Buy
Yes Bank

Industry: BFSI

Asset quality disappoints !!!

Yes Bank showed dismal performance – PAT declined by 24% qoq (4% yoy) to ₹ 9.6 bn largely led by higher credit cost. Gross slippages escalated sharply for the quarter at ₹ 16.3 bn (₹ 5.6 bn qoq) led by one large corporate account defaulting amounting to ₹ 6.3 bn (most likely it expects upgrade in this account in Q3). Bank has exposure to IL&FS amounting to ₹ 26.2 bn which is currently recognized as standard account in the books of the banks (lent to SPV and no holdco exposure). Investment provisions were also high due to a) ₹ 2.5 bn provided for corporate bonds b) ₹ 0.9 bn amortised MTM investments provisions. Advances reported strong growth of 61% yoy, which in our view, would come off going forward due to lower CET 1 (9.5%). Other income growth slowed down to 18% led by declined in forex, debt capital mkts & securities income (-37% yoy).

In our view, with lower CET 1, balance sheet growth will have to be pruned down considerably (we estimate credit growth of 24% for FY19). We revise our credit cost estimate upward to 90 bps for FY19E vs. management guidance of 70 bps. We are revising our estimates downwards – PAT expected to grow by 7% yoy in FY19E taking into consideration higher credit cost and lower growth. Given the management change, capital raising would be difficult for the bank. Also, uncertainty over the NPAs looms large for the bank now than before. Near term headwinds on the bank remains in terms of management change, higher credit cost, lower capital position, which could cap upside in the stock, unless we see some positive resolution coming on above parameters. However, given the steep correction in the stock, current valuations looks reasonable - we retain BUY rating (reduce TP to ₹ 270 from ₹ 350, discounting FY20E ABV by 1.9x). At current pricing, the stock is trading at 1.6x FY19E and 1.3 FY20E ABV.

Higher NPLs disappoints

Gross slippages escalated sharply for the quarter at ₹ 16.3 bn (₹ 5.6 bn qoq) led by one large corporate account defaulting amounting to ₹ 6.3 bn. The bank expects prepayments and consequent upgrade in this account in Q3. This escalated credit cost for the quarter to 18 bps vs 14 bps qoq. Bank has exposure to IL&FS amounting to ₹ 26.2 bn which is currently recognized as standard account in the books of the banks (lent to SPV and no holdco exposure). Also, bank sold assets to ARC amounting to ₹ 4.45 bn during the quarter. Gross NPA/Net NPAs were at 1.6%/0.84% vs. 1.3%/0.6% qoq. Management has given credit cost guidance of 70 bps for FY19E vs. our estimation of 90 bps. Positively, current SMA 2 is at low at 15 bps (~₹ 3.6 bn). However, with the current quarter results, NPA uncertainty looms large over the bank. Escalated credit cost going forward could potentially takeaway large part of the strong growth in operating profits.

Operational performance lower as compared to previous quarters

Advances showed very high growth of 61% led by all corporate, SME and retail loans. Margins were steady at 3.3% mark on sequential basis which led to healthy NII growth of 28% yoy. However, other income grew at relatively much lower pace at 18% vs. 30% growth seen in the previous quarters mainly due to decline in forex, debt & securities income (-37% yoy). All this resulted in operating profit growing by 24% - lower growth as compared to previous quarters.

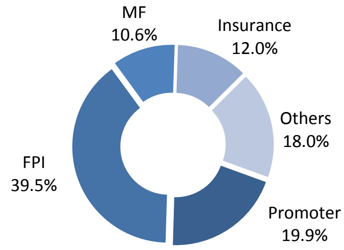
Retain BUY, lowering target price to ₹ 270

We are revising our estimates downwards – PAT expected to grow by 7% yoy in FY19E taking into consideration higher credit cost and lower growth. Given the management change, capital raising would be difficult for the bank. Also, uncertainty over the NPAs looms large for the bank now than before. Near term headwinds on the bank remains in terms of management change, higher credit cost, lower capital position, which could cap upside in the stock, unless we see some positive resolution coming on above parameters. However, given the steep correction in the stock, current valuations looks reasonable - we retain BUY rating (reduce TP to ₹ 270 from ₹ 350, discounting FY20E ABV by 1.9x). At current pricing, the stock is trading at 1.6x FY19E and 1.3 FY20E ABV.

