RESULT UPDATE

YES BANK

A mixed bag

India Equity Research | Banking and Financial Services

Yes Bank reported a mixed bag in Q1FY19—while core operating performance was strong, moderating NII growth and higher provisions proved to be dampeners. Key positives: 1) robust and broad-based loan growth momentum (>50% YoY) with RWA/Asset improving to 81.6% (86.6% in FY17), which is a credible showing in our view; and 2) 'retailisation' momentum (CASA at >35%, retail/business banking up >50% and retail fees up >28% QoQ) sustained. Key factors to watch out for: a) slippages higher at 1.1% (with >55% arising from one account; excluding this, slippages were below trend); b) while credit cost was curtailed at 15bps, higher investment depreciation (INR920mn; the bank used RBI dispensation) fed into higher provisions. We maintain the thesis that despite noise on asset quality, the bank's strengths – loan underwriting and long-term business momentum (retailisation) – will aid it post best-in-class return ratios. Maintain 'BUY'.

Loan growth surprises positively; NIM tailwind in sight

Loan growth shot up >53% YoY/>5% QoQ with broad-based improvement—corporate book rose >50% supported by traction in IBU, retail book more than doubled (and now forms 14% of advances) and SME grew >30%. Market opportunities in NCLT refinancing, telecom and tourism too helped sustain the growth trajectory. But, lower NIMs restricted NII growth (at 23%). We expect NIM to improve hereon as: a) repricing benefit flows through; b) exponential IBU growth normalises; and c) self-reliance on PSL book rises.

Slippages tad higher; investment depreciation impact earnings

Slippages were a tad higher at INR5.6bn, with INR3.15bn attributable to just one account that management expects to recover fully supported by liquid/marketable securities. Excluding this, slippages were much below trend. Meanwhile, provisions rose as the bank increased coverage to 55.3% (in line with its guidance to raise them to 60% by H1FY19) and higher investment depreciation (INR927mn as the bank used RBI dispensation; INR2.7bn over rest of FY19). This quarter too saw redemption from SRs (INR1bn) in line with management expectation of 30–40% redemptions/recoveries by H1FY19.

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

We believe, bank's commendable retailisation and higher-than-historical average growth will support strong earnings momentum. At CMP, the stock is trading at 2.5x FY20E P/ABV, attractive for a bank that has delivered >30% EPS CAGR in the past five years and is estimated to clock >30% ÇAGR over FY18–20. Maintain **'BUY/SO'** with TP of INR453.

Financials **(INR mn)**

Year to March	Q1FY19	Q1FY18	*Growth %*	Q4FY18	*Growth %*	FY18	FY19E	FY20E
Net revenue	39,133	29,411	*33.1*	35,752	*9.5*	1,29,623	1,64,294	2,08,019
Net profit	12,604	9,655	*30.5*	11,794	*6.9*	42,260	53,464	71,996
Dil. EPS (INR)	5.4	4.1	*30.5*	5.1	*6.5*	18.4	23.2	31.3
Adj. BV (INR)						107.9	125.3	150.4
Price/ Adj book (x)						3.4	3.0	2.5
Price/ Earnings (x)						20.1	15.9	11.8

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 370
Target Price	: INR 453
52-week range (INR)	: 394 / 285
Share in issue (mn)	: 2,305.7
M cap (INR bn/USD mn)	: 853 / 11,398
Avg. Daily Vol.BSE/NSE('000)	: 12,926.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	20.0	20.0	20.0
MF's, FI's & BK's	24.8	24.8	23.8
FII's	42.6	42.6	43.2
Others	12.6	12.6	12.9

** Promoters pledged shares (% of share in issue) : 1.0*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	18.6	2.3	0.7
3 months	23.2	3.7	5.2
12 months	24.9	10.7	8.1

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Table 1: Summary of Q1FY19 results

