

January 24, 2019

## Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	245		231	
NII (Rs. m)	126,347	154,686	122,776	153,554
% Chng.			2.9	0.7
Op. Profit (Rs. m)	110,954	133,884	118,312	141,651
% Chng.			(6.2)	(5.5)
EPS (Rs.)	24.2	29.1	26.0	31.4
% Chng.			(7.0)	(7.5)

### Key Financials

	FY18	FY19E	FY20E	FY21E
NII (Rs bn)	77	101	126	155
Op. Profit (Rs bn)	77	91	111	134
PAT (Rs bn)	42	45	56	67
EPS (Rs.)	18.4	19.3	24.2	29.1
Gr. (%)	21.3	4.8	25.4	20.1
DPS (Rs.)	2.4	2.7	3.4	4.0
Yield (%)	1.1	1.3	1.6	1.9
NIM (%)	3.1	3.1	3.2	3.3
RoAE (%)	17.7	16.1	17.6	18.2
RoAA (%)	1.6	1.3	1.3	1.3
P/BV (x)	1.9	1.7	1.5	1.3
P/ABV (x)	2.0	1.8	1.5	1.3
PE (x)	11.7	11.2	8.9	7.4
CAR (%)	18.4	20.1	17.8	16.2

### Key Data

YESB.BO | YES IN

52-W High / Low	Rs.404 / Rs.147	
Sensex / Nifty	36,195 / 10,850	
Market Cap	Rs.498bn / \$ 6,995m	
Shares Outstanding	2,313m	
3M Avg. Daily Value	Rs.21937.9m	

### Shareholding Pattern (%)

Promoter's	19.82
Foreign	36.15
Domestic Institution	21.55
Public & Others	22.48
Promoter Pledge (Rs bn)	

### Stock Performance (%)

	1M	6M	12M
Absolute	18.2	(44.0)	(41.0)
Relative	15.8	(43.0)	(41.0)

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## Risks not over as yet

### Quick Pointers

- Recognized large part of large infra conglomerate as Non-performing with satisfactory rate of provisioning
- New MD & CEO approved by RBI and appointed by Bank should start to restore credibility.

**Yes Bank missed our earnings expectation, reporting PAT of Rs10.0bn (PLe: Rs11.1bn) which was mainly led by sharp drop in other income as bank started to see lower corporate fees (from slower incremental growth) and one time large MTM loss on swaps. Importantly, NII saw larger beat with much stronger growth of 41% YoY/10.0% QoQ, while provisions were relatively lower on investment write back helping support earning despite recognizing large part of IL&FS exposure. We have been re-iterating new MD & CEO appointment remains key event for the bank's journey ahead which now starts bringing in credibility back but risks of higher asset quality recognitions and RBI AQR remain immediate concern. Also, delayed capital raising could slow growth significantly and lower CASA metrics, higher corporate share restricts increase in multiple at current juncture. We retain ACCUMULATE rating with revised TP of Rs245 (from Rs231) based on 1.6x (from 1.5x) Sep-20 ABV**

- Strong NII but other income plays spoil sport:** NII growth was strong at 41% YoY/10% QoQ on back of steady NIMs of 3.3% but income was better on back of higher average loan book than period end, net interest reversal was not large and lower corporate share from sell down (spread wise). Although, disappointment was from sharp decline in other income by 40% YoY on back of decline in momentum of corporate fees and large MTM loss on various financial instruments (credit swaps).
- Loan growth slowed to conserve capital:** Faster loan growth in last few quarters saw higher CET-I consumption to discomfoting levels. Hence bank's growth slowed down to 42% YoY/2% QoQ with slower corporate book on higher sell down of loans and lower opportunities from liquidity squeeze. We build-in slower loan growth of 23% CAGR in FY19-FY21 as capital remains mainstay for further revision in loan growth rate. **On Liabilities,** deposit momentum also slowed on slower loans, but SA saw sharp decline of 19% QoQ but was compensated from high CA growth. Bank mentioned it saw some government balances move out but average period end CASA ratio was better. CASA ratio has deteriorated to 33% from 38% last FY which will be important metric to watch.
- Asset quality part risks recognized:** Bank reported high slippages of Rs23.0bn but was absorbed by slightly better recovery/upgrade from earlier NPA exposure. Importantly, slippages were on recognition of large part of Rs19.0bn IL&FS exposure (of Rs25.3bn) and small part remains standard. Bank provided 25% provision on the NPA exposure and 15% on standard provisions and management expects this to suffice haircuts. With new CEO, increased NPA recognition and divergence related hits remains high risk on asset quality.