Stock Data	
Current Market Price (₹)	187
12M Price Target (₹)	270
Potential upside (%)	44
BSE / NSE Symbol	532648 / YESBANK
Reuters / Bloomberg	YESB.BO / YES IN
FV (₹)	2
Market Cap Full (₹ bn)	854
52-Week Range (₹)	393 / 285

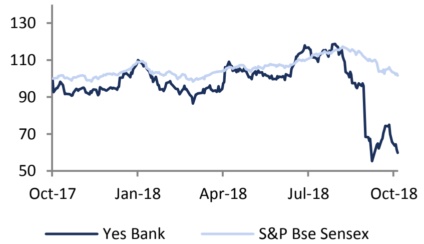
What's Changed	
12 M Price Target (₹)	From 350 to 270
FY2019E EPS (₹)	From 23.8 to 19.6
FY2020E EPS (₹)	From 31.6 to 25.9

Shareholding Pattern (Sep-2018)



YE Mar	FY18	FY19E	FY20E	FY21E
NII (₹ bn)	77.4	103.2	131.9	169.7
PAT (₹ bn)	42.2	45.2	59.5	79.0
yoy (%)	26.9	6.9	31.9	32.6
EPS (₹)	18.3	19.6	25.9	34.3
ABV (₹)	102.4	119.2	142.0	173.3
P/BV (x)	3.6	1.5	1.2	1.0
P/ABV (x)	3.8	1.6	1.3	1.1
ROA (%)	1.6	1.3	1.4	1.4
ROE (%)	18.2	16.6	18.4	20.1
Gross NPAs (%)	1.3	1.8	2.1	2.2
PCR (%)	50.0	56.7	61.2	64.9

Relative Price Performance



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Q2FY19 Financials

(₹ mn)	Q2FY19	Q2FY18	yoy (%)	Q1FY19	qoq (%)	H1FY19	H1FY18	yoy (%)
Interest earned	**72,312**	**48,003**	**50.6**	**65,780**	**9.9**	**1,38,093**	**94,541**	**46.1**
-Interest/discount on advances/bills	55,496	36,932	50.3	50,047	10.9	1,05,543	72,277	46.0
-Income on investments	15,610	9,227	69.2	13,509	15.6	29,119	18,254	59.5
-Interest on bal. with RBI	582	1,447	-59.8	1,620	-64.1	2,203	3,240	-32.0
-Others	624	398	56.7	605	3.1	1,229	771	59.5
Interest expenses	48,137	29,153	65.1	43,589	10.4	91,726	57,601	59.2
Net Interest Income (NII)	**24,176**	**18,851**	**28.2**	**22,191**	**8.9**	**46,367**	**36,940**	**25.5**
Other Income	14,735	12,484	18.0	16,941	-13.0	31,676	23,806	33.1
Total income	38,910	31,335	24.2	39,133	-0.6	78,043	60,746	28.5
Operating expenses	15,246	12,269	24.3	14,586	4.5	29,831	24,638	21.1
-Employee cost	5,940	5,628	5.5	5,906	0.6	11,846	11,089	6.8
-Other operating expenses	9,306	6,641	40.1	8,680	7.2	17,985	13,549	32.7
Operating profit	**23,664**	**19,067**	**24.1**	**24,547**	**-3.6**	**48,212**	**36,109**	**33.5**
Provision for contingencies	9,400	4,471	110.3	6,257	50.2	15,656	7,328	113.6
PBT	**14,265**	**14,596**	**-2.3**	**18,291**	**-22.0**	**32,555**	**28,780**	**13.1**
Provision for taxes	4,618	4,569	1.1	5,687	-18.8	10,305	9,098	13.3
Net profit	**9,647**	**10,027**	**-3.8**	**12,604**	**-23.5**	**22,251**	**19,683**	**13.0**
Equity	4,619	4,581	0.8	4,611	0.2	4,619	4,581	0.8
EPS (₹)	21	22	-4.6	27	-23.6	48	43	12.1
Ratios (%)								
Int. exp/Int earned (%)	66.6	60.7	-	66.3	-	66.4	60.9	-
Cost/Income ratio (%)	39.2	39.2	-	37.3	-	38.2	40.6	-
Gross NPAs (₹)	38,661	27,203	42.1	28,245	36.9	38,661	27,203	42.1
Net NPAs (₹)	20,197	15,433	30.9	12,626	60.0	20,197	15,433	30.9
Gross NPAs (%)	1.60	1.82	-	1.31	-	1.6	1.8	-
Net NPAs (%)	0.84	1.0	-	0.6	-	0.8	1.0	-
ROA (%)	1.1	1.7	-	1.6	-	1.5	1.5	-
CAR (%)	16.2	17.0	-	16.9	-	16.2	17.0	-
Provision coverage (%)	47.8	43.3		55.3	-	47.8	43.3	
Balance Sheet (₹.mn)								
Deposits	22,28,379	15,79,898	41.0	21,33,945	4.4	22,28,379	15,79,898	41.0
Advances	23,96,275	14,86,753	61.2	21,47,201	11.6	23,96,275	14,86,753	61.2

