

April 26, 2018

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Rating	BUY
Price	Rs352
Target Price	Rs438
Implied Upside	24.4%
Sensex	34,714
Nifty	10,618

(Prices as on April 26, 2018)

Trading data

Market Cap. (Rs bn)	810.8
Shares o/s (m)	2,303.0
3M Avg. Daily value (Rs m)	4390.5

Major shareholders

Promoters	20.01%
Foreign	42.62%
Domestic Inst.	24.79%
Public & Other	12.58%

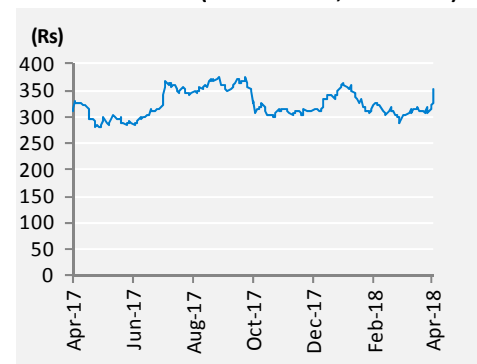
Stock Performance

(%)	1M	6M	12M
Absolute	16.2	6.1	11.4
Relative	11.2	1.4	(3.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	23.7	23.2	2.3
2020	30.2	29.7	1.4

Price Performance (RIC: YESB.BO, BB: YES IN)



Source: Bloomberg

Yes Bank's earnings were in-line with estimates with PAT of Rs11.8bn (PL:11.7bn) on back of strong NII growth, contained opex and lower provisioning. Strong loan growth of 54% YoY led by corporate & retail was a surprise, as bank increased its share amongst large & well rated corporate, but the loan growth was at the cost of yields leading to pressure on margins. Asset quality improved on the back of sale of assets to ARC and recoveries from the AQR NPAs. We believe, bank will continue to grow in corporate segment while seeing improved traction in retail with margin pressure only in near term. We expect the bank to deliver earnings of 27-28% CAGR over FY19-FY20, with limited asset quality issues. We maintain BUY with revised TP of Rs438 (up from Rs415) based on 2.9x Mar-20 ABV (rolled from Sep-19 ABV) and remains as one of our preferred pick.

■ **Strong NII and controlled opex helps PPOP:** Operating performance was led by strong NII growth of 31% YoY on the back of strong loan book growth. Also, opex was under control mainly from staff expenses which helped core PPOP growth of 34% YoY. Overall fees were slower on high base in some retail segments and slower corporate fees. Overall margins came off by 10bps QoQ to 3.4% but bank confident of moving towards 4.0% NIMs by FY20 on tailwinds from CASA growth and with further room for manoeuvring in the SA rate.

■ **Strong business growth:** Loan book grew by 54% YoY & 18% QoQ mainly from corporate which grew 54% YoY and has 68% mix in loan book, while core retail assets doubled from last year and mix improved to 12.2% from 11.8% qoq. Within corporates, incremental of loan growth has been towards A rated and above with some opportunities from resolution related bids and also improving penetration in other corporates as well. Within retail, all segments continued to grow with Home & vehicle loans dominating.

■ **Asset quality largely stable:** GNPA/NNPAs ratio came off by 40/30bps QoQ to 1.3%/0.6% on sale to ARC of Rs5.8bn and recoveries from the earlier slippages, while overall slippages were lower at Rs3.8bn. Overall stressed assets incl. SRs & RBI dispensations were down to 1.73% of assets v/s 2.41% in Q3FY18. Also stress from revised guidelines is minimal for now keeping credit cost in range of 50-70bps (we factor in 60bps of CC) which will keep asset quality stable.