**Exhibit 1: Miss on earnings on lower other income but strong NII**

P&L (Rs million)	Q3FY19	Q3FY18	YoY chg.	Q2FY19	QoQ chg.
Interest Income	79,589	50,703	57.0	72,312	10.1
Interest Expense	52,925	31,815	66.4	48,137	9.9
<b>Net interest income (NII)</b>	<b>26,664</b>	<b>18,888</b>	<b>41.2</b>	<b>24,176</b>	<b>10.3</b>
Other income	8,909	14,223	(37.4)	14,735	(39.5)
<b>Total income</b>	<b>35,573</b>	<b>33,111</b>	<b>7.4</b>	<b>38,910</b>	<b>(8.6)</b>
Operating expenses	15,669	13,093	19.7	15,246	2.8
-Staff expenses	6,254	5,334	17.2	5,940	5.3
-Other expenses	9,416	7,759	21.4	9,306	1.2
<b>Operating profit</b>	<b>19,904</b>	<b>20,018</b>	<b>(0.6)</b>	<b>23,664</b>	<b>(15.9)</b>
<b>Core operating profit</b>	<b>21,506</b>	<b>17,590</b>	<b>22.3</b>	<b>21,444</b>	<b>0.3</b>
Total provisions	5,502	4,213	30.6	9,400	(41.5)
<b>Profit before tax</b>	<b>14,401</b>	<b>15,805</b>	<b>(8.9)</b>	<b>14,265</b>	<b>1.0</b>
Tax	4,383	5,036	(13.0)	4,618	(5.1)
<b>Profit after tax</b>	<b>10,019</b>	<b>10,769</b>	<b>(7.0)</b>	<b>9,647</b>	<b>3.9</b>
<b>Balance Sheet</b>					
Deposits	2,227,580	1,717,314	29.7	2,283,794	(2.5)
Advances	2,438,850	1,715,149	42.2	2,396,275	1.8
<b>Profitability ratios</b>					
Yield on Advances	10.2	9.8	40	10.1	10
Cost of Funds	6.5	6.0	50	6.4	10
<b>NIM</b>	<b>3.3</b>	<b>3.5</b>	<b>(20)</b>	<b>3.3</b>	-
RoAA	1.1	1.7	(60)	1.1	-
RoAE	14.4	18.0	(360)	14.4	-
<b>Asset Quality</b>					
Gross NPL (Rs m)	51,586	29,743	73.4	38,661	33.4
Net NPL (Rs m)	28,764	15,951	80.3	20,197	42.4
Gross NPL ratio	2.1	1.7	38	1.6	50
Net NPL ratio	1.2	0.9	25	0.8	34
Coverage ratio	44.2	46.4	(213)	47.8	(352)
<b>Business &amp; Other Ratios</b>					
CASA mix	33.3	38.0	(470)	33.8	(50)
Cost-income ratio	44.0	39.5	451	39.2	487
Non int. inc / total income	25.0	43.0	(1,791)	37.9	(1,282)
Credit deposit ratio	109.5	99.9	961	104.9	456
CAR	17.4	19.5	(210)	17.0	40
Tier-I	12.0	14.7	(270)	11.9	10

Source: Company Data, PL Research

NII growth saw strong growth owing to improvement in yields (MCLR increases) and strong loan growth (on average basis)

Other income saw sharp decline on back of much slower corporate fees and high MTM losses on loan swaps

Overall opex growth though higher has been in-line with trends

Bank provided ~Rs6.0bn on IL&FS (both NPA & standard exposure), while saw Rs2.4bn of reversals largely on investment write back

