Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

October 25, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY20E	FY21E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**231**		**250**	
NII (Rs. m)	97,718	122,776	123,756	151,692
% Chng.			*(0.6)*	*(0.8)*
Op. Profit (Rs. m)	98,924	118,312	118,831	140,099
% Chng.			*(0.1)*	*(0.4)*
EPS (Rs.)	21.3	26.0	25.8	32.1
% Chng.			*(2.4)*	*0.7*

Key Financials

	FY18	FY19E	FY20E	FY21E
NII (Rs bn)	77	98	123	154
Op. Profit (Rs bn)	77	99	118	142
PAT (Rs bn)	42	49	60	72
EPS (Rs.)	18.4	21.3	26.0	31.4
Gr. (%)	*21.3*	*15.7*	*22.0*	*20.8*
DPS (Rs.)	2.4	2.7	3.4	4.0
Yield (%)	*1.2*	*1.4*	*1.7*	*2.0*
NIM (%)	*3.1*	*2.9*	*2.9*	*3.0*
RoAE (%)	*17.7*	*17.6*	*18.5*	*19.0*
RoAA (%)	*1.6*	*1.4*	*1.3*	*1.3*
P/BV (x)	1.8	1.5	1.3	1.1
P/ABV (x)	1.8	1.6	1.4	1.2
PE (x)	10.8	9.3	7.6	6.3
CAR (%)	18.4	17.3	15.3	14.2

Key Data	**YESB.BO | YES IN**
52-W High / Low	Rs.404 / Rs.165
Sensex / Nifty	33,690 / 10,125
Market Cap	Rs.458bn/ $ 6,255m
Shares Outstanding	2,309m
3M Avg. Daily Value	Rs.22068.81m

Shareholding Pattern (%)

Promoter's	19.91
Foreign	39.50
Domestic Institution	22.95
Public & Others	17.64
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(9.7)	(39.0)	(39.3)
Relative	(1.8)	(37.5)	(40.5)

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YES Bank (YES IN)

Rating: ACCUMULATE | CMP: Rs198 | TP: Rs231

Performance not commensurate to growth & risk

Quick Pointers

- Slippages came at Rs16.3bn which was high of which one a/c contributed higher amount
- Loan growth was strong at +60% but leading to higher consumption of capital with CET-I at critical level of 9%.

Yes Bank's earnings came in below expectations at Rs9.6bn (PLe: Rs13.5bn) on provisions from MTM on corporate bonds (from one large exposure) and higher slippages of Rs16.3bn). NII momentum of 28% YoY looks slower (but better sequentially) based on the fact that bank showed historic loan growth of +60% YoY. Asset quality deteriorated largely pertaining to one large exposure and other slippages, while has exposure of Rs26.2bn to IL&FS SPVs which is standard and has not done any provisions. We continue to re-iterate MD & CEO appointment remains key event for the bank's journey ahead and in near term capital efficiency has to be improved. Certain metrics have turned weaker like CASA mix, higher mix towards corporate (though retail increasing) and margins profile, which has to improve. We retain ACCUMULATE rating with revised TP of Rs231 (from Rs250) based on 1.5x Sep-20 ABV (from 1.7x Mar-20 ABV)

- **Steady margins; ex-treasury PPOP is better:** NII grew by 28% YoY on back of strong loan growth of ~61% YoY and steady margins sequentially at 3.3%. Bank has been seeing margin pressure from last few quarters on back of moving towards higher rated corporates and rising cost of funds which has now caught up as MCLRs rise has been taking effect. Margins should likely see some improvement as cost of funds increase is slower than yields. Overall PPOP grew 24% YoY, but excluding treasury, PPOP grew by strong 38% YoY with fee income and lower staff expenses helping.
- **Strong loan growth but should taper down**: Loan grew by strong 61% YoY which was disclosed earlier at end of Sep-18 quarter. Growth continues to be contributed from large corporate and partly from the IBU at gift city, while retail continuing to grow at +1x YoY improving share of mix by 30bps QoQ. Bank is expecting loan growth momentum should slow down as base effect plays out, sell down of loans to improve capital level and some loans moving out which happened due to system liquidity tightness. We continue to factor in slower loan growth CAGR of 25% over FY18-FY21 v/s 40% YoY seen over FY16-18 in view with transition in management.
- **Asset quality worries not abating but reported stress not alarming:** Asset quality deteriorate on slippages of Rs16.3bn with one large a/c contributing ~40% which also bought down PCR to 47%. Bank also has exposure of Rs26.2bn (1.1% of loans) to IL&FS on the SPV level and not to corporate balance sheet but has not made provisions and is standard. Overall net stress reported is at 1.8% (SRs, restructured, NPAs) and bank expects to see some better recoveries/upgrades helping asset quality improve with credit cost at 70bps.