Source: Company, LKP Research

Profit & Loss Statement

(₹ mn)	FY17	FY18	FY19e	FY20e	FY21e
INTEREST EARNED	**1,64,246**	**2,02,674**	**2,87,773**	**3,73,597**	**4,89,541**
Interest/Discount on advances/Bills	1,22,098	1,54,782	2,20,330	2,88,701	3,84,375
Income from Investment	37,968	41,025	57,528	72,766	91,319
Interest on Balances with RBI & Others	2,578	5,161	8,115	10,230	11,947
Others	1,602	1,706	1,800	1,900	1,900
INTEREST EXPENDED	**1,06,273**	**1,25,304**	**1,84,610**	**2,41,722**	**3,19,801**
Interest on Deposits	82,040	93,834	1,27,596	1,67,907	2,26,483
Interest on RBI/Inter-Bank Borrowings	22,243	29,841	55,214	71,914	91,319
Others	1,990	1,629	1,800	1,900	2,000
NET INTEREST INCOME (NII)	**57,973**	**77,371**	**1,03,163**	**1,31,875**	**1,69,740**
Other Income	41,568	52,238	60,901	75,502	97,233
TOTAL INCOME	**99,541**	**1,29,609**	**1,64,064**	**2,07,377**	**2,66,973**
Operating expenses	**41,165**	**52,128**	**65,778**	**82,039**	**1,03,378**
Employee expenses	18,050	21,889	27,810	34,318	42,994
Other operating expenses	23,115	30,239	37,968	47,721	60,384
OPERATING PROFIT	**58,375**	**77,481**	**98,287**	**1,25,338**	**1,63,596**
Provisions	7,934	15,538	31,883	37,765	47,454
of which NPA provisions	6,634	10,788	22,780	32,429	41,489
Profit Before Tax (PBT)	**50,441**	**61,943**	**66,404**	**87,573**	**1,16,141**
Provision for tax	17,140	19,697	21,249	28,023	37,165
PAT	**33,301**	**42,246**	**45,155**	**59,550**	**78,976**
(% change)	31	27	7	32	33
EPS (₹)	15	18	20	26	34
Total Paid-Up Capital	4,565	4,606	4,606	4,606	4,606