(INR mn)	Q1FY19	Q1FY18	*Growth (%)*	Q4FY18	*Growth (%)*	*Comments*
Net interest income	22,191	18,089	*22.7*	21,542	*3.0*	*Gaining impetus from strong loan growth but softer NIMs restricts NII growth. We expect NIMs to sustain/improve following: a) repricing benefit flows through; b) exponential IBU growth normalises; and c) self-reliance on PSL book rises.*
Other income	16,941	11,322	*49.6*	14,210	*19.2*	
Operating expenses	14,586	12,369	*17.9*	14,398	*1.3*	
Staff expense	5,906	5,461	*8.2*	5,467	*8.0*	
Other opex	8,680	6,908	*25.6*	8,931	*(2.8)*	
Pre prov profit (PPP)	24,547	17,042	*44.0*	21,354	*15.0*	
Provisions	6,257	2,858	*118.9*	3,996	*56.6*	*Credit Cost at 15 bps for Q1FY19 but higher investment depriciation kept provisions elevated*
Profit before tax	18,291	14,184	*29.0*	17,358	*5.4*	
Provision for tax	5,687	4,529	*25.6*	5,564	*2.2*	
Profit after tax	12,604	9,655	*30.5*	11,794	*6.9*	
EPS (INR)	5.4	4.1	*30.5*	5.1	*6.5*	
Balance sheet data (INR bn)						
Advances	2,147	1,400	*53.4*	2,035	*5.5*	*Loan growth registered strong growth mometum, largely broadbased in nature*
Deposits	2,134	1,502	*42.0*	2,007	*6.3*	
CD ratio	101	93		101		
Asset quality (INR mn)						
Gross NPA	28,245	13,644	*107.0*	26,268	*7.5*	
Gross NPA (%)	1.3	1.0		1.3		*Slippages were a tad higher at INR5.6bn, with INR3.15bn attributable to just one account that management expects to recover fully supported by liquid/marketable securities. Excluding this, slippages were much below trend*
Net NPA	12,626	5,453	*131.5*	13,128	*(3.8)*	
Net NPA (%)	0.6	0.4		0.6		
Provision coverage (%)	55.3	60.0		50.0		
Restructured book	0.1	0.2		0.2		
Overall stress pool	1.4	1.2		1.4		*Overall stress pool (GNPLs plus restructured book) declined to 1.4%*

Source: Company, Edelweiss research

Table 2: Advances clock strong YoY growth of >53% YoY; CASA ratio at >35%

	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Advances (INR mn)	10,59,420	11,02,162	11,70,870	13,22,627	13,99,718	14,86,753	17,15,149	20,35,339	21,47,201
Advances growth Q-o-Q (%)	7.9	4.0	6.2	13.0	5.8	6.2	15.4	18.7	5.5
Advances growth Y-o-Y (%)	33.0	37.6	38.7	34.7	32.1	34.9	46.5	53.9	53.4
Deposits (INR mn)	12,25,811	12,80,238	13,23,758	14,28,739	15,02,409	15,79,898	17,17,314	20,07,382	21,33,945
Deposit growth Q-o-Q (%)	9.7	4.4	3.4	7.9	5.2	5.2	8.7	16.9	6.3
Deposit growth Y-o-Y (%)	28.6	28.9	30.5	27.9	22.6	23.4	29.7	40.5	42.0
CD ratio (%)	86.4	86.1	88.5	92.6	93.2	94.1	99.9	101.4	100.6
CASA (%)	29.6	30.3	33.3	36.3	36.8	37.2	38.0	36.5	35.1

Source: Company

Table 3: Loan growth broad-based, driven by both corporate and retail banking

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Corporate Banking	67.5	67.9	68.9	67.7	68.1	67.4	67.7	67.9	67.6
Retail & Business Banking	32.5	32.1	31.1	32.3	31.9	32.6	32.3	32.1	32.4

Source: Company

Table 4: Fee income sustains traction

(%)	Q417	Q118	Q218	Q318	Q418	Q119
Corporate Trade & Cash Management	9.4	11.9	11.6	10.9	17.0	12.8
Forex, Debt Capital Markets & Securities	18.5	28.4	28.3	17.2	12.6	27.2
Corporate Banking Fees	46.6	36.2	38.3	51.3	45.7	40.3
Retail Banking Fees	24.9	22.8	21.8	20.6	24.6	19.7
Recovery from Write Offs	0.6	0.7	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company

Table 5: Non-interest income accounts for >40% of net revenue

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Non-interest inc. growth Q-o-Q	12.2	2.4	10.3	23.7	(10.0)	10.3	13.9	(0.1)	19.2
Non interest income/Net revenue	40.6	39.5	40.6	43.4	38.5	39.8	43.0	39.7	43.3

