

Yes Bank

Growth affirmed

Yes Bank (YES), incorporated in 2004, is a private Indian bank. It is promoted by Mr. Rana Kapoor with financial support of Rabobank and Global investor - AIF Capital and Chrys Capital. Despite competition from well established private banks, it has been able to grow its balance sheet at steady pace. The bank's advances have grown at healthy CAGR of 32% over FY2010-18. It has branch network of 1,100 (Q4FY18 end) and CASA ratio of 37%. Corporate lending forms 67.9% of advances and commercial/retail 32.1%.

Focus on high rated accounts leads to 54% credit growth in FY18: YES has been able to grown its loan book at CAGR of 32% over FY2010-18. For FY18, credit grew by 54% primarily led by corporate book, with a focus on high rated corporate accounts (overall corporate portfolio continues to be well rated with nearly 80% portfolio rated 'A' or better). Business with high rated corporate would help YES to generate fee income and build retail liabilities (CASA). Consumer lending in FY18 grew by 98% and contributes 12.2% of the total loan book.

Improving asset quality and minimal impact of stress resolution: There was a large divergence in the bank's GNPA reporting (₹6,300cr) and RBI review of FY2017. However, within short span of time, YES upgraded 47% of divergence accounts, remaining accounts were either repaid or sold to ARC and classified as NPA. GNPA/NPA for Q4FY18 declined to 1.28%/0.64% from 1.52% /0.81% in Q4FY17. Net stressed assets also declined to 1.7% from 2.25% of advances. Exposure to RBI IBC list 1 is ₹320cr with 50% provision and to the IBC list 2 is ₹650cr with 42% provision. However, YES Bank expects minimal impact due to RBI stress resolution frame work.

CASA growth and rating improvement to support NIM: CASA deposit has grew at CAGR of 51% over FY2015-18 and 41% YoY taking the CASA ratio to 36.5%. Recently, CARE has upgraded its rating to 'AAA' with stable outlook for YES Bank. These factors would support the bank's target to achieve 4% NIM by March 2020.

Outlook & Valuation: We expect YES Bank to grow its advances at CAGR of 32% over FY2018-20E. Improvement in CASA, rating up-gradation and in-house priority sector lending would support NIM going forward. At CMP, YES trades at 2.4x FY20E P/ABV, which we believe is attractive considering growth prospects, hence, we recommend BUY with a target price of ₹435 over the next 12 months.

Key Financials (Standalone)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
NII	3,488	4,567	5,797	7,737	10,593	13,967
% Chg	28	31	27	33	37	32
Net Profit	2,005	2,539	3,330	4,225	5,951	7,851
% Chg	24	27	31	27	41	32
NIM (%)	3.1	3.3	3.4	3.3	3.2	3.2
EPS (₹)	9	11	14	18	26	34
P/E (x)	44	35	26	21	15	11
P/BV (x)	7.5	6.4	4.1	3.5	2.9	2.4
RoA (%)	1.6	1.7	1.8	1.6	1.6	1.6
RoE (%)	21	20	19	18	21	23

Source: Company, Angel Research; Note: CMP as of July 17, 2018

Please refer to important disclosures at the end of this report

BUY

CMP	₹380
Target Price	₹435

Investment Period	12 Months
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Stock Info

Sector	Banking
Market Cap (₹ cr)	87,870
Beta	1.3
52 Week High / Low	385/286
Avg. Daily Volume	7,01,397
Face Value (₹)	2
BSE Sensex	36,519
Nifty	11,008
Reuters Code	YESB.NS
Bloomberg Code	YES.IN

Shareholding Pattern (%)

Promoters	20.0
MF / Banks / Indian Fls	24.8
FII / NRIs / OCBs	42.6
Indian Public / Others	12.6