NII growth of 28% YoY was slightly slower than anticipated despite very strong loan book

Other income growth was slower on lower treasury gains but fees continued to be strong

Staff expenses was moderate keeping overall cost under control

Provisions were higher on slippages and MTM loss on corporate bonds & amortized loss on MTM carried over

Strong loan growth which was backed by strong deposit growth

Margins were flat QoQ as MCLRs rise helping to mitigate higher deposit cost

Asset quality deteriorated on high slippages of Rs16.3bn which was contributed from one large a/c of Rs6.3bn

CASA mix has been coming off as bank has been relying on TDs especially bulk TDs to support growth

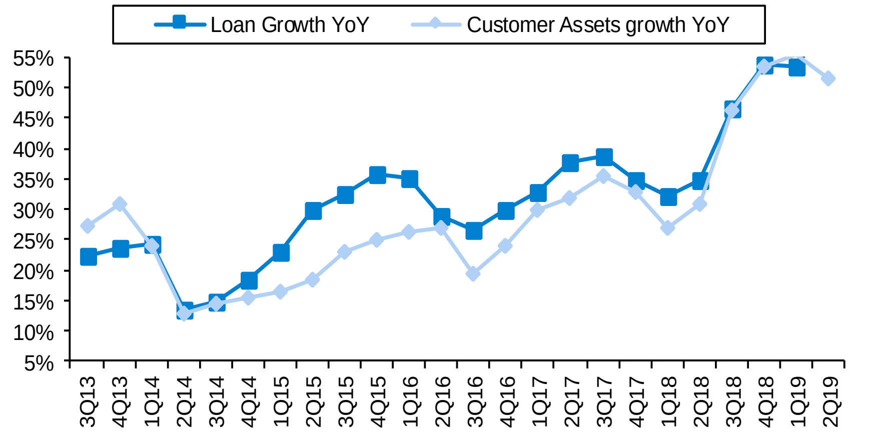
Capital position remains weaker

Exhibit 1: Miss on earnings from slower NII, lower treasury and provisions

P&L (Rs million)	Q2FY19	Q2FY18	YoY chg.	Q1FY19	QoQ chg.
Interest Income	72,312	48,003	*50.6*	65,780	*9.9*
Interest Expense	48,137	29,153	*65.1*	43,589	*10.4*
Net interest income (NII)	**24,176**	**18,851**	***28.2***	**22,191**	***8.9***
Other income	14,735	12,484	*18.0*	16,941	*(13.0)*
Total income	**38,910**	**31,335**	***24.2***	**39,133**	***(0.6)***
Operating expenses	15,246	12,269	*24.3*	14,586	*4.5*
-Staff expenses	5,940	5,628	*5.5*	5,906	*0.6*
-Other expenses	9,306	6,641	*40.1*	8,680	*7.2*
Operating profit	**23,664**	**19,067**	***24.1***	**24,547**	***(3.6)***
Core operating profit	21,444	15,549	*37.9*	19,944	*7.5*
Total provisions	9,400	4,471	*110.3*	6,257	*50.2*
Profit before tax	**14,265**	**14,596**	***(2.3)***	**18,291**	***(22.0)***