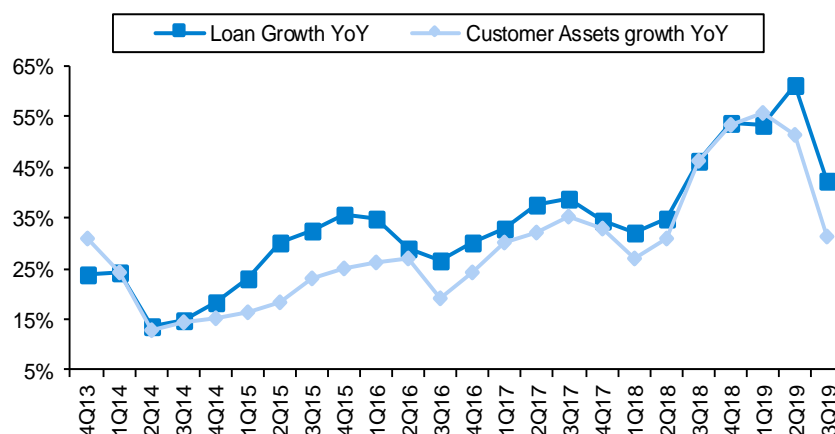
Loan growth rate moderated on higher sell downs during the quarter

Margins though seem to be flat saw marginal improvement on carrying higher average loan book before sell down and slight impact from net interest reversals

Asset quality deteriorated as bank classified part of IL&FS exposure as NPA, although impact was absorbed by better recovery/upgrades

CASA mix was largely stable sequentially but saw varied gap in growth of SA & CA balances

Capital growth marginally improved but restricts ability to grow faster

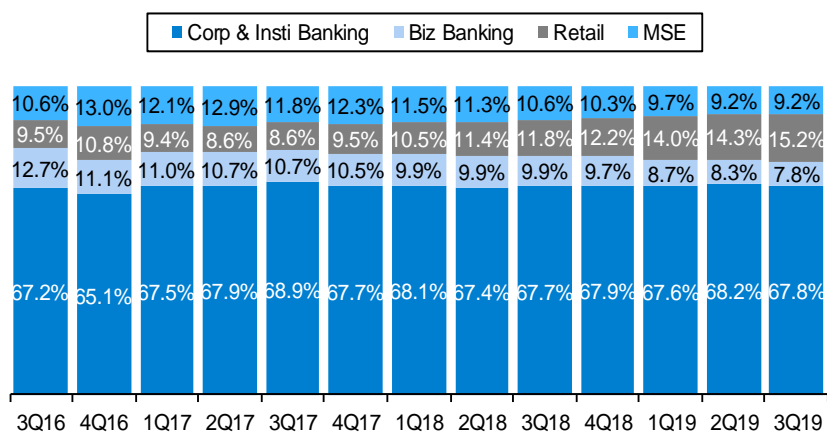
**Exhibit 2: Loan growth moderates on high base and conserving capital**