Key financials (Y/e March)	2017	2018	2019E	2020E
Net interest income	57,973	77,371	99,385	128,629
Growth (%)	26.9	33.5	28.5	29.4
Operating profit	58,375	77,481	98,898	124,424
PAT	33,301	42,245	54,600	69,462
EPS (Rs)	15.2	18.4	23.7	30.2
Growth (%)	25.3	21.3	28.7	27.2
Net DPS (Rs)	2.3	2.7	4.0	5.0

Profitability & Valuation	2017	2018	2019E	2020E
NIM (%)	3.05	2.93	2.86	3.02
RoAE (%)	18.6	17.7	19.5	21.1
RoAA (%)	1.75	1.60	1.57	1.63
P / BV (x)	3.6	3.1	2.7	2.3
P / ABV (x)	3.8	3.3	2.8	2.3
PE (x)	23.2	19.1	14.8	11.7
Net dividend yield (%)	0.7	0.8	1.1	1.4

Source: Company Data; PL Research

Exhibit 1: Strong operating performance

	P&L (Rs million)	Q4FY18	Q4FY17	YoY chg.	Q3FY18	QoQ chg.
<i>NII growth remained strong on back of strong loan growth despite NIM pressure</i>	Interest Income	57,430	43,490	32.1	50,703	13.3
	Interest Expense	35,887	27,093	32.5	31,815	12.8
	Net interest income (NII)	21,542	16,397	31.4	18,888	14.1
<i>Fee income was slightly slower from fx and some segments of retail like TPP, branch banking on high base</i>	Other income	14,210	12,574	13.0	14,223	(0.1)
	Total income	35,752	28,971	23.4	33,111	8.0
	Operating expenses	14,398	12,061	19.4	13,093	10.0
	-Staff expenses	5,467	4,968	10.0	5,334	2.5
<i>Staff cost was withheld keeping overall expenses under control</i>	-Other expenses	8,931	7,093	25.9	7,759	15.1
	Operating profit	21,354	16,910	26.3	20,018	6.7
	Core operating profit	21,354	14,586	46.4	17,590	21.4
	Total provisions	3,996	3,097	29.0	4,213	(5.1)
	Profit before tax	17,358	13,813	25.7	15,805	9.8
	Tax	5,564	4,671	19.1	5,036	10.5
	Profit after tax	11,794	9,141	29.0	10,769	9.5
	Balance Sheet					
<i>Strong loan growth across segments and especially in corporate and retail book</i>	Deposits	20,07,382	14,28,739	40.5	17,17,314	16.9
	Advances	20,35,339	13,22,627	53.9	17,15,149	18.7
	Profitability ratios					
<i>Margin saw decline on back of yield pressure as loan mix remained skewed towards corporate</i>	Yield on Advances	9.9	10.7	(80)	9.8	10
	Cost of Deposits	6.0	6.3	(30)	6.0	-
	NIM	3.4	3.6	(20)	3.5	(10)
	RoAA	1.6	1.8	(20)	1.7	(10)
	RoAE	18.8	21.8	(300)	18.0	80
	Asset Quality					
<i>Asset quality improved on lower slippages and better recoveries from the AQR led NPAs, also helping improve PCR</i>	Gross NPL (Rs m)	26,268	20,186	30.1	29,743	(11.7)
	Net NPL (Rs m)	13,128	10,723	22.4	15,951	(17.7)
	Gross NPL ratio	1.3	1.5	(24)	1.7	(44)
	Net NPL ratio	0.6	0.8	(17)	0.9	(29)
	Coverage ratio	50.0	46.9	315	46.4	365
	Business & Other Ratios					
<i>Bank continued to hold its CASA ratio</i>	CASA mix	36.5	36.3	20	38.0	(150)
	Cost-income ratio	40.3	41.6	(136)	39.5	73
	Non int. inc / total income	39.7	43.4	(366)	43.0	(321)
	Credit deposit ratio	101.4	92.6	882	99.9	152
	CAR	18.4	17.0	140	19.5	(110)
	Tier-I	13.2	13.3	(10)	14.7	(150)

Source: Company Data, PL Research

Q4FY18 Concall Highlights:

Balance Sheet outlook:

- **Advances** – Strong growth in loan book of 54% YoY led by corporate & retail. **Outlook:** Grow loan book at 30% in FY19 & FY20 as well. Govt spending & economic improvement has happened and also opportunities from NCLT based recoveries is helping to grow with large corporates, focus on SME and retail penetration improving.
- Have completed three years in the large bank phase started in April 2015 and have two more years to continue in the growing large corporate book. 80% of corporate exposure remains rated A & Above.
- Have \$2.8bn exposure from the IBU with Rs \$2.2bn to Indian corporates having foreign subs and catering to NRIs domiciled outside India but having assets in India.
- **Liabilities** – CASA growth continued to be robust and was led by strong CA growth. **Outlook:** Bank targets CASA ratio to be 40% by FY19 with +40% growth targeted in FY19 and also focus on growing the retail granular deposits which was difficult in FY18.

Margins:

- Margins were slightly under pressure given the sacrifice in yields on opportunity in the corporate lending. **Outlook:** Margins could be stable/under pressure for 1-2 quarters but is on track to reach 4% NIM by FY20 on back of CASA improvement and SA rate.

Fees:

- Corporate fees were strong on robust growth, while some part of retail fees were slower on high base last year but should start contributing on fees in FY19.

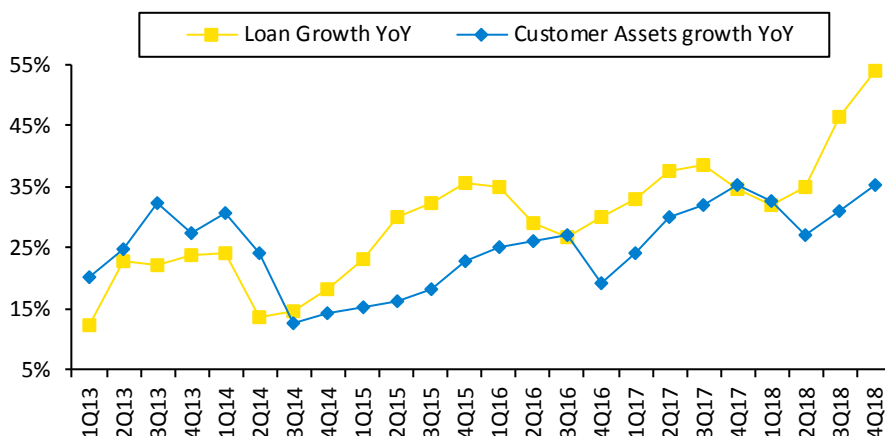
Asset quality:

- **Slippages and Recoveries** – Bank witnessed gross slippages of Rs3.8bn of which Rs2.9bn from corporate & Rs600mn from retail & SME and Rs290 on failed SDR. Sold Rs5.8bn of loan assets to ARC with SR value of Rs1.79bn (36% of sale value) which were from H2FY18 NPAs. Also recovered Rs552mn in SRs and expects 30-40% of SRs of Rs18.8bn to be recovered in next 12 months.
- **Credit Cost** – Bank reported was 13bps in Q4FY18 (52bps annualized) and 76bps in FY18, within guidance. **Outlook:** Bank maintained guidance of 50-70bps in FY19 and bank targets to take PCR to 60% by H2FY19 exit.
- **Impact of RBI's revised guidelines** – Bank's exposure towards delay in implementation of resolution plan and trigger to NCLT has Rs2.8bn exposure in Rs20-50bn category of borrower exposure, but has no exposure in higher or lower categories.

Capital Efficiency:

- Risk weighted assets grew by 37.0% YoY v/s loans book growth of 54% YoY leading to better capital efficiency.