Tax	4,618	4,569	*1.1*	5,687	*(18.8)*
Profit after tax	**9,647**	**10,027**	***(3.8)***	**12,604**	***(23.5)***
Balance Sheet					
Deposits	2,283,794	1,579,898	*44.6*	2,133,945	*7.0*
Advances	2,396,275	1,486,753	*61.2*	2,147,201	*11.6*
Profitability ratios					
Yield on Advances	10.1	10.3	*(20)*	10.0	*10*
Cost of Funds	6.4	6.1	*30*	6.3	*10*
NIM	**3.3**	**3.7**	***(40)***	**3.3**	***-***
RoAA	1.1	1.7	*(60)*	1.6	*(50)*
RoAE	14.4	17.5	*(310)*	19.4	*(500)*
Asset Quality					
Gross NPL (Rs m)	38,661	27,203	*42.1*	28,245	*36.9*
Net NPL (Rs m)	20,197	15,433	*30.9*	12,626	*60.0*
Gross NPL ratio	1.6	1.8	*(22)*	1.3	*29*
Net NPL ratio	0.8	1.0	*(20)*	0.6	*25*
Coverage ratio	47.8	43.3	*449*	55.3	*(754)*
Business & Other Ratios					
CASA mix	33.8	37.2	*(340)*	35.1	*(130)*
Cost-income ratio	39.2	39.2	*3*	37.3	*191*
Non int. inc / total income	37.9	39.8	*(197)*	43.3	*(542)*
Credit deposit ratio	104.9	94.1	*1,082*	100.6	*430*
CAR	17.0	17.0	*-*	17.3	*(30)*
Tier-I	11.9	13.2	*(130)*	12.8	*(90)*

Source: Company Data, PL Research

Exhibit 2: Historic high loan growth



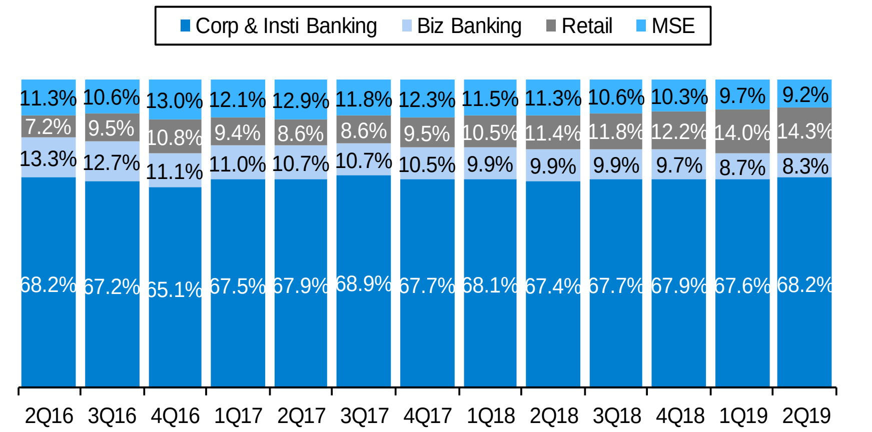
Source Company, PL

Exhibit 3: Segmental Mix of Loans

Advances Break-up	Q2FY19	Q2FY18	*YoY chg.*	Q1FY19	*QoQ chg.*
Corporate Banking	1,634,259	1,002,071	*63.1*	1,451,508	*12.6*
International Banking Unit	208,476	80,285	*159.7*	188,954	*10.3*
Commercial Banking	762,015	484,681	*57.2*	695,693	*9.5*
Business Banking (SME)	198,891	147,189	*35.1*	186,806	*6.5*
Retail	342,667	169,490	*102.2*	300,608	*14.0*
MSE	220,457	168,003	*31.2*	208,278	*5.8*
Total	**2,396,275**	**1,486,753**	***61.2***	**2,147,201**	***11.6***