Source: Company, PL

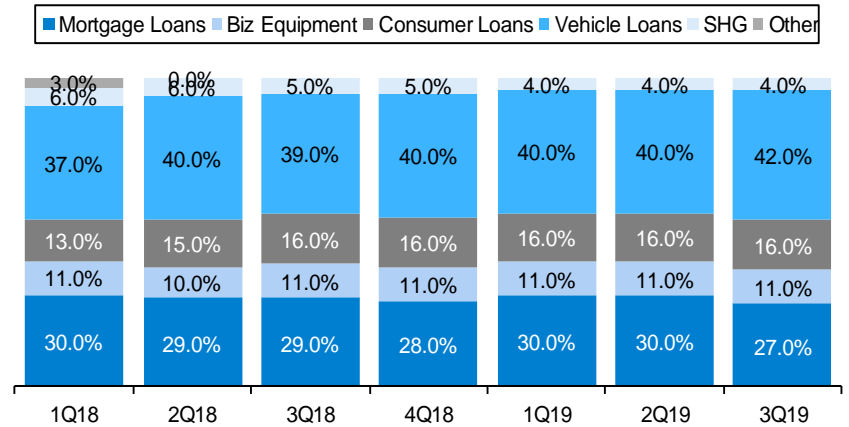
**Exhibit 3: Segmental Mix of Loans**

Advances Break-up	Q3FY19	Q3FY18	YoY chg.	Q2FY19	QoQ chg.
Corporate Banking	1,653,540	1,161,156	42.4	1,634,259	1.2
International Banking Unit	195,108	104,624	86.5	208,476	(6.4)
Commercial Banking	785,310	553,993	41.8	762,015	3.1
Business Banking (SME)	190,230	169,800	12.0	198,891	(4.4)
Retail	370,705	202,388	83.2	342,667	8.2
MSE	224,374	181,806	23.4	220,457	1.8
<b>Total</b>	<b>2,438,850</b>	<b>1,715,149</b>	<b>42.2</b>	<b>2,396,275</b>	<b>1.8</b>