Source: Company

Table 6: NIM declines 10bps QoQ; tailwinds intact

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Spreads	4.1	4.1	4.3	4.4	4.2	4.1	3.8	3.9	3.7
NIM	3.4	3.4	3.5	3.6	3.7	3.7	3.5	3.4	3.3
COF	7.0	6.8	6.6	6.3	6.2	6.1	6.0	6.0	6.3
YoA	11.1	10.9	10.9	10.7	10.4	10.2	9.8	9.9	10.0

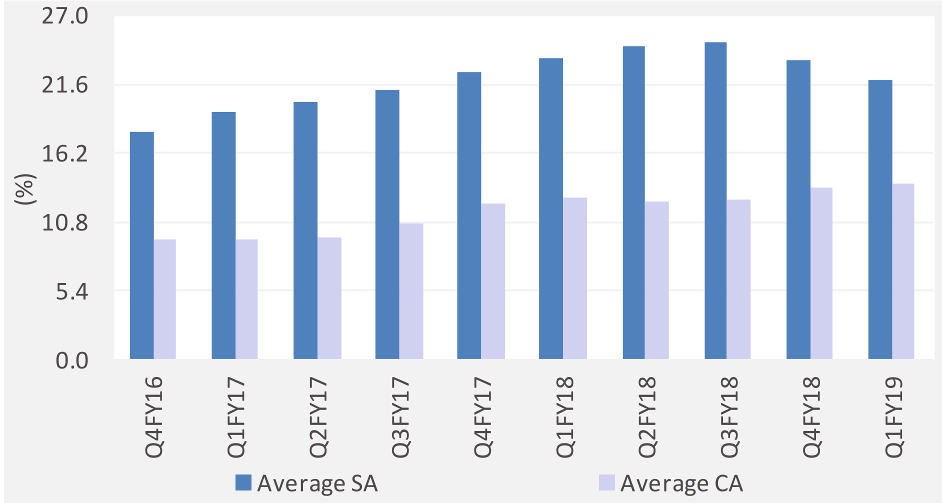
Source: Company

Table 7: Tier I ratio at 12.8%

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Tier-I	10.3	10.1	12.2	13.3	13.8	13.2	14.7	13.2	12.8
Tier-II	4.8	4.0	3.4	3.7	3.3	3.8	4.8	5.2	4.1

Source: Company

Chart 1: Strong traction in SA balances feeds into CASA ratio at > 35%



Source: Company

Table 8: Corporate banking rating breakdown

% of total exposures	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
AAA	20.9	20.8	19.7	22.0	23.2	22.2
AA	15.6	14.0	14.8	13.4	13.3	13.5
A	39.6	41.6	41.1	42.8	42.9	43.2
BBB	21.8	21.8	21.5	19.0	18.5	18.7
BB and below	2.1	1.8	2.9	2.8	2.1	2.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company

Financial snapshot **(INR mn)**

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Interest income	65,780	46,538	*41.3*	57,430	*14.5*	202,675	272,755	342,629
Interest exp	43,589	28,449	*53.2*	35,887	*21.5*	125,304	175,931	218,995
Net int. inc. (INR mn)	22,191	18,089	*22.7*	21,542	*3.0*	77,372	96,824	123,634
Other income	16,941	11,322	*49.6*	14,210	*19.2*	52,251	67,470	84,385
Net revenues	39,133	29,411	*33.1*	35,752	*9.5*	129,623	164,294	208,019
Operating expenses	14,586	12,369	*17.9*	14,398	*1.3*	52,128	62,812	75,678
Staff expense	5,906	5,461	*8.2*	5,467	*8.0*	21,889	26,044	31,616
Other opex	8,680	6,908	*25.6*	8,931	*(2.8)*	30,239	36,767	44,062
Pre prov op profit(ppop)	24,547	17,042	*44.0*	21,354	*15.0*	77,495	101,482	132,341
Provisions	6,257	2,858	*118.9*	3,996	*56.6*	15,538	22,276	25,680
Profit before tax	18,291	14,184	*29.0*	17,358	*5.4*	61,957	79,206	106,661
Provision for taxes	5,687	4,529	*25.6*	5,564	*2.2*	19,697	25,742	34,665
PAT	12,604	9,655	*30.5*	11,794	*6.9*	42,260	53,464	71,996
Diluted EPS (INR)	5.4	4.1	*30.5*	5.1	*6.5*	18.4	23.2	31.3
Ratios								
NII/GII (%)	33.7	38.9		37.5		38.2	35.5	36.1
Cost/income (%)	37.3	42.1		40.3		40.2	38.2	36.4
Tax rate (%)	31.1	31.9		32.1		31.8	32.5	32.5
Bal. sheet data (INRbn)								
Advances	2,147	1,400	*53.4*	2,035	*5.5*	2,035	2,646	3,360
Deposits	2,134	1,502	*42.0*	2,007	*6.3*	2,007	2,643	3,405
Asset quality								
Gross NPA	28,245	13,644	*107.0*	26,268	*7.5*	26,268	39,559	56,843
Gross NPA (%)	1.3	1.0		1.3		1.3	1.5	1.7
Net NPA	12,626	5,453	*131.5*	13,128	*(3.8)*	13,128	17,038	19,049
Net NPA (%)	0.6	0.4		0.6		0.6	0.6	0.6
Provision coverage (%)	55.3	60.0		50.0		50.0	56.9	66.5
B/V per share (INR)						111.8	130.4	156.2
Adj book value / share						107.9	125.3	150.4
Price/ Adj. book (x)						3.4	3.0	2.5
Price/ Earnings						20.1	15.9	11.8