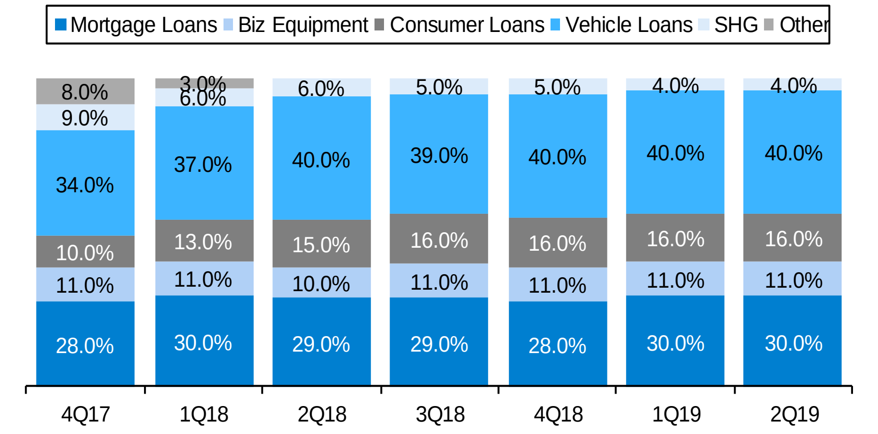
Source: Company, PL

Exhibit 4: Retail mix improving steadily but corporate continues to dominate



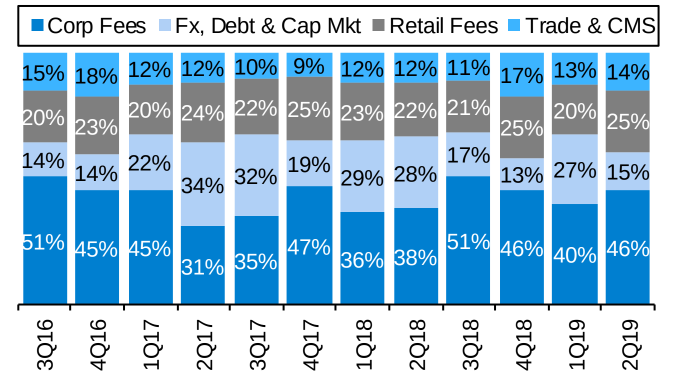
Source: Company, PL

Exhibit 5: Retail loans – Steady mix in mortgage and vehicle loans



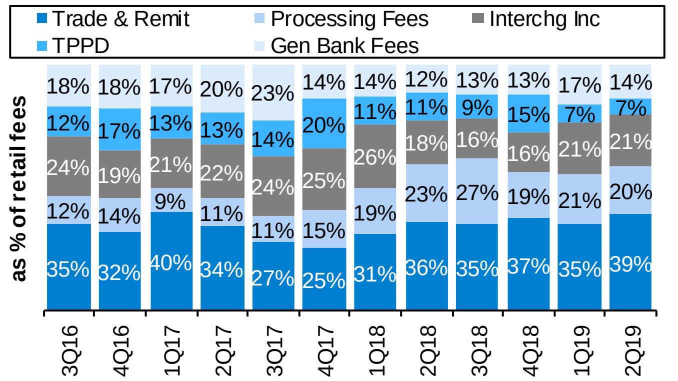
Source: Company, PL

Exhibit 6: Corp fees dominate, retail fees also good in mix



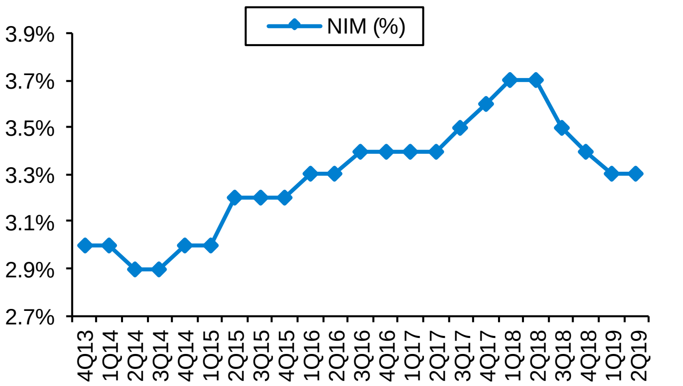
Source: Company, PL

Exhibit 7: Retail fees was led by remittance & transactions



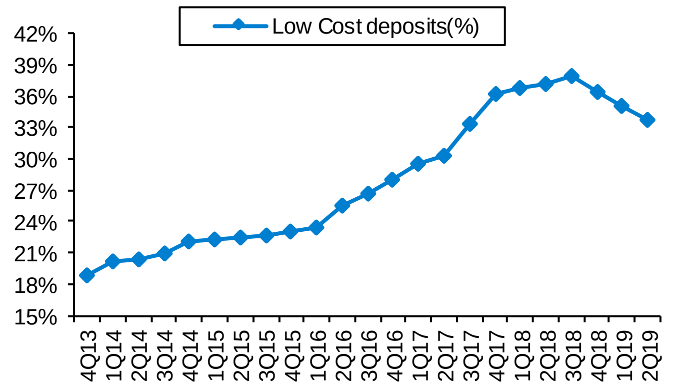
Source: Company, PL

Exhibit 8: NIMs were flattish as MCLRs rise helping yields



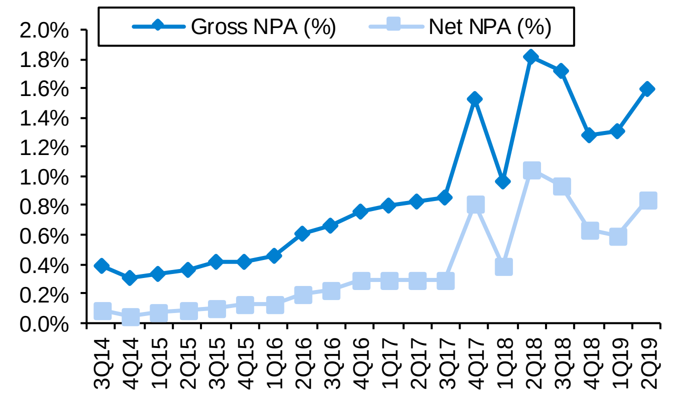
Source: Company, PL

Exhibit 9: CASA mix has declined on high TD growth



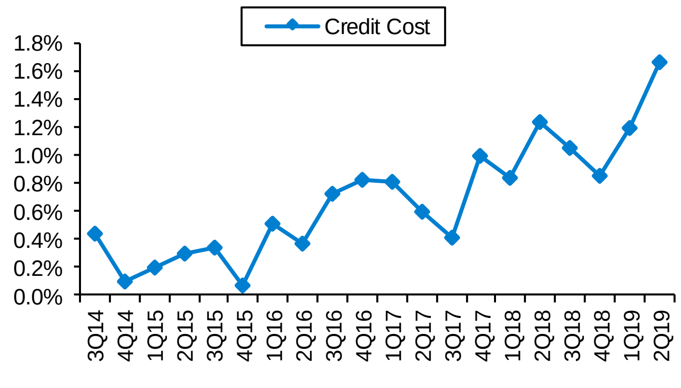
Source: Company, PL

Exhibit 10: Asset quality saw deterioration on higher slippages



Source: Company, PL

Exhibit 11: Provisions (incl MTM losses on bonds) has seen increase



Source: Company, PL

