

YES BANK

BANKS & FINANCIAL SERVICES

24 JAN 2018

Quarterly Update

BUY

Target Price: Rs 400

Asset quality stable; loan growth robust

Yes Bank's (YES) Q3FY18 PAT grew by 22% YoY at Rs 10.8 bn, which was in line with our estimate. Asset quality improved, as slippages were lower at Rs 4.9 bn which drove 10 bps QoQ decline in GNPA ratio to 1.7%. Coverage ratio increased to 46% vs. 43% in Q2 and management intends to scale it up to 60% by Jun'18. Loan growth was strong at 46% YoY on robust corporate loan growth (44% YoY) coupled with strong growth in retail/MSME loans (52% YoY).

NII growth was slower at 27% YoY, as NIM declined by 20 bps QoQ to 3.5%. Management maintained its FY20 NIM guidance of 4% on strong CASA growth, rationalization of SA deposit rates and PSL compliance. Capital adequacy ratio rose to 19.5% due to quasi capital raised in the form of bonds during Q3. **Maintain BUY.**

CMP : Rs 340
Potential Upside : 18%

MARKET DATA

No. of Shares : 2,299 mn
Free Float : 80%
Market Cap : Rs 782 bn
52-week High / Low : Rs 383 / Rs 265
Avg. Daily vol. (6mth) : 12.3 mn shares
Bloomberg Code : YES IB Equity
Promoters Holding : 20%
FII / DII : 46% / 24%

Q3FY18 highlights: (a) Gross slippages declined to Rs 4.9 bn which included Rs 2.5 bn slippage from what were previously classified as stressed under SDR/5:25/NCLT in Q2; (b) NIM declined by 20 bps QoQ to 3.5%; ~10 bps impact was from quasi capital raised at a rate higher than cost of existing capital funds (8.5% vs. 6%) while another 10 bps impact was due to increase in security receipts; (c) Total stressed assets remained largely stable at 2.4% of loans (2.5% in Q2), but there was a net increase of Rs 4.2 bn in security receipts as a standard account was sold to ARC; (d) Cost/income ratio stood at 39.5% and management aims to bring it down to 37-37.5% over the medium term; (e) YES has an exposure to 9 accounts worth Rs 13.4 bn to NCLT-related cases with 51%/43% coverage over the 1st/2nd list.

Maintain BUY; roll forward to FY20 with TP of Rs 400 (2.7x FY20 P/ABV): We retain **BUY** rating, as core operating performance remains strong and YES continues to gain market share along with better retail penetration and strong capitalization. At CMP, YES trades at 2.7x/2.3x FY19E/FY20E ABV. TP at Rs 400 revised from Rs 365 earlier on rollover.

Financial summary (Standalone)

Y/E March	FY17	FY18E	FY19E	FY20E
PAT (Rs mn)	33,301	41,675	51,816	64,452
EPS (Rs)	15	18	23	28
EPS chg (%)	20.8	24.3	24.3	24.4
Book value (Rs)	97	111	131	155
Adj. BV (Rs)	93	107	125	148
PE (x)	23.3	18.8	15.1	12.1
P/ABV (x)	3.6	3.2	2.7	2.3
RoE (%)	18.6	17.5	18.6	19.6
RoA (%)	1.8	1.7	1.7	1.7
Net NPA (%)	0.8	0.9	0.8	0.7

Source: Company, Axis Capital

Key drivers

(%)	Q4'17	Q1'18	Q2'18	Q3'18
Loan growth (YoY)	35	32	35	46
NIM	3.6	3.7	3.7	3.5
CASA	36	37	37	28
GNPA Ratio	1.5	1.0	1.8	1.7