Q1FY19 earnings call takeaways

With respect to NIMs

- ***NIMs declined 10 bps to 3.3% due to few headwinds – all headwinds have now been largely expressed in current quarter & now on benefits will flow through.*** Repricing duration of loan book is 6 months to 1 year and fair amount of repricing would aggregate in Q2 & Q3. 85% of corporate book is MCLR linked which will get re-priced upwards and base rate linked loans will be neutral to positive bias going forward.
- It ***expects 25-30 bps rise in loan yields*** which will be reflected in NIMs as well in steady state scenario.
- Yields neutral on consumer and corporate side at this juncture – it will go up post 2020. It is not following yield oriented strategy as of now.
- ***Exponential growth in IBU book (crossed USD 2.8 bn growing 219% YoY) should normalize*** to overall balance sheet growth and negative drag on NIMs due to growth in this book will also reduce.

With respect to growth

- Loan growth was robust as 53% YoY/ 5.5% QoQ – corporate book has grown by >50% YoY, retails has more than doubled (now forming 14% of advances) and SME growing at >30%. ***Iron & steel – involved in refinancing of one of the NCLT cases. Opportunities were seen in telecom (up QoQ from 2.2% to 3.3%) & tourism sector.***
- Retail has contributed 47% in the incremental growth. In retail, ***growth in vehicle & equipment sector. Incrementally no buy-outs and everything is internally generated.***
- CIBIL highlighted its book is one of the best in the industry with respect to underwriting as well as performance.
- ***RWA/assets remained at 81.6% - consumption of Core equity Tier 1 reduced to 9.5% due to charge on operational risk***.

With respect to asset quality

- ***Gross slippages at INR 5.6 bn of which INR 3.15 bn is expected to be fully recovered*** by Q2FY19 (by marketable securities).
- Against this addition, INR 1.8 bn of one of the NCLT cases was resolved and INR 1.03 bn of SRs redeemed (in line with bank's expectations of redemptions/recoveries of 30-40%). Write-off INR 1.3 bn which was the part of NCLT process.
- Total stressed book (NNPLs + SRs + std restructured assets) declined QoQ to 1.52% from 1.73%
- ***Provisions breakup*** – INR 3.8 bn NPLs provisions of which 1.8 bn was towards increase in provisioning coverage; INR 927 mn of MTM hit on bonds (INR 2.7 bn MTM losses amortised as per RBI's dispensation); INR 213 mn of provisioning against country risk
- With movement in yield post Q1FY19, it has already witnessed a gain of INR 800-1000 mn out of unamortised amount.

With respect to borrowing profile

- Borrowings are more a compulsion than choice and hence intake of deposits has reduced – entire IBU book is borrowing funded and long term. Incremental borrowings largely include INR 200 bn of IBU borrowings, INR 70-80 bn of refinancing borrowings (NABARD, SIDBI etc) of 3-5 years tenor at 4%

- Growth has come quickly in Q3 & Q4 and retail deposits doesn't respond so quick – so it will average out over next 3-4 quarters.
- AT-1 and Tier 2 are raised from funding strategy point of view – though expensive but longer term

With respect to ICA

- Inter Creditors agreement – 12th Feb circular clearly laid down what kind of companies can be taken to NCLT abolishing JLF. ICA is a welcome move for resolving larger cases.