Exhibit 12: RoAE tree – Return ratios lower than historical levels

RoAE decomposition (%)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest income	9.59	9.44	8.98	8.64	7.68	7.88	8.01	8.22
Interest expenses	6.98	6.59	5.95	5.59	4.75	5.13	5.25	5.40
Net interest income	**2.61**	**2.85**	**3.03**	**3.05**	**2.93**	**2.75**	**2.77**	**2.82**
Treasury income	0.35	0.06	0.22	0.43	0.28	0.18	0.12	0.10
Other Inc. from operations	1.30	1.61	1.58	1.76	1.70	1.60	1.52	1.43
Total income	**4.26**	**4.51**	**4.83**	**5.23**	**4.91**	**4.52**	**4.40**	**4.36**
Employee expenses	0.75	0.80	0.86	0.95	0.83	0.69	0.65	0.63
Other operating expenses	0.93	1.06	1.11	1.22	1.15	1.05	1.09	1.13
Operating profit	**2.58**	**2.65**	**2.85**	**3.07**	**2.94**	**2.78**	**2.67**	**2.61**
Tax	0.68	0.74	0.81	0.42	0.59	0.74	0.67	0.62
Loan loss provisions	0.35	0.28	0.36	0.90	0.75	0.66	0.65	0.66
RoAA	**1.55**	**1.64**	**1.68**	**1.75**	**1.60**	**1.38**	**1.35**	**1.33**
RoAE	**25.02**	**21.33**	**19.94**	**18.58**	**17.67**	**17.63**	**18.47**	**19.03**