Exhibit 2: Extremely strong loan growth across segments



Source Company Data, PL Research

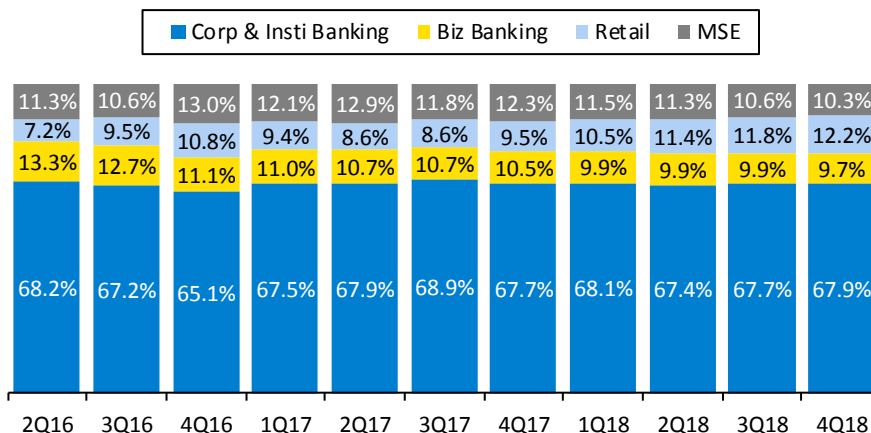
Exhibit 3: Segmental Mix of Loans

Advances Break-up	Q4FY18	Q4FY17	YoY chg.	Q3FY18	QoQ chg.
Corporate Banking	13,81,995	8,95,418	54.3	11,61,156	19.0
Commercial Banking	6,53,344	4,27,208	52.9	5,53,993	17.9
Branch Banking	1,97,428	1,38,876	42.2	1,69,800	16.3
Retail	2,48,311	1,25,650	97.6	2,02,388	22.7
MSE	2,09,640	1,62,683	28.9	1,81,806	15.3
Total	20,35,339	13,22,627	53.9	17,15,149	18.7

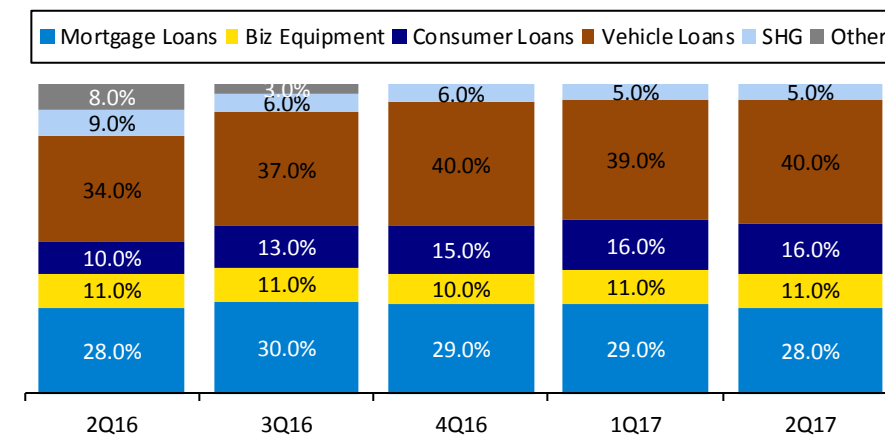
Source: Company Data, PL Research

Exhibit 4: Corporate and Core retail book mix improves

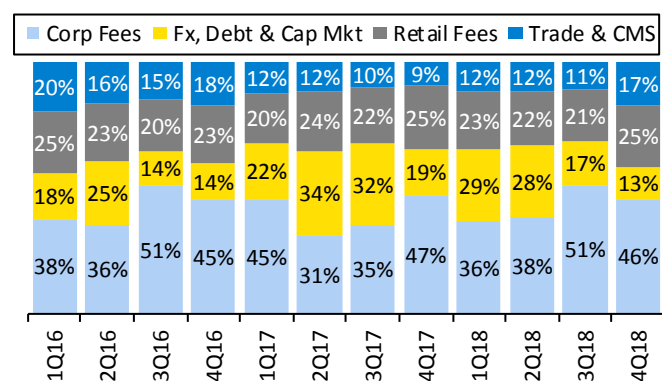
Corporate mix continued to be in-line with trends but retail mix has been slowly seeing mix improvement adding 400bps QoQ to now 12.2% of loans