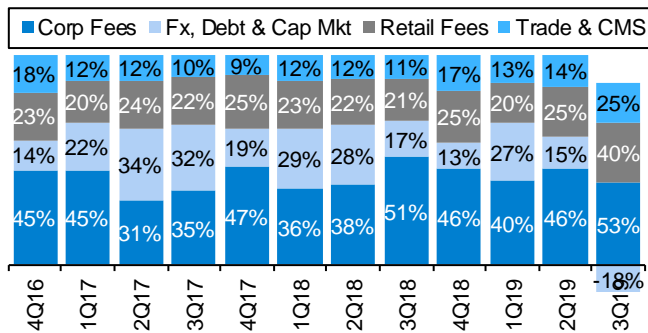
Source: Company, PL

**Exhibit 4: Retail mix improving steadily, corporate book slowed down**


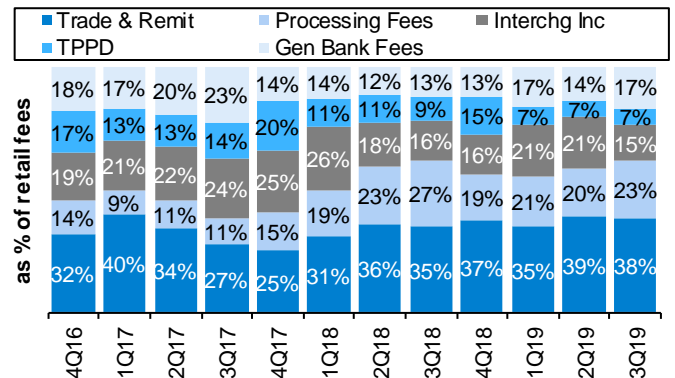
Source: Company, PL

**Exhibit 5: Retail loans – Strong growth in vehicle loans of ~1x YoY**


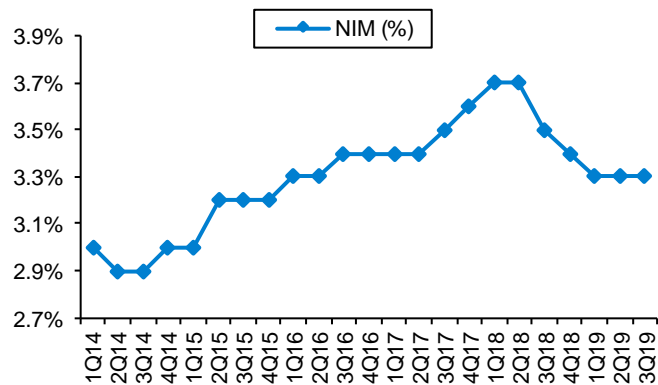
Source: Company, PL

**Exhibit 6: Corp fees slowed down; cap mkt saw decline on MTM losses on swaps**


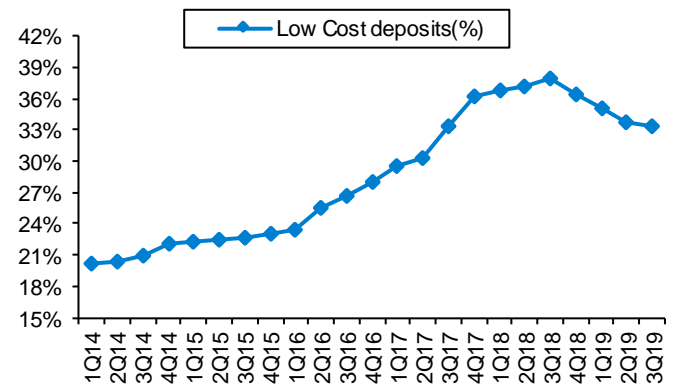
Source: Company, PL

**Exhibit 7: Retail fees growth was mixed bag among segments**


Source: Company, PL

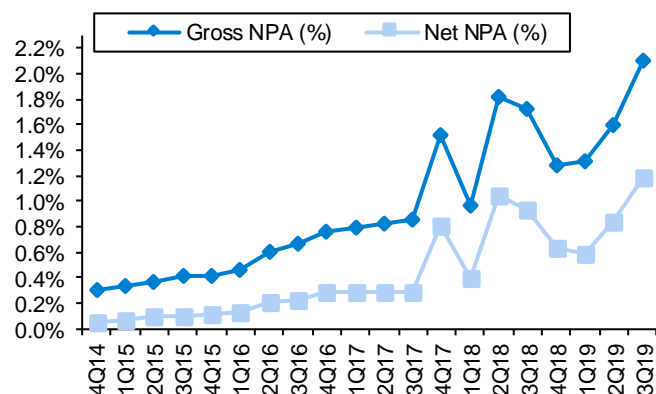
**Exhibit 8: NIMs were stable sequentially but excl. interest reversals saw good jump**


Source: Company, PL

**Exhibit 9: CASA mix remained steady but CA saw strong jump and SA saw sharp decline**


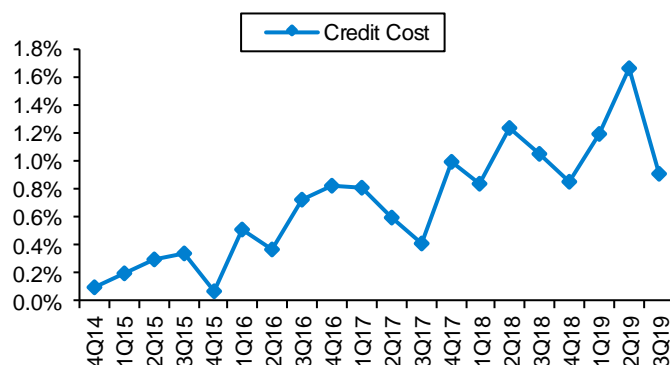
Source: Company, PL

**Exhibit 10: Asset quality saw deterioration on higher slippages from IL&FS recognition**



Source: Company, PL

**Exhibit 11: Provisions saw dip on lower slippages (ex IL&FS) better recoveries and write back in MTM provision**



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	8.58	8.42	8.52
Interest expenses	6.98	6.59	5.95	5.59	4.75	5.67	5.42	5.44
<b>Net interest income</b>	<b>2.61</b>	<b>2.85</b>	<b>3.03</b>	<b>3.05</b>	<b>2.93</b>	<b>2.90</b>	<b>3.00</b>	<b>3.08</b>
Treasury income	0.35	0.06	0.22	0.43	0.28	0.15	0.12	0.12
Other Inc. from operations	1.30	1.61	1.58	1.76	1.70	1.34	1.30	1.31
<b>Total income</b>	<b>4.26</b>	<b>4.51</b>	<b>4.83</b>	<b>5.23</b>	<b>4.91</b>	<b>4.40</b>	<b>4.42</b>	<b>4.51</b>
Employee expenses	0.75	0.80	0.86	0.95	0.83	0.70	0.69	0.68
Other operating expenses	0.93	1.06	1.11	1.22	1.15	1.07	1.10	1.17
<b>Operating profit</b>	<b>2.58</b>	<b>2.65</b>	<b>2.85</b>	<b>3.07</b>	<b>2.94</b>	<b>2.62</b>	<b>2.63</b>	<b>2.66</b>
Tax	0.68	0.74	0.81	0.42	0.59	0.73	0.67	0.67
Loan loss provisions	0.35	0.28	0.36	0.90	0.75	0.62	0.64	0.66
<b>RoAA</b>	<b>1.55</b>	<b>1.64</b>	<b>1.68</b>	<b>1.75</b>	<b>1.60</b>	<b>1.28</b>	<b>1.33</b>	<b>1.34</b>
<b>RoAE</b>	<b>25.02</b>	<b>21.33</b>	<b>19.94</b>	<b>18.58</b>	<b>17.67</b>	<b>16.13</b>	<b>17.60</b>	<b>18.20</b>