Price performance

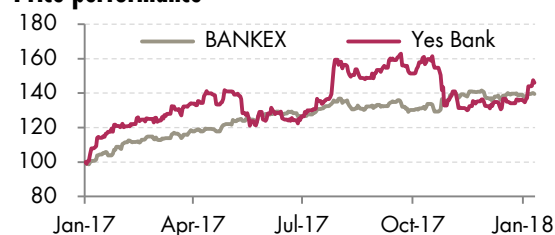
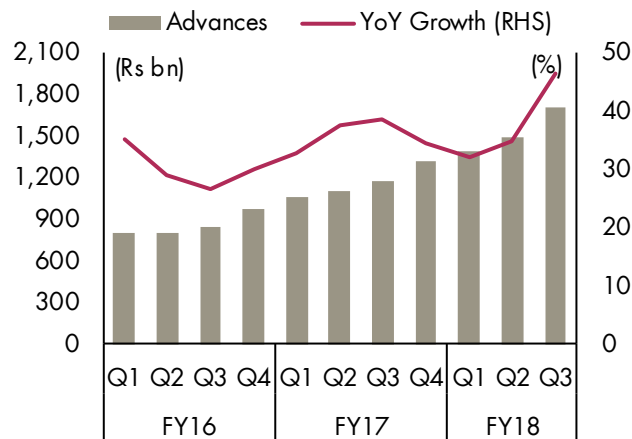
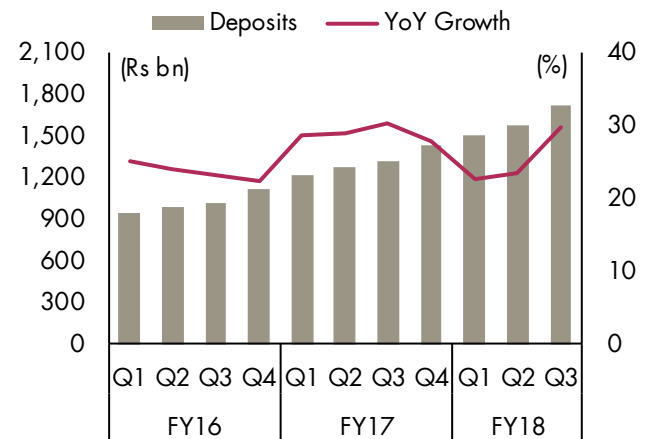
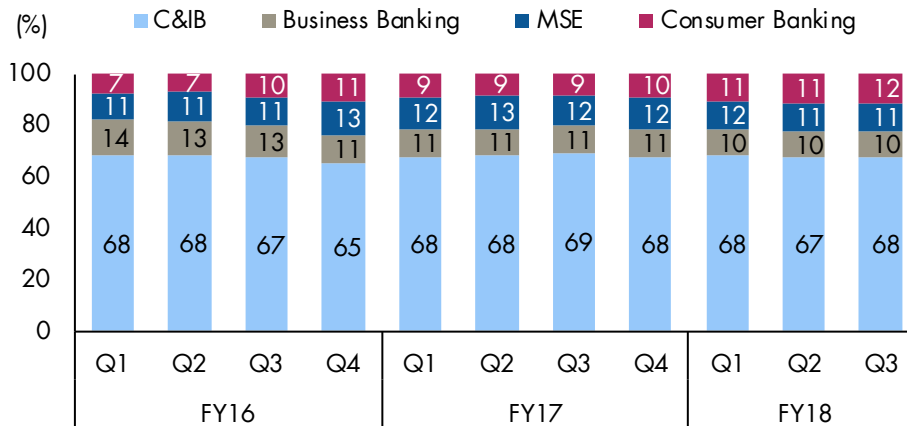