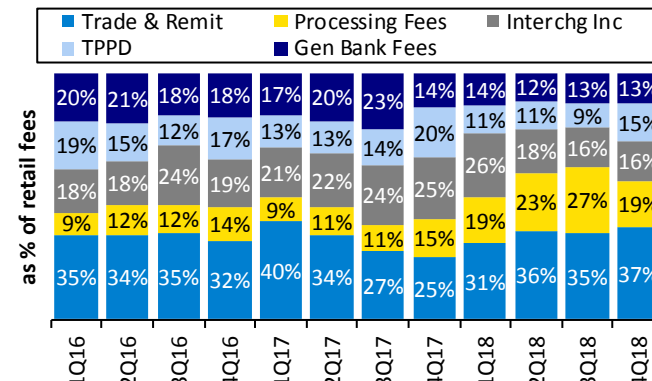
Source: Company Data, PL Research

Exhibit 5: Retail Loan break-up home loans & auto loans dominate


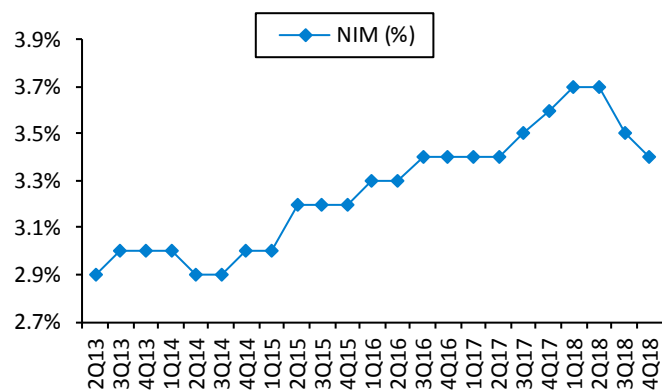
Source: Company Data, PL Research

Exhibit 6: Corporate banking fees continue lead fees


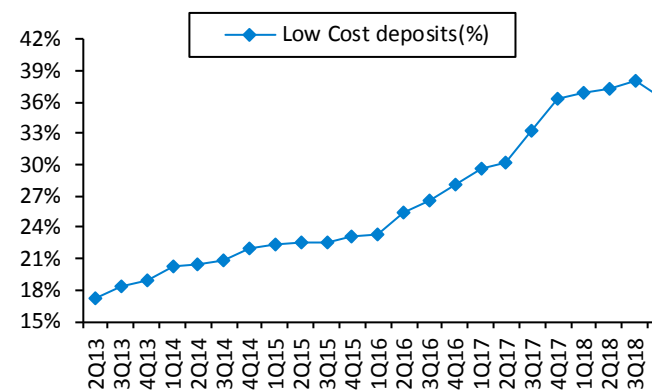
Source: Company Data, PL Research

Exhibit 7: Retail fees was slower on high base of last year


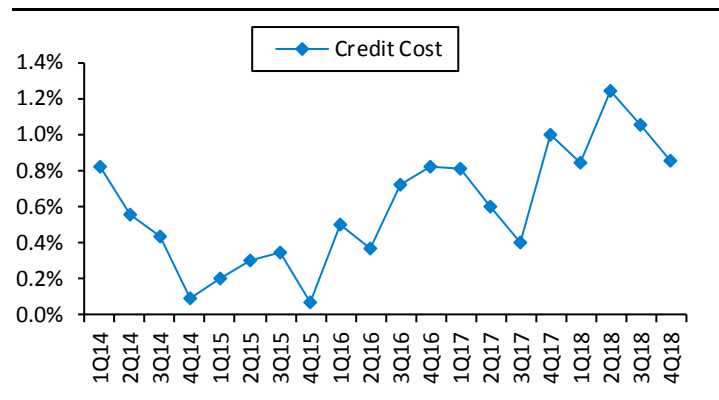
Source: Company Data, PL Research

Exhibit 8: Margins declined sequentially as yield came off on mix change towards high rated corporates