Source: Company, PL

We slightly tweak on margins, other income and factor in MTM losses on corporate bonds

Exhibit 13: Estimates change table

(Rs mn)	Old		Revised		*% Change*	
	FY19E	FY20E	FY19E	FY20E	*FY19E*	*FY20E*
NII	98,290	123,756	97,718	122,776	*(0.6)*	*(0.8)*
Operating profit	98,992	118,831	98,924	118,312	*(0.1)*	*(0.4)*
Net profit	50,310	59,482	49,089	59,913	*(2.4)*	*0.7*
EPS (Rs)	21.8	25.8	21.3	26.0	*(2.4)*	*0.7*
ABVPS (Rs)	124.6	140.9	123.5	143.9	*(0.9)*	*2.1*
Price target (Rs)	***250***		***231***		***(7.5)***	
Recommendation	***ACCUMULATE***		***ACCUMULATE***			

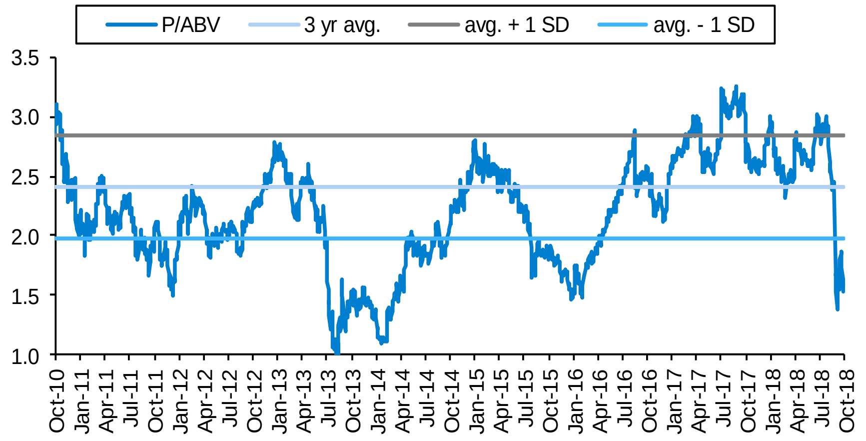
Source: Company, PL

Exhibit 14: We revise our TP to Rs231 (from Rs248) based on 1.5x (from 1.7x) Sep-20 ABV (rolled from Mar-20)

PT calculation and upside	
Market Risk Premium	6.0%
Risk-free Rate	8.0%
Adjusted Beta	1.17
Cost of Equity	**15.0%**
Terminal Growth	5.0%
Fair price - P/AB, Rs	**231**
Target P/ABV (x)	**1.5**
Target P/E (x)	**8.1**
Current price, Rs	198
Upside (%)	**16.6%**
Dividend yield (%)	0.9%
Total return (%)	**17.5%**