Exhibit 1: Advances growth strong at 46%


Source: Company, Axis Capital

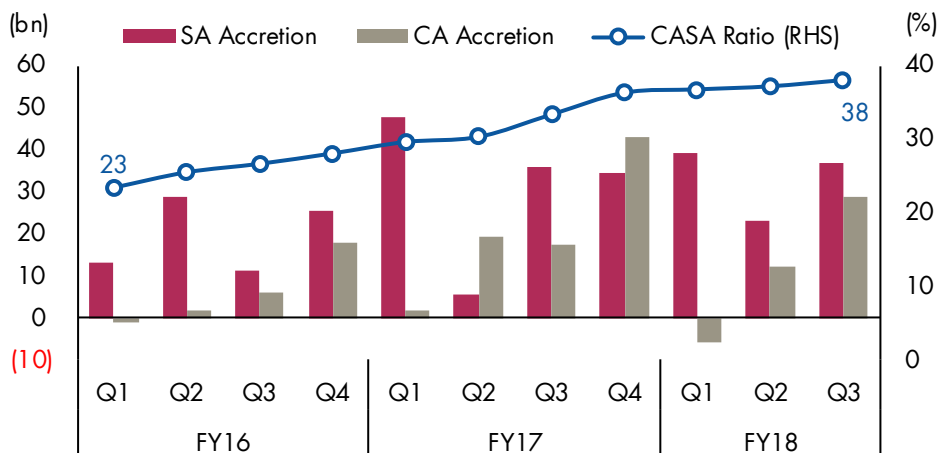
Exhibit 2: Deposits grew by 30% YoY


Source: Company, Axis Capital

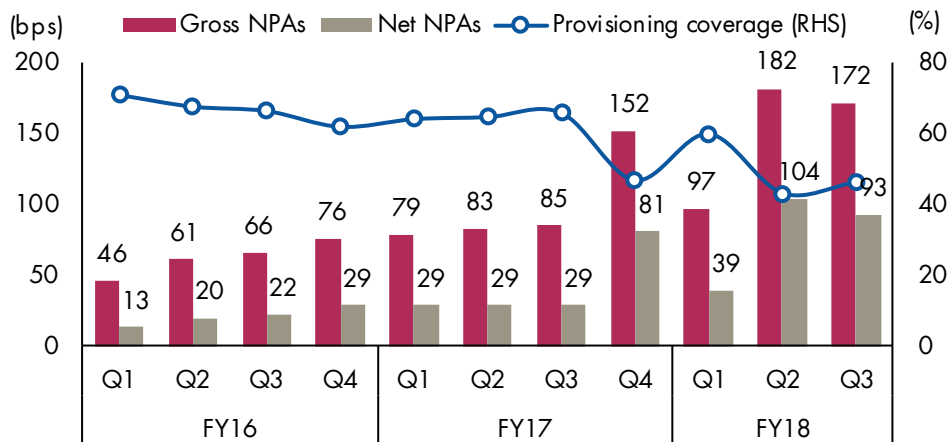
Exhibit 3: Break-up of advances book


Source: Company, Axis Capital

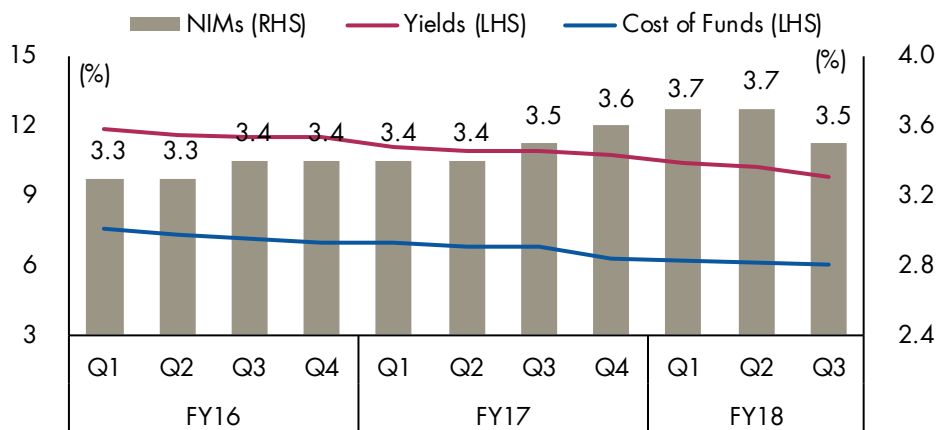
Corporate/retail business grew by 44%/52% YoY

Exhibit 4: SA accretion strong; CASA ratio at 38%


Source: Company, Axis Capital

Exhibit 5: Slippages were lower while PCR improved to 46%


Source: Company, Axis Capital

Exhibit 6: NIM declined by 20 bps QoQ to 3.5%


Source: Company, Axis Capital

Total stressed loan
(NNPA + Standard
Rest + SR + SDR +
5-25 refinance)
stable at 2.4% of
loans

Exhibit 7: Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	Mar-18E	Mar-17	% Chg
Interest income	50,703	42,134	20	48,003	6	202,933	164,246	24
Interest expended	31,815	27,241	17	29,153	9	126,883	106,273	19
Net interest income	18,888	14,893	27	18,851	0	76,050	57,973	31
Non-interest income	14,223	10,165	40	12,484	14	54,053	41,568	30
Net income	33,111	25,059	32	31,335	6	130,103	99,541	31
Operating expenses	13,093	10,520	24	12,269	7	51,841	41,165	26
Operating profit	20,018	14,538	38	19,067	5	78,262	58,375	34
Provision & Contingencies	4,213	1,154	265	4,471	(6)	15,592	7,934	97
PBT	15,805	13,384	18	14,596	8	62,669	50,441	24
Tax	5,036	4,558	10	4,569	10	20,994	17,140	22
Net Profit	10,769	8,826	22	10,027	7	41,675	33,301	25
Yields & Margins (%)								
Yield on advances	9.8	10.9	(110) bps	10.2	(40) bps	10.2	10.6	(41) bps
Cost of funds	6.0	6.8	(80) bps	6.1	(10) bps	6.2	6.5	(38) bps
Net interest margin	3.5	3.5	0 bps	3.7	(20) bps	3.4	3.3	6 bps
Cost to income ratio	39.5	42.0	(244) bps	39.2	39 bps	39.8	41.4	(151) bps
Asset quality								
Gross NPAs (Rs mn)	29,743	10,059	196	27,203	9	29,398	20,186	46
Gross NPAs (%)	1.72	0.85	87 bps	1.82	(10) bps	1.62	1.52	11 bps
Net NPAs (Rs mn)	15,951	3,425	366	15,433	3	15,581	10,723	45
Net NPAs (%)	0.93	0.29	64 bps	1.04	(11) bps	0.87	0.81	6 bps
Provisioning coverage (%)	46.4	66.0	(1,958) bps	43.3	310 bps	47.0	46.9	12 bps
Capital (%)								
Tier-I	14.7	12.2	250 bps	13.2	150	14.1	13.3	81 bps
CAR	19.5	15.6	390 bps	17.8	170	18.8	17.0	181 bps
Balance sheet (Rs bn)								
Advances	1,715	1,171	46	1,487	15	1,798	1,323	36
Deposits	1,717	1,324	30	1,580	9	1,898	1,429	33
CASA (%)	38.0	33.3	468 bps	37.2	85 bps	38.6	36.3	232 bps