With respect to fee income

- Within fee income, INR 4.6 bn of forex, DCM & securities include INR 700 mn is from redemption of SRs; INR 1 bn of gain from one-time reshuffle in investment portfolio. DCM transactions were very few and not much booked of this nature in Q1FY19.

With respect to cost/income

- ***Cost/income improved to 37.3% . Cost intensity in physical branches coming down with improved productivity.*** However, average cost/income should be more like 39%. Burst of branch growth is behind now and will not add rampantly – but will add 10-15% branches annually.

Q4FY18 earnings call takeaways

With respect to asset quality

- Gross NPA has improved from 1.72% to 1.28% sequentially and NNPA from 0.93% to 0.64%. Net credit cost came in at 76bps well within the guidance given earlier. ***Bank will look to have the credit cost within 50-70bps for FY19.***
- ***Bank expects to attain PCR of 60% by September 2018***
- ***Expectation of 35-40% recovery in the INR19bn worth of SRs in FY19***
- ***No RBI dispensation relief taken on NCLT accounts (40% provisioning). Total current provisioning still stands at 50% for NCLT-1.***
- ***No immediate impact of the Feb 12 circular of the RBI. The bank has only INR2.8bn exposure in the range of INR20bn-INR50bn while no exposure to accounts >INR50bn.***

With respect to growth

- Was a year of milestones with total assets crossing INR3tn, loans crossing INR2tn and deposits crossing INR2tn. International assets through IBU stood at USD2.5bn.
- ***The bank will look to grow around 30% in both FY19 and FY20.*** This will be driven by – 1) somewhat coming back of corporate capex; 2) public spending seeing green shoots; and 3) some of the choked assets seeing the light of the day. ***Endeavour will be to also simultaneously grow profits at 25-27%.***

With respect to operational metrics

- PAT came in at INR11.8bn, an increase of 29% YoY on the back of robust delivery in fee income. ***Some components of the fee income like retail fees have attained the pre GST and demon levels.***
- NIMs were flattish at 3.4% for the quarter and for the full year was at 3.5% versus 3.4% for the previous fiscal. ***Focus intensely on CASA growth to reach 40% by FY19 (advanced by a year from FY20). At some stage in the next 2 years the bank may unlock embedded stored value with respect to the interest rate of 6% versus a 3.5% offered by other competitors. This in itself will have a positive impact of 35-40bps on the NIMs.***
- Cost to income ratio came in at 40.2% for the year versus 41.4%. ***Digitization will help to further improve this metric in the medium term (2 years) to a level below 40%.***
- Dividend payout ratio was at 17%, within the guidance of 20% given earlier.

Other highlights

- MTN raised this year (offshore book) was at 5 yr treasury plus 130bps USD2.8bn (funded book loan is USD2.2bn). The book mostly comprises of Indian corporates(lending for international operations) and others include prime NRI houses based out of Abu Dhabi and London etc.
- ***Slippages came in at INR3.8bn composition of which is INR2.9bn Corporate, INR0.6bn Retail and SME, INR0.3bn failed SDR***
- Asset composition -> AAA- 23.2%, AA-13.3%, A-45.0%, BBB-18.5%, Below IG – 2.2%. ***New book RWA intensity would be only 68% versus a 86% on the existing book.***
- ***Total provisioning: INR-3,996mn comprising of INR1,740mn for NPA, INR1,050mn for ARC/NPI (ARC-INR880mn), INR60mn for UHE and INR150mn for GLL***

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 has market cap of INR853bn and balance sheet of ~INR3.3tn. At the end of Q1FY19, the bank had a branch network of 1,105 and CASA ratio of >35%. Corporate lending accounts for 67.6% of advances and commercial/retail 32.4%

Investment Theme

Yes Bank is one of the few private sector banks that boast product depth, sustainable competitive edge and strong growth. It has demonstrated the ability to navigate challenging times (interest risk – July 13 + economic moderation) with limited impact on the earnings profile while delivering best-in-class return ratios. Benefits of granularity in business model (retail – fees, liability) coupled with a gradual improvement in the macroeconomic environment (absence of asset quality baggage) imply the bank is well placed to capitalize on the opportunity.

Key Risks

Any blip in CASA traction at this point of time when most peers are banking on their franchise network is key downside risk.