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY17	FY18	FY19e	FY20e	FY21e
Application of funds					
Cash & Bal. with RBI	69,521	1,14,257	1,06,044	1,33,519	1,68,168
Balance with banks & money at call and short notice	1,25,974	1,33,086	2,27,577	2,83,922	3,13,439
Advances / Credit	13,22,627	20,35,339	25,31,087	32,42,931	41,48,893
Investments	5,00,318	6,83,989	8,53,898	10,40,840	13,06,522
Fixed assets	6,835	8,324	9,718	11,372	13,510
Other assets	1,25,325	1,49,460	1,39,783	1,63,546	1,91,348
TOTAL ASSETS	**21,50,599**	**31,24,456**	**38,68,106**	**48,76,129**	**61,41,882**
Sources of funds					
Total Paid-Up Capital	4,565	4,606	4,606	4,606	4,606
Reserves & Surplus	2,15,976	2,52,977	2,90,060	3,49,055	4,27,477
Networth	**2,20,541**	**2,57,583**	**2,94,666**	**3,53,661**	**4,32,083**
Deposits	**14,28,739**	**20,07,381**	**24,81,457**	**31,48,476**	**39,89,320**
-Current deposits	1,90,878	2,88,257	3,89,147	5,05,891	6,57,659
-Savings deposits	3,27,818	4,43,505	5,98,731	7,78,350	9,72,938
Borrowings	3,86,067	7,48,936	9,68,160	12,34,072	15,62,369
Other liabilities & provisions	1,15,253	1,10,556	1,23,823	1,39,920	1,58,109
TOTAL LIABILITIES	**21,50,599**	**31,24,456**	**38,68,106**	**48,76,129**	**61,41,882**

Source: Company, LKP Research

Ratio Analysis

(A) Efficiency Ratios (%)	FY17	FY18	FY19e	FY20e	FY21e
Int. exp/Int. earned (%)	64.7	61.8	64.2	64.7	65.3
NII / Total Income (%)	58.2	59.7	62.9	63.6	63.6
Other income / Total Income (%)	41.8	40.3	37.1	36.4	36.4
Cost / Income	41.4	40.2	40.1	39.6	38.7
Cost/Income (excluding trading gains) (%)	44.5	41.9	40.6	39.9	39.2
C-D ratio (%)	94.0	102.7	103.9	105.2	106.4
I-D ratio (%)	35.0	34.1	34.4	33.1	32.8
Incremental CD ratio (%)	113.4	124.2	108.8	110.1	110.7
Incremental ID ratio (%)	3.8	31.7	35.8	28.0	31.6
Loan / Assets ratio (%)	62.4	66.0	66.6	67.9	69.1
Deposits / Assets ratio (%)	66.4	64.2	64.2	64.6	65.0
CA / Total Deposits (%)	13.4	14.4	15.7	16.1	16.5
SA / Total Deposits (%)	22.9	22.1	24.1	24.7	24.4
CASA / Total Deposits	36.3	36.5	39.8	40.8	40.9
B) Spreads (%)	**FY17**	**FY18**	**FY19e**	**FY20e**	**FY21e**
Yield on Assets (%)	9.2	8.1	8.6	8.9	9.2
Yield on Advances (%)	10.6	9.2	9.7	10.0	10.4
Yield on Investments (%)	7.7	7.0	7.5	7.7	7.8
Cost of Funds (%)	6.5	5.5	5.9	6.2	6.4
Cost of Deposits (%)	6.4	5.5	5.7	6.0	6.3
Cost of Earning Assets (%)	6.0	5.0	5.5	5.7	6.0
Spreads (%)	2.7	2.7	2.7	2.7	2.8
Net Interest Margin	3.3	3.1	3.1	3.1	3.2
C) Solvency	**FY17**	**FY18**	**FY19e**	**FY20e**	**FY21e**
Gross NPAs (₹)	20,186	26,268	46,291	68,778	93,802
Net NPAs (₹)	10,723	13,127	20,052	26,710	32,969
Gross NPAs / Gross Advances (%)	1.5	1.3	1.8	2.1	2.2
Net NPAs / Net advances (%)	0.81	0.64	0.79	0.82	0.79
Provisions Coverage Ratio (%) (Excl. Fl. Prov.)	46.9	50.0	56.7	61.2	64.9
Credit cost (%) (incl NPA provisions)	0.49	0.5	0.90	1.00	1.00
Credit cost (%) (incl. NPA + SA + rest provisions)	0.6	0.6	1.0	1.1	1.1