Source: Company, PL

We improve our margin estimates for FY19E but reduce our other income estimates and increase provisions on IL&FS accelerated provisioning and likely divergence if any

**Exhibit 13: Estimates change table**

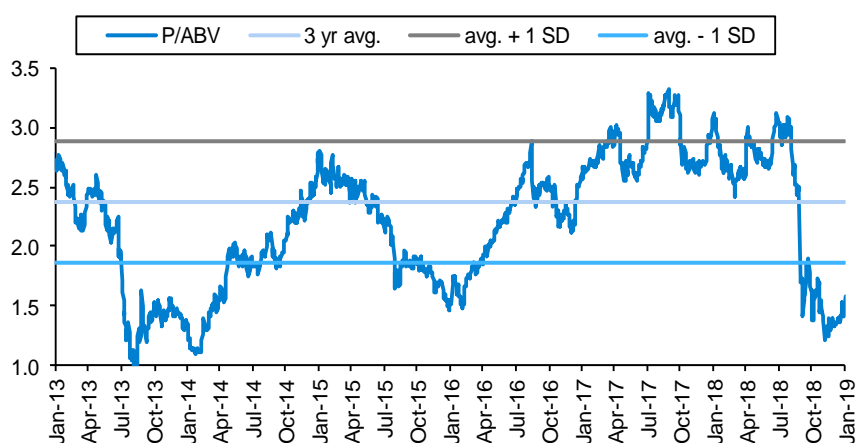
(Rs mn)	Old			Revised			% Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
NII	97,718	122,776	153,554	101,109	126,347	154,686	3.5	2.9	0.7
Operating profit	98,924	118,312	141,651	91,400	110,954	133,884	(7.6)	(6.2)	(5.5)
Net profit	49,089	59,913	72,375	44,541	55,956	67,206	(9.3)	(6.6)	(7.1)
EPS (Rs)	21.3	26.0	31.4	19.3	24.2	29.1	(9.4)	(7.0)	(7.5)
ABVPS (Rs)	123.5	143.9	170.5	119.1	140.2	166.7	(3.6)	(2.6)	(2.2)
<b>Price target (Rs)</b>	<b>231</b>			<b>245</b>			<b>5.4</b>		
<b>Recommendation</b>	<b>ACCUMULATE</b>			<b>ACCUMULATE</b>					

Source: Company, PL

**Exhibit 14: We slightly revise our TP upwards to Rs245 (from Rs231) based on 1.6x Sep-20 ABV (from 1.5x Sep-20 ABV)**

PT calculation and upside	
Market Risk Premium	6.0%
Risk-free Rate	8.0%
Adjusted Beta	1.08
<b>Cost of Equity</b>	<b>14.5%</b>
Terminal Growth	5.0%
<b>Fair price - P/AB, Rs</b>	<b>245</b>
<b>Target P/ABV (x)</b>	<b>1.6</b>
<b>Target P/E (x)</b>	<b>9.2</b>
Current price, Rs	215
<b>Upside (%)</b>	<b>13.8%</b>
Dividend yield (%)	0.9%
<b>Total return (%)</b>	<b>14.7%</b>