Source: Company, PL

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



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Earned from Adv.	154,782	219,318	281,297	352,902
Int. Earned from invt.	41,025	56,840	70,082	88,762
Others	6,867	4,156	4,347	5,321
Total Interest Income	202,674	280,314	355,726	446,985
Interest Expenses	125,304	182,597	232,950	293,431
Net Interest Income	**77,371**	**97,718**	**122,776**	**153,554**
Growth(%)	*30.2*	*24.2*	*21.5*	*21.3*
Non Interest Income	52,238	63,208	72,690	83,593
Net Total Income	129,609	160,926	195,466	237,147
Growth(%)	*23.9*	*34.8*	*24.7*	*23.8*
Employee Expenses	21,889	24,516	28,929	34,136
Other Expenses	27,929	35,470	45,401	58,114
Operating Expenses	52,128	62,002	77,153	95,496
Operating Profit	**77,481**	**98,924**	**118,312**	**141,651**
Growth(%)	*32.7*	*27.7*	*19.6*	*19.7*
NPA Provision	10,788	18,725	26,790	30,924
Total Provisions	15,538	26,199	29,552	33,628
PBT	**61,943**	**72,725**	**88,761**	**108,023**
Tax Provision	19,697	23,636	28,847	35,647
Effective tax rate (%)	*31.8*	*32.5*	*32.5*	*33.0*
PAT	**42,246**	**49,089**	**59,913**	**72,375**
Growth(%)	*26.9*	*16.2*	*22.0*	*20.8*

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Face value	2	2	2	2
No. of equity shares	2,303	2,303	2,303	2,303
Equity	4,606	4,606	4,606	4,606
Networth	257,583	299,177	349,666	410,954
Growth(%)	*16.8*	*16.1*	*16.9*	*17.5*
Adj. Networth to NNPAs	13,127	23,034	28,406	29,060
Deposits	2,007,381	2,609,596	3,261,995	4,077,494
Growth(%)	*40.5*	*30.0*	*25.0*	*25.0*
CASA Deposits	731,762	991,646	1,249,344	1,565,758
% of total deposits	*36.5*	*38.0*	*38.3*	*38.4*
Total Liabilities	**3,124,456**	**3,991,323**	**4,887,375**	**5,983,790**
Net Advances	2,035,339	2,645,940	3,307,425	3,968,910
Growth(%)	*53.9*	*30.0*	*25.0*	*20.0*
Investments	683,989	909,902	1,055,309	1,382,588
Total Assets	**3,124,456**	**3,991,323**	**4,887,375**	**5,983,790**
Growth (%)	*45.3*	*27.7*	*22.5*	*22.4*

Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs (Rs m)	26,268	46,358	62,193	70,121
Net NPAs (Rs m)	13,127	23,034	28,406	29,060
Gr. NPAs to Gross Adv.(%)	*1.3*	*1.8*	*1.9*	*1.8*
Net NPAs to Net Adv. (%)	*0.6*	*0.9*	*0.9*	*0.7*
NPA Coverage %	*50.0*	*50.3*	*54.3*	*58.6*

Profitability (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	3.1	2.9	2.9	3.0
RoAA	1.6	1.4	1.3	1.3
RoAE	17.7	17.6	18.5	19.0
Tier I	13.2	11.5	10.4	10.0
CRAR	18.4	17.3	15.3	14.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Interest Income	50,703	57,430	65,780	72,312
Interest Expenses	31,815	35,887	43,589	48,137
Net Interest Income	**18,888**	**21,542**	**22,191**	**24,176**
YoY growth (%)	*16.8*	*32.5*	*53.2*	*65.1*
CEB	10,131	9,913	10,156	10,290
Treasury	-	-	-	-
Non Interest Income	14,223	14,210	16,941	14,735
Total Income	**64,926**	**71,640**	**82,722**	**87,047**
Employee Expenses	5,334	5,467	5,906	5,940
Other expenses	7,759	8,931	8,680	9,306
Operating Expenses	13,093	14,398	14,586	15,246
Operating Profit	**20,018**	**21,354**	**24,547**	**23,664**
YoY growth (%)	*37.7*	*26.3*	*44.0*	*24.1*
Core Operating Profits	17,590	19,573	19,944	21,444
NPA Provision	-	-	-	-
Others Provisions	4,213	3,996	6,257	9,400
Total Provisions	4,213	3,996	6,257	9,400
Profit Before Tax	**15,805**	**17,358**	**18,291**	**14,265**
Tax	5,036	5,564	5,687	4,618
PAT	**10,769**	**11,794**	**12,604**	**9,647**
YoY growth (%)	*22.0*	*29.0*	*30.5*	*(3.8)*
Deposits	**1,717,314**	**2,007,382**	**2,133,945**	**2,283,794**
YoY growth (%)	*29.7*	*40.5*	*42.0*	*44.6*
Advances	**1,715,149**	**2,035,339**	**2,147,201**	**2,396,275**
YoY growth (%)	*46.5*	*53.9*	*53.4*	*61.2*