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

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Op. metric assump. (%)				
Yield on advances	10.6	9.2	9.3	9.1
Yield on investments	7.7	7.0	6.9	6.9
Yield on asset	9.2	8.1	8.1	8.1
Cost of funds	6.2	5.2	5.4	5.4
Net interest margins	3.2	3.1	2.9	2.9
Cost of deposits	6.4	5.5	4.9	5.0
Cost of borrowings	6.9	5.5	7.8	7.7
Spread	3.0	2.9	2.7	2.7
Tax rate (%)	34.0	31.8	32.5	32.5
Balance sheet assumption (%)				
Credit growth	34.7	53.9	30.0	27.0
Deposit growth	27.9	40.5	31.7	28.8
SLR ratio	19.6	17.9	19.0	19.0
Low-cost deposits	36.3	36.5	39.5	41.5
Gross NPA ratio	1.5	1.3	1.5	1.7
Net NPA / Equity	4.9	5.1	5.7	5.3
Capital adequacy	17.0	18.4	17.7	17.0
Incremental slippage	2.7	6.2	2.5	2.5
Provision coverage	46.9	50.0	56.9	66.5

Income statement **(INR mn)**

Year to March	FY17	FY18	FY19E	FY20E
Interest income	164,247	202,675	272,755	342,629
Interest expended	106,273	125,304	175,931	218,995
Net interest income	57,974	77,372	96,824	123,634
Non interest income	41,568	52,251	67,470	84,385
- Fee & forex income	32,419	43,695	59,789	75,476
- Misc. income	2,036	3,421	4,681	5,909
- Investment profits	7,113	5,135	3,000	3,000
Net revenue	99,542	129,623	164,294	208,019
Operating expense	41,166	52,128	62,812	75,678
- Employee exp	18,050	21,889	26,044	31,616
- Other opex	23,115	30,239	36,767	44,062
Preprovision profit	58,376	77,495	101,482	132,341
Provisions	7,934	15,538	22,276	25,680
Loan loss provisions	7,466	12,476	20,476	24,980
Investment depreciation	522	2,599	1,800	700
Other provisions	(54)	463	-	-
Profit Before Tax	50,442	61,957	79,206	106,661
Less: Provision for Tax	17,140	19,697	25,742	34,665
Profit After Tax	33,302	42,260	53,464	71,996
Reported Profit	33,302	42,260	53,464	71,996
Adj. Diluted EPS (INR)	14.6	18.4	23.2	31.3
Dividend per share (DPS)	2.4	2.7	4.0	4.8
Dividend Payout Ratio(%)	19.0	17.0	19.9	17.7

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	26.9	33.5	25.1	27.7
Fees growth	32.8	34.8	36.8	26.2
Opex growth	38.3	26.6	20.5	20.5
PPOP growth	26.8	41.2	36.1	31.3
PPP growth	35.7	32.8	31.0	30.4
Provisions growth	47.9	95.8	43.4	15.3
Adjusted Profit	31.1	26.9	26.5	34.7

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	10.6	9.2	9.3	9.1
Yield on investments	7.7	7.0	6.9	6.9
Yield on assets	9.2	8.1	8.1	8.1
Cost of funds	6.2	5.2	5.4	5.4
Net interest margins	3.2	3.1	2.9	2.9
Cost of deposits	6.4	5.5	4.9	5.0
Cost of borrowings	6.9	5.5	7.8	7.7
Spread	3.0	2.9	2.7	2.7
Cost-income	41.4	40.2	38.2	36.4
Tax rate	34.0	31.8	32.5	32.5

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	4,565	4,606	4,606	4,606
Reserves & Surplus	215,976	252,977	295,806	355,040
Net worth	220,541	257,583	300,412	359,646
Sub bonds/pref cap	-	-	80,000	81,000
Deposits	1,428,739	2,007,381	2,643,117	3,404,852
Total Borrowings	386,067	748,936	770,543	844,143
Other liabilities	115,254	110,556	119,772	149,530
Total liabilities	**2,150,599**	**3,124,456**	**3,913,844**	**4,839,171**
Loans	1,322,627	2,035,339	2,645,940	3,360,344
Cash and Equivalents	195,494	247,344	253,009	276,411
Gilts	355,127	492,306	648,595	807,309
Others	145,191	191,683	204,370	218,770
Fixed assets	6,835	8,324	7,137	5,780
Other Assets	125,325	149,460	154,792	170,556
Total assets	**2,150,599**	**3,124,456**	**3,913,844**	**4,839,171**
Credit growth	34.7	53.9	30.0	27.0
Deposit growth	27.9	40.5	31.7	28.8
EA growth	30.0	47.0	26.5	24.3
SLR ratio	19.6	17.9	19.0	19.0
C-D ratio	100.4	109.0	106.1	103.5
Low-cost deposits	36.3	36.5	39.5	41.5
Provision coverage	46.9	50.0	56.9	66.5
Gross NPA ratio	1.5	1.3	1.5	1.7
Net NPA ratio	0.8	0.6	0.6	0.6
Incremental slippage	2.7	6.2	2.5	2.5
Net NPA / Equity	4.9	5.1	5.7	5.3
Capital adequacy	17.0	18.4	17.7	17.0
- Tier 1	13.3	13.2	12.5	11.8

