	56%
Profit Before Tax	14596	12583	14184	16%	3%
Provision for Tax	4569	4228	4529	8%	1%
Net Profit	10027	8356	9655	20%	4%
EPS	21.89	19.01	21.10	15%	4%
Equity	4581	4217	4575	9%	0%
Advances	1486753	1102162	1399718	35%	6%
GNPA	27203	9167	13644	197%	99%
NNPA	15433	3230	5453	378%	183%
GNPA (%)	1.8	0.8	1.0	99 bps	85 bps
NNPA (%)	1.0	0.3	0.4	75 bps	65 bps
RoA (%)	1.7	1.8	1.8	-10 bps	-10 bps

Source: Company, SPA Research


NIMs improved sequentially due to better spreads and Stable C/I Ratio


Financials

Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Interest income	135334	164246	204490	249640
<i>Growth (%)</i>	17%	21%	25%	22%
Interest Expended	89667	106273	127960	153954
Net interest income	45667	57973	76530	95686
<i>Growth</i>	31%	27%	32%	25%
Other Income	27121	41568	47546	58198
Net Income	72789	99541	124075	153883
Operating Expenditure	29764	41165	50588	61293
Pre Provisioning Profit	43025	58375	73487	92590
Provisions & Contingencies	5363	7934	14334	17866
PBT	37662	50441	59153	74724
Tax	12268	17140	20101	25392
PAT	25394	33301	39053	49332
<i>Growth</i>	27%	31%	17%	26%
EPS (INR)	60	73	17	22

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	4205	4565	4588	4588
Reserves	133661	215976	247738	287862
Total Shareholders Funds	137866	220541	252327	292450
Total Deposits	1117195	1428739	1814498	2231833
<i>Growth</i>	23%	28%	27%	23%
Borrowings	316590	386067	455559	537559
Other Liabilities & Provisions	80983	115253	132957	154447
Total Liabilities	1652634	2150599	2655341	3216289
APPLICATION OF FUNDS				
C/B with RBI and Call Money	82184	195494	189412	231372
Investments	488385	500318	595670	677024
Advances	982099	1322627	1719415	2149268
<i>Growth</i>	30%	35%	30%	25%
Fixed Assets	4119	6089	6720	7295
Other Assets	95259	125325	144123	151329
Total Assets	1652046	2149852	2655341	3216289

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
EPS	60.4	73.0	17.0	21.5
BVPS	327.8	483.1	110.0	127.5
ABVPS	321.1	459.6	103.3	119.8
DPS	10.0	12.0	2.7	3.4
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%	3.4%
RoA	1.7%	1.8%	1.6%	1.7%
RoE	19.9%	18.6%	16.5%	18.1%
Balance Sheet Ratios				
Credit/Deposit Ratio	87.9%	92.6%	94.8%	96.3%
Investment/Deposit Ratio	29.6%	23.3%	22.4%	21.0%
CASA Ratio	28.1%	36.3%	36.2%	38.0%
Capital Adequacy Ratio (CAR)	16.5%	17.0%	15.8%	15.0%
Asset Quality Ratios				
GNPA (INR mn)	7490	20186	34214	44071
NNPA (INR mn)	2845	10723	15396	17629
Gross NPA (%)	0.8%	1.5%	2.0%	2.0%
Net NPA (%)	0.3%	0.8%	0.9%	0.8%
Provision Coverage Ratio	62.0%	46.9%	55.0%	60.0%
Efficiency Ratios				
Cost to Income Ratio	40.9%	41.4%	40.8%	39.8%
Business per Employee (in INR mn)	140.0	136.7	169.1	202.8
Profit per Employee (in INR mn)	1.7	1.7	1.9	2.3
Valuation Ratios				
P/E (x)	25.6	20.4	18.2	14.4
P/ABV (x)	4.8	3.2	3.0	2.6
Dividend Yield	0.6%	0.8%	0.9%	1.1%

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