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	198	198	198	198
EPS (Rs)	18.4	21.3	26.0	31.4
Book Value (Rs)	112	130	152	178
Adj. BV (70%)(Rs)	108	124	144	171
P/E (x)	10.8	9.3	7.6	6.3
P/BV (x)	1.8	1.5	1.3	1.1
P/ABV (x)	1.8	1.6	1.4	1.2
DPS (Rs)	2.4	2.7	3.4	4.0
Dividend Payout Ratio (%)	*15.6*	*15.3*	*15.7*	*15.3*
Dividend Yield (%)	*1.2*	*1.4*	*1.7*	*2.0*

Efficiency

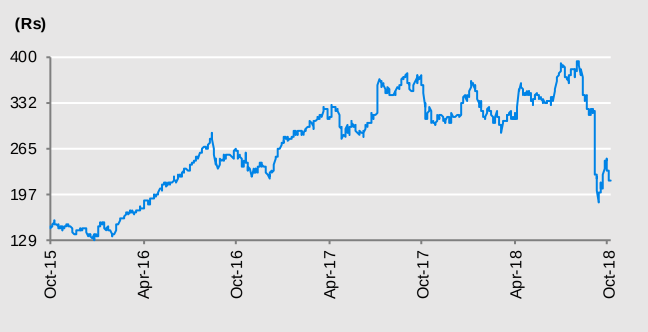
Y/e Mar	FY18	FY19E	FY20E	FY21E
Cost-Income Ratio (%)	*40.2*	*38.5*	*39.5*	*40.3*
C-D Ratio (%)	*101.4*	*101.4*	*101.4*	*97.3*
Business per Emp. (Rs m)	222	240	250	255
Profit per Emp. (Rs lacs)	23	22	23	23
Business per Branch (Rs m)	3,675	3,893	4,106	4,349
Profit per Branch (Rs m)	38	36	37	39

Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	2.93	2.75	2.77	2.82
Total Income	4.91	4.52	4.40	4.36
Operating Expenses	1.98	1.74	1.74	1.76
PPoP	2.94	2.78	2.67	2.61
Total provisions	0.59	0.74	0.67	0.62
RoAA	1.60	1.38	1.35	1.33
RoAE	17.67	17.63	18.47	19.03

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-Oct-17	BUY	415	332
2	17-Nov-17	BUY	415	302
3	13-Dec-17	BUY	415	302
4	10-Jan-18	BUY	415	341
5	18-Jan-18	BUY	415	340
6	12-Feb-18	BUY	415	326
7	15-Mar-18	BUY	415	312
8	13-Apr-18	BUY	415	316
9	27-Apr-18	BUY	438	352
10	23-May-18	BUY	438	352

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	624	586
2	Bank of Baroda	Accumulate	165	103
3	Bank of India	Reduce	89	79
4	Federal Bank	BUY	102	82
5	HDFC Bank	BUY	2,310	1,968
6	HDFC Standard Life Insurance Company	BUY	500	359
7	ICICI Bank	Accumulate	329	317
8	ICICI Prudential Life Insurance Company	BUY	507	323
9	IDFC Bank	Accumulate	55	37
10	IndusInd Bank	BUY	2,000	1,627
11	Jammu & Kashmir Bank	BUY	94	40
12	Kotak Mahindra Bank	Hold	1,291	1,177
13	Max Financial Services	BUY	700	359
14	Punjab National Bank	Hold	79	65
15	SBI Life Insurance Company	BUY	779	564
16	South Indian Bank	BUY	22	15
17	State Bank of India	BUY	349	271
18	Union Bank of India	Reduce	79	68
19	YES Bank	BUY	250	215

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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