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	232,410	286,512	349,390
Int. Earned from invt.	41,025	60,749	64,086	74,118
Others	6,867	5,635	4,157	4,871
Total Interest Income	202,674	298,794	354,755	428,378
Interest Expenses	125,304	197,685	228,408	273,693
<b>Net Interest Income</b>	<b>77,371</b>	<b>101,109</b>	<b>126,347</b>	<b>154,686</b>
Growth(%)	30.2	18.3	21.6	21.6
Non Interest Income	52,238	52,238	60,074	72,089
Net Total Income	129,609	153,348	186,421	226,775
Growth(%)	23.9	37.7	18.2	20.6
Employee Expenses	21,889	24,516	28,929	34,136
Other Expenses	27,929	34,911	43,639	55,421
Operating Expenses	52,128	61,948	75,467	92,891
<b>Operating Profit</b>	<b>77,481</b>	<b>91,400</b>	<b>110,954</b>	<b>133,884</b>
Growth(%)	32.7	18.0	21.4	20.7
NPA Provision	10,788	19,463	25,531	30,980
Total Provisions	15,538	25,413	28,057	33,576
<b>PBT</b>	<b>61,943</b>	<b>65,987</b>	<b>82,898</b>	<b>100,307</b>
Tax Provision	19,697	21,446	26,942	33,101
Effective tax rate (%)	31.8	32.5	32.5	33.0
<b>PAT</b>	<b>42,246</b>	<b>44,541</b>	<b>55,956</b>	<b>67,206</b>
Growth(%)	26.9	5.4	25.6	20.1

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Face value	2	2	2	2
No. of equity shares	2,303	2,312	2,312	2,312
Equity	4,606	4,625	4,625	4,625
Networth	257,583	294,647	341,141	397,214
Growth(%)	16.8	14.4	15.8	16.4
Adj. Networth to NNPA's	13,127	29,544	26,197	19,176
Deposits	2,007,381	2,368,710	2,866,139	3,468,029
Growth(%)	40.5	18.0	21.0	21.0
CASA Deposits	731,762	810,099	1,003,149	1,217,278
% of total deposits	36.5	34.2	35.0	35.1
<b>Total Liabilities</b>	<b>3,124,456</b>	<b>3,842,796</b>	<b>4,586,306</b>	<b>5,471,216</b>
Net Advances	2,035,339	2,544,173	3,129,333	3,755,200
Growth(%)	53.9	25.0	23.0	20.0
Investments	683,989	857,799	939,284	1,096,398
<b>Total Assets</b>	<b>3,124,456</b>	<b>3,842,796</b>	<b>4,586,306</b>	<b>5,471,216</b>
Growth (%)	45.3	23.0	19.3	19.3

**Asset Quality**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs (Rs m)	26,268	53,606	58,946	59,981
Net NPAs (Rs m)	13,127	29,544	26,197	19,176
Gr. NPAs to Gross Adv.(%)	1.3	2.1	1.9	1.6
Net NPAs to Net Adv. (%)	0.6	1.2	0.8	0.5
NPA Coverage %	50.0	44.9	55.6	68.0

**Profitability (%)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	3.1	3.1	3.2	3.3
RoAA	1.6	1.3	1.3	1.3
RoAE	17.7	16.1	17.6	18.2
Tier I	13.2	11.8	10.8	10.2
CRAR	18.4	20.1	17.8	16.2

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Interest Income	57,430	65,780	72,312	79,589
Interest Expenses	35,887	43,589	48,137	52,925
<b>Net Interest Income</b>	<b>21,542</b>	<b>22,191</b>	<b>24,176</b>	<b>26,664</b>
YoY growth (%)	32.5	53.2	65.1	66.4
CEB	9,913	10,156	10,290	8,248
Treasury	-	-	-	-
Non Interest Income	14,210	16,941	14,735	8,909
<b>Total Income</b>	<b>71,640</b>	<b>82,722</b>	<b>87,047</b>	<b>88,498</b>
Employee Expenses	5,467	5,906	5,940	6,254
Other expenses	8,931	8,680	9,306	9,416
Operating Expenses	14,398	14,586	15,246	15,669
<b>Operating Profit</b>	<b>21,354</b>	<b>24,547</b>	<b>23,664</b>	<b>19,904</b>
YoY growth (%)	26.3	44.0	24.1	(0.6)
Core Operating Profits	19,573	19,944	21,444	21,506
NPA Provision	-	-	-	-
Others Provisions	3,996	6,257	9,400	5,502
Total Provisions	3,996	6,257	9,400	5,502
<b>Profit Before Tax</b>	<b>17,358</b>	<b>18,291</b>	<b>14,265</b>	<b>14,401</b>
Tax	5,564	5,687	4,618	4,383
<b>PAT</b>	<b>11,794</b>	<b>12,604</b>	<b>9,647</b>	<b>10,019</b>
YoY growth (%)	29.0	30.5	(3.8)	(7.0)
<b>Deposits</b>	<b>2,007,382</b>	<b>2,133,945</b>	<b>2,283,794</b>	<b>2,227,580</b>
YoY growth (%)	40.5	42.0	44.6	29.7
<b>Advances</b>	<b>2,035,339</b>	<b>2,147,201</b>	<b>2,396,275</b>	<b>2,438,850</b>
YoY growth (%)	53.9	53.4	61.2	42.2