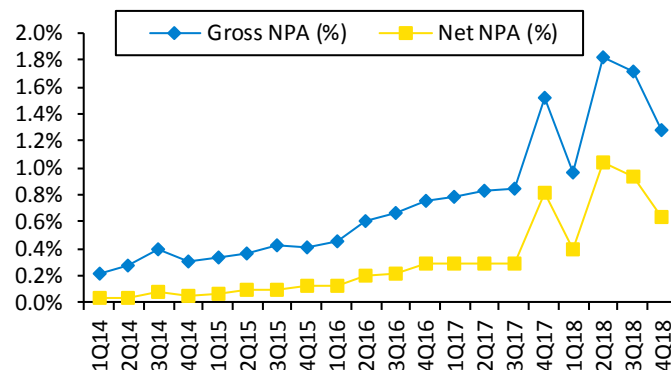
Source: Company Data, PL Research

Exhibit 9: CASA continues to be robust with stable mix in deposits


Source: Company Data, PL Research

Exhibit 10: Credit cost was lower on back of lower slippages, ARC sale and recoveries


Source: Company Data, PL Research

Exhibit 11: Asset quality improved on ARC sale & recoveries


Source: Company Data, PL Research

Exhibit 12: RoAE tree - Return ratios on strong trajectory

RoAE decomposition (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	9.51	9.60	9.59	9.44	8.98	8.64	7.68	7.81	7.99
Interest expenses	7.07	7.03	6.98	6.59	5.95	5.59	4.75	4.95	4.96
Net interest income	2.44	2.57	2.61	2.85	3.03	3.05	2.93	2.86	3.02
Treasury income	0.10	0.26	0.35	0.06	0.22	0.43	0.47	0.25	0.22
Other Inc. from operations	1.19	1.20	1.30	1.61	1.58	1.76	1.51	1.61	1.62
Total income	3.73	4.02	4.26	4.51	4.83	5.23	4.91	4.72	4.86
Employee expenses	0.72	0.76	0.75	0.80	0.86	0.95	0.83	0.77	0.77
Other operating expenses	0.69	0.79	0.93	1.06	1.11	1.22	1.15	1.10	1.16
Operating profit	2.32	2.48	2.58	2.65	2.85	3.07	2.94	2.85	2.92
Tax	0.71	0.72	0.68	0.74	0.81	0.42	0.59	0.47	0.45
Loan loss provisions	0.14	0.25	0.35	0.28	0.36	0.90	0.75	0.81	0.84
RoAA	1.47	1.51	1.55	1.64	1.68	1.75	1.60	1.57	1.63
RoAE	23.07	24.81	25.02	21.33	19.94	18.58	17.67	19.55	21.12

Source: Company Data, PL Research

Exhibit 13: Estimates change table

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NII	1,01,626	1,29,205	99,385	1,28,629	(2.2)	(0.4)
Operating profit	98,960	1,20,838	98,898	1,24,424	(0.1)	3.0
Net profit	55,288	69,532	54,602	69,464	(1.2)	(0.1)
EPS (Rs)	24.1	30.3	23.7	30.2	(1.7)	(0.6)
ABVPS (Rs)	125.0	149.7	126.6	150.1	1.3	0.3
Price target (Rs)	415		438		5.6	
Recommendation	BUY		BUY			