RoE decomposition (%)

Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	3.2	3.1	2.9	2.9
Fees/Assets	1.9	1.9	1.9	1.9
Invst. profits/Assets	0.4	0.2	0.1	0.1
Net revenues/assets	5.6	5.2	4.9	4.9
Operating expense/assets	(2.3)	(2.1)	(1.9)	(1.8)
Provisions/assets	(0.4)	(0.6)	(0.7)	(0.6)
Taxes/assets	(1.0)	(0.8)	(0.8)	(0.8)
Total costs/assets	(3.7)	(3.5)	(3.3)	(3.2)
ROA	1.9	1.7	1.6	1.7
Equity/assets	10.0	9.6	8.3	7.8
ROAE (%)	18.6	17.7	19.2	21.8

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	14.6	18.4	23.2	31.3
Y-o-Y growth (%)	*20.8*	*25.8*	*26.5*	*34.7*
BV per share (INR)	96.6	111.8	130.4	156.2
Adj. BV per share (INR)	93.3	107.9	125.3	150.4
Diluted P/E (x)	25.3	20.1	15.9	11.8
Price/ Adj. BV (x)	4.0	3.4	3.0	2.5
Dividend Yield (%)	0.6	0.7	1.1	1.3

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
Yes Bank	11,398	15.9	11.8	3.0	2.5	19.2	21.8
Axis Bank	20,258	17.9	13.2	2.3	2.0	11.7	14.3
DCB Bank	754	16.3	12.9	1.9	1.6	11.7	13.1
Federal Bank	2,544	12.3	9.7	1.4	1.3	11.1	12.7
HDFC Bank	83,159	27.1	21.6	4.1	3.6	17.3	17.4
ICICI Bank	26,306	13.5	9.7	2.2	1.9	12.9	16.3
IndusInd Bank	17,577	26.3	20.6	4.4	3.7	17.4	18.9
Karnataka Bank	480	5.9	4.8	0.8	0.7	11.3	12.8
Kotak Mahindra Bank	37,328	35.1	28.3	4.8	4.2	14.5	15.7
Median	17,577	16.3	12.9	2.3	2.0	12.9	15.7
AVERAGE	-	18.9	14.7	2.8	2.4	14.1	15.9

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
Subhash Kalia	Director	Dr. Pratima Sheorey	Director
Rentala Chandrashekhar	Director		

Auditors - B S R & Co. LLP

Holding - Top 10

	Perc. Holding		Perc. Holding
LIC India	8.30	Blackrock	3.09
Morgan Credits	3.05	Vanguard Group	2.57
Aditya Birla Sun Life Asset Mgmt	2.27	T Rowe Price Group Inc	2.17
ICICI Prudential Life Insurance	1.86	Nomura	1.77
Mags Finvest	1.70	Franklin Templeton India Pte Ltd	1.75

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
18 Jul 2018	Shabeena Chandiwala	Sell	17000.00
04 Jul 2018	Satya Mohapatra	Sell	60000.00
04 Jul 2018	Sanjay Palve	Sell	107134.00
29 Jun 2018	Sanjay Palve	Sell	38000.00
27 Jun 2018	Ajay Mehta	Sell	25000.00

**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	HOLD	SU	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SP	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	BUY	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	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	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	REDUCE	SU	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	M
South Indian Bank	BUY	SO	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

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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-Jul-18	**Shriram City Union Finance**	Steady core; IND-AS transition on expected lines; *Result Update*	1,907	Buy
23-Jul-18	**NBFC**	Asked on the Street: A deep dive into IND-AS transition; *Sector Update*		
23-Jul-18	**South Indian Bank**	Asset quality volatility persists; stability critical; *Result Update*	19	Buy

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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