Source: Company, LKP Research

Ratio Analysis

D) Measures of Investment	FY17	FY18	FY19e	FY20e	FY21e
No. of equity shares (wtd. avg.)	2282.4	2303.0	2303.0	2303.0	2303.0
EPS (₹)	14.6	18.3	19.6	25.9	34.3
DPS (per share)	2.4	2.7	3.0	3.2	3.4
BV (₹)	94.0	108.1	128.0	153.6	187.6
Adjusted BV (₹)	89.3	102.4	119.2	142.0	173.3
Avg. ROE (%)	19.2	18.2	16.6	18.4	20.1
Avg. ROA (%)	1.8	1.6	1.3	1.4	1.4
Pre-tax ROA (%)	2.7	2.3	1.9	2.0	2.1
Pre-provisioning operating ROA (%)	3.1	2.9	2.8	2.9	3.0
Pre-provisioning operating ROE (%)	33.6	33.4	36.2	38.7	41.6
P/E (x)	18.0	21.3	9.5	7.2	5.5
P/BV (x)	2.8	3.6	1.5	1.2	1.0
P/ABV (x)	2.9	3.8	1.6	1.3	1.1
Dividend yield (x)	0.9	0.7	1.6	1.7	1.8
Dividend Payout ratio (%)	16.4	14.7	15.3	12.4	9.9
Effective tax rate (%)	34.0	31.8	32.0	32.0	32.0
E) Breakdown of ROA (%)	**FY17**	**FY18**	**FY19e**	**FY20e**	**FY21e**
Interest Income	8.6	7.7	8.2	8.5	8.9
Interest expenses	5.6	4.8	5.3	5.5	5.8
NII/avg assets	3.0	2.9	3.0	3.0	3.1
Non-NII/avg. assets	2.2	2.0	1.7	1.7	1.8
Total Income	5.2	4.9	4.7	4.7	4.8
Operating exp/avg. assets	2.2	2.0	1.9	1.9	1.9
Operating profit/avg assets	3.1	2.9	2.8	2.9	3.0
Provisions/avg. assets	0.4	0.6	0.9	0.9	0.9
PBT/avg. assets	2.7	2.3	1.9	2.0	2.1
Tax/avg. assets	0.9	0.7	0.6	0.6	0.7
PAT/avg. assets	1.8	1.6	1.3	1.4	1.4
Leverage	10.0	12.6	13.1	13.8	14.2
F) Growth Rates (%)	**FY17**	**FY18**	**FY19e**	**FY20e**	**FY21e**
Interest Income	21.4	23.4	42.0	29.8	31.0
Interest Expenses	18.5	17.9	47.3	30.9	32.3
NII	26.9	33.5	33.3	27.8	28.7
Other Income	53.3	25.7	16.6	24.0	28.8
Total Income	36.8	30.2	26.6	26.4	28.7
Operating Income	35.7	32.7	26.9	27.5	30.5
Net Profit	31.1	26.9	6.9	31.9	32.6
Deposits	27.9	40.5	23.6	26.9	26.7
Advances	35.7	53.5	25.0	28.5	28.1
H) Other performance parameters	**FY17**	**FY18**	**FY19e**	**FY20e**	**FY21e**
No. of branches (No.)	1,000	1,100	1,175	1,250	1,350
No. of employees (No.)	20,125	18,238	19,975	21,250	22,950
Business per branch (₹)	2,751	3,675	4,266	5,113	6,028
Profit per branch (₹)	33.3	38.4	38.4	47.6	58.5
Business per employee (₹)	136.7	221.7	250.9	300.8	354.6
Profit per employee (₹)	1.7	2.3	2.3	2.8	3.4

Source: Company, LKP Research

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