Source: Company Data, PL Research

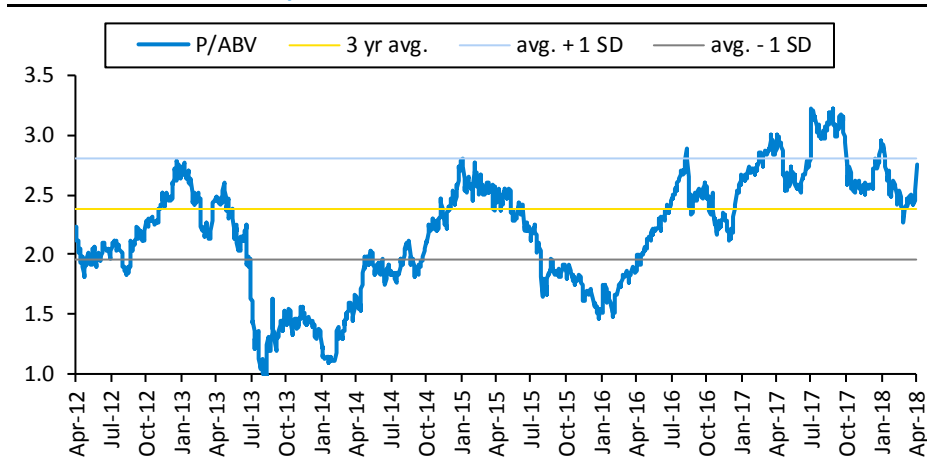
We slightly tweak our estimates on yields, opex & slightly increase credit cost assumptions and we have largely unchanged business growth assumptions

Exhibit 14: We revise our PT to Rs438 (from Rs415) based on 2.9x Mar-20 P/ABV (rolled from Sep-19 ABV)

PT calculation and upside	
Fair price - EVA, Rs	435
Fair price - P/ABV, Rs	442
Average of the two, Rs	438
Target P/ABV (x)	2.9
Target P/E (x)	14.5
Current price, Rs	352
Upside (%)	24.5%
Dividend yield (%)	0.7%
Total return (%)	25.2%

Source: Company Data, PL Research

Exhibit 15: Yes Bank – One year forward P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Int. Earned from Adv.	122,098	154,782	215,339	279,014
Int. Earned from Inv.	37,968	41,025	51,900	56,754
Others	4,180	6,867	4,044	4,114
Total Interest Income	164,246	202,674	271,284	339,883
Interest expense	106,273	125,304	171,899	211,254
NII	57,973	77,371	99,385	128,629
Growth (%)	26.9	33.5	28.5	29.4
Treasury Income	7,113	10,948	6,900	7,000
NTNII	34,455	41,290	57,614	71,062
Non Interest Income	41,568	52,238	64,514	78,062
Total Income	205,814	254,913	335,798	417,945
Growth (%)	26.7	23.9	31.7	24.5
Operating Expense	41,165	52,128	65,001	82,267
Operating Profit	58,375	77,481	98,898	124,424
Growth (%)	35.7	32.7	27.6	25.8
NPA Provisions	6,634	13,825	14,044	16,590
Investment Provisions	522	—	—	—
Total Provisions	7,934	15,538	16,167	19,176
PBT	50,441	61,943	82,730	105,248
Tax Provisions	17,140	19,699	28,130	35,786
Effective Tax Rate (%)	34.0	31.8	34.0	34.0
PAT	33,301	42,245	54,600	69,462
Growth (%)	31.1	26.9	29.2	27.2

Balance Sheet (Rs m)

Y/e March	2017	2018	2019E	2020E
Par Value	2	2	2	2
No. of equity shares	2,282	2,303	2,303	2,303
Equity	4,565	4,606	4,606	4,606
Networth	220,541	257,583	301,098	356,702
Adj. Networth	209,818	244,455	286,399	339,749
Deposits	1,428,739	2,007,382	2,509,227	3,136,534
Growth (%)	27.9	40.5	25.0	25.0
Low Cost deposits	518,697	731,762	933,432	1,179,337
% of total deposits	36.3	36.5	37.2	37.6
Total Liabilities	2,150,599	3,124,456	3,825,213	4,685,498
Net Advances	1,322,627	2,035,339	2,645,940	3,386,803
Growth (%)	34.7	53.9	30.0	28.0
Investments	500,318	683,989	776,143	820,545
Total Assets	2,150,600	3,124,456	3,825,213	4,685,498