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Interest earned	164,246	202,933	258,485	329,777
Interest expended	(106,273)	(126,883)	(158,375)	(201,853)
Net interest income	57,973	76,050	100,110	127,924
Non interest income	41,568	54,053	65,274	80,363
Net income	99,541	130,103	165,384	208,287
Operating expenses	(41,165)	(51,841)	(64,655)	(80,839)
Staff expenses	(18,050)	(22,408)	(27,532)	(33,456)
Other operating expenses	(23,115)	(29,433)	(37,123)	(47,383)
Operating profit	58,375	78,262	100,729	127,449
Provisions & contingencies	(7,934)	(15,592)	(22,220)	(29,794)
Pre-tax profit	50,441	62,669	78,509	97,655
Tax expense	(17,140)	(20,994)	(26,693)	(33,203)
Profit after tax	33,301	41,675	51,816	64,452
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	33,301	41,675	51,816	64,452

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Total assets	2,150,599	2,713,673	3,435,257	4,374,702
Cash & Balances with RBI	195,494	172,758	190,382	243,915
Investments	500,318	585,399	686,169	829,459
Advances	1,322,627	1,797,825	2,373,343	3,086,415
Fixed assets	6,835	7,972	9,041	10,117
Other assets	125,325	149,720	176,322	204,796
Total liabilities	2,150,599	2,713,673	3,435,257	4,374,702
Equity capital	4,565	4,597	4,597	4,597
Preference capital	-	-	-	-
Reserves & surplus	215,976	251,197	295,483	351,329
Networth	220,541	255,794	300,080	355,926
Borrowings	386,067	405,558	425,836	496,982
Deposits	1,428,739	1,897,876	2,503,124	3,255,558
Other liabilities & prov.	115,253	154,445	206,218	266,236

Source: Company, Axis Capital

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
Per share data				
FDEPS (Rs.)	15	18	23	28
BV (Rs.)	97	111	131	155
Adj. BV (Rs.)	93	107	125	148
DPS (Rs.)	-	2	3	3
Dividend payout (%)	-	13	12	11
Yields & Margins (%)				
Yield on advances	10.6	10.2	10.0	10.0
Cost of deposit	6.4	6.1	6.0	6.1
Net interest margin	3.3	3.4	3.5	3.5
Asset quality (%)				
Gross NPAs	1.5	1.6	1.6	1.4
Net NPAs	0.8	0.9	0.8	0.7
Credit cost	0.6	0.9	0.8	0.8
Provisioning coverage	46.9	47.0	48.0	50.0
Capital (%)				
Tier-I	13.3	14.1	12.7	11.4
CAR	17.0	18.8	17.2	15.7
Efficiency (%)				
ROA	1.8	1.7	1.7	1.7
ROE	18.6	17.5	18.6	19.6
Cost to income	41	40	39	39
CASA	36	39	40	40
Effective tax rate	34	34	34	34
Growth (%)				
Net interest income	27	31	32	28
Fee income	33	41	21	24
Operating expenses	38	26	25	25
Profit after tax	31	25	24	24
Advances	35	36	32	30
Deposits	28	33	32	30
Total assets	30	26	27	27

Source: Company, Axis Capital

Note: Dividend for FY17 will be reflected in FY18's numbers due to change in reporting method

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