**Key Ratios**

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	215	215	215	215
EPS (Rs)	18.4	19.3	24.2	29.1
Book Value (Rs)	112	127	148	172
Adj. BV (70%)(Rs)	108	119	140	167
P/E (x)	11.7	11.2	8.9	7.4
P/BV (x)	1.9	1.7	1.5	1.3
P/ABV (x)	2.0	1.8	1.5	1.3
DPS (Rs)	2.4	2.7	3.4	4.0
Dividend Payout Ratio (%)	15.6	16.8	16.9	16.6
Dividend Yield (%)	1.1	1.3	1.6	1.9

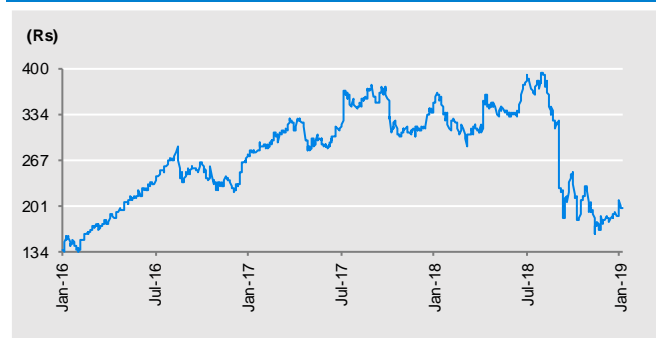
**Efficiency**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Cost-Income Ratio (%)	40.2	40.4	40.5	41.0
C-D Ratio (%)	101.4	107.4	109.2	108.3
Business per Emp. (Rs m)	222	224	228	229
Profit per Emp. (Rs lacs)	23	20	21	21
Business per Branch (Rs m)	3,675	3,639	3,747	3,904
Profit per Branch (Rs m)	38	33	35	36

**Du-Pont**

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	2.93	2.90	3.00	3.08
Total Income	4.91	4.40	4.42	4.51
Operating Expenses	1.98	1.78	1.79	1.85
PPoP	2.94	2.62	2.63	2.66
Total provisions	0.59	0.73	0.67	0.67
RoAA	1.60	1.28	1.33	1.34
RoAE	17.67	16.13	17.60	18.20

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Feb-18	BUY	415	326
2	15-Mar-18	BUY	415	312
3	13-Apr-18	BUY	415	316
4	27-Apr-18	BUY	438	352
5	23-May-18	BUY	438	352
6	21-Jun-18	BUY	438	333
7	10-Jul-18	BUY	438	358
8	26-Jul-18	BUY	438	370
9	26-Sep-18	Accumulate	250	220
10	5-Oct-18	BUY	250	215

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	681	637
2	Bank of Baroda	BUY	161	123
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	102	89
5	HDFC Bank	BUY	2,371	2,130
6	HDFC Standard Life Insurance Company	BUY	438	385
7	ICICI Bank	BUY	415	368
8	ICICI Prudential Life Insurance Company	BUY	471	344
9	IDFC Bank	Accumulate	55	46
10	IndusInd Bank	BUY	1,765	1,602
11	Jammu & Kashmir Bank	BUY	76	37
12	Kotak Mahindra Bank	Hold	1,291	1,268
13	Max Financial Services	BUY	629	436
14	Punjab National Bank	Hold	79	81
15	SBI Life Insurance Company	BUY	779	620
16	South Indian Bank	BUY	22	16
17	State Bank of India	BUY	355	296
18	Union Bank of India	Reduce	79	91
19	YES Bank	Accumulate	231	187

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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