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Interest Income	46,538	48,003	50,703	57,430
Interest Expense	28,449	29,153	31,815	35,887
Net Interest Income	18,089	18,851	18,888	21,542
Non Interest Income	11,322	12,484	14,223	14,210
CEB	6,697	7,486	10,131	9,913
Treasury	3,221	3,518	2,428	1,781
Net Total Income	29,411	31,335	33,111	35,752
Operating Expenses	12,369	12,269	13,093	14,398
Employee Expenses	5,461	5,628	5,334	5,467
Other Expenses	6,908	6,641	7,759	8,931
Operating Profit	17,042	19,067	20,018	21,354
Core Operating Profit	13,821	15,549	17,590	19,573
Provisions	2,858	4,471	4,213	3,996
Loan loss provisions	2,526	—	—	—
Investment Depreciation	12	—	—	—
Profit before tax	14,184	14,596	15,805	17,358
Tax	4,529	4,569	5,036	5,564
PAT before EO	9,655	10,027	10,769	11,794
Extraordinary item	—	—	—	—
PAT	9,655	10,027	10,769	11,794

Key Ratios

Y/e March	2017	2018	2019E	2020E
CMP (Rs)	352	352	352	352
Equity Shrs. Os. (m)	2,282	2,303	2,303	2,303
Market Cap (Rs m)	803,529	810,754	810,754	810,754
M/Cap to AUM (%)	37.4	25.9	21.2	17.3
EPS (Rs)	15.2	18.4	23.7	30.2
Book Value (Rs)	97	112	131	155
Adj. BV (100%) (Rs)	94	108	127	150
P/E (x)	23.2	19.1	14.8	11.7
P/BV (x)	3.6	3.1	2.7	2.3
P/ABV (x)	3.8	3.3	2.8	2.3
DPS (Rs)	2.3	2.7	4.0	5.0
Dividend Yield (%)	0.7	0.8	1.1	1.4

Profitability (%)

Y/e March	2017	2018	2019E	2020E
NIM	3.0	2.9	2.9	3.0
RoAA	1.8	1.6	1.6	1.6
RoAE	18.6	17.7	19.5	21.1

Efficiency

Y/e March	2017	2018	2019E	2020E
Cost-Income Ratio (%)	41.4	40.2	39.7	39.8
C-D Ratio (%)	92.6	101.4	105.4	108.0
Business per Emp. (Rs m)	206	263	291	321
Profit per Emp. (Rs lacs)	24.9	27.5	30.9	34.1
Business per Branch (Rs m)	2,516	2,957	3,017	3,054
Profit per Branch (Rs m)	30	31	32	33

Asset Quality

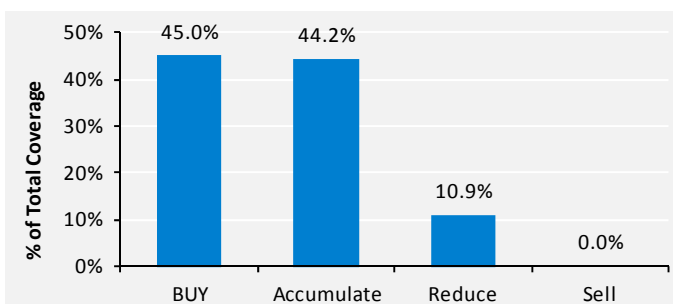
Y/e March	2017	2018	2019E	2020E
Gross NPAs (Rs m)	20,186	26,268	33,341	42,865
Net NPAs (Rs m)	10,723	13,128	14,698	16,953
Gr. NPAs to Gross Adv. (%)	1.5	1.3	1.3	1.3
Net NPAs to Net Adv. (%)	0.8	0.6	0.6	0.5
NPA Coverage (%)	46.9	50.0	55.9	60.4

Source: Company Data, PL Research.

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Rating Distribution of Research Coverage**PL's Recommendation Nomenclature**

BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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We/I, Mr. R. Sreesankar (B.Sc.), Mr. Pritesh Bumb (MBA, M.com), Ms. Shweta Daptardar (MBA-Finance), Ms. Vidhi Shah (CA), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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