Abs. (%)	3m	1yr	3yr
Sensex	5.8	14.6	28.4
Yes Bank	22.1	21.1	128.3

3-year price chart



Source: Company, Angel Research

Jaikishan Parmar

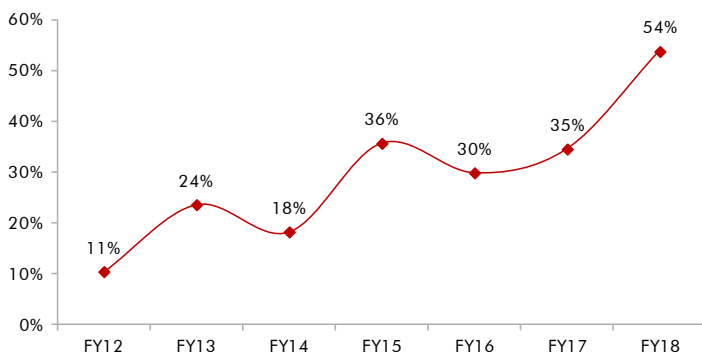
022 – 39357600 Ext: 6810

Jaikishan.parmar@angelbroking.com

Credit growth of 54% in FY18 with focus on high rated account

YES has been able to grown its loan book at CAGR of 32% over FY10-18. For FY18 advance grew by 54% primarily led by corporate book with a focus on high rated corporate. (Overall corporate portfolio continues to be well rated with nearly 80% portfolio rated 'A' or better). Healthy advance growth due to 1) large private banks (ICICI & Axis bank) are reluctant to lend their large and mid corporate portfolio owing to continues asset quality issues. 2) Many PSU banks are in pause mode as RBI has placed them under Prompt Corrective Action (PCA) owing to capital constraint and stubbornly high bad asset (GNPA).

Exhibit 1: Credit Growth (YoY)



Source: Company

Exhibit 2: Nearly 80% portfolio rated A or better...

(%)	FY15	FY16	FY17	FY18
AAA	20.3	18.4	20.9	23.2
AA	14.9	18.5	15.6	13.3
A	41.6	39.6	39.6	42.9
BBB	20.8	21.7	21.8	18.5
BB & below	2.5	1.8	2	2.2
Total	100	100	100	100

Source: Company

YES has been focusing to improve retail business, incremental high rated lending to abate NIM for short term. However, it would help bank to build CASA and generation of fees income. Core retail advance grew by 98% in FY18 which constitute 12.2% of loan book (7.3% in 1QFY16).

Exhibit 3: Loan Mix

Segment	FY15	FY16	FY17	FY18
Corporate banking	68	65.1	67.7	67.9
Medium Ent	14.1	11.1	10.5	9.7
SME	10.6	13	12.3	10.3
Retail Banking	7.3	10.8	9.5	12.2
Total	100	100	100	100.1

Source: Company

Exhibit 4: CASA Trend

	CA (%)	SA (%)	CASA (%)
FY12	9.9	5.1	15.0
FY13	10.0	9.0	18.9
FY14	9.5	12.6	22.0
FY15	9.3	13.8	23.1
FY16	9.8	18.3	28.1
FY17	13.4	22.9	36.3
FY18	14.4	22.1	36.5

Source: Company

We believe expect YES to grow its loan book at CAGR of 33% over FY18-20E. Present asset quality issue for certain corporate lender would help banks with stronger balance sheet to grow faster than industry. Moreover, NCLT resolution of large account would also create fresh demand for credit. We believe proper understanding of at least some of these accounts, balance sheet strength and the inability of several corporate-focused lenders to lend would propel YES Bank advance.

Improving asset quality and minimal impact of stress resolution:

At the end of FY2017, the RBI judged the bank's gross NPAs at ₹8,373cr. The bank, however, had reported gross NPAs at ₹2,018cr. The consequent divergence was at ₹6,355cr or three times the reported amount. However, bank's management acted immediately and 47% of the divergence amount had been upgraded in the first half of the year. Another 27% of that amount was repaid, while 19% was classified as NPA at the end of the September quarter. Much of the remaining amount was sold to asset reconstruction companies.

GNPA/NPA for Q4FY18 declined to 1.28%/0.64% from 1.52%/0.81% in Q4FY17. Net stressed asset also declined to 1.7% (Q4FY18) from 2.25% (Q3FY18) of advances. Exposure to RBI IBC list 1 is ₹320cr with 50% provision and to the IBC list 2 is ₹650cr with 42% provision. However, YES Bank expects minimal impact due to RBI stress resolution frame work.

Exhibit 5: GNPA & NPA Trend

Asset Quality (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Gross NPAs	0.20	0.31	0.41	0.76	1.52	1.28	1.25	1.25
Gross NPAs (₹in cr)	94	175	313	749	2,019	2,627	3,435	4,465
Net NPAs	0.01	0.05	0.12	0.29	0.81	0.64	0.55	0.50
Net NPAs (₹in cr)	7	26	88	284	1,072	1,313	1,511	1,786
Credit Cost on Advance	0.46	0.65	0.45	0.55	0.60	0.76	0.70	0.70
Provision Coverage	0.93	0.85	0.72	0.62	0.47	0.50	0.56	0.60

Source: Company

Exhibit 6: Exposure to sensitive sectors

Sensitive Sector	Total (%)	A or Above (%)
Iron & Steel	2.0	1.5
Electricity	2.7	
telecom	2.2	1.9
Gems & jewelry	1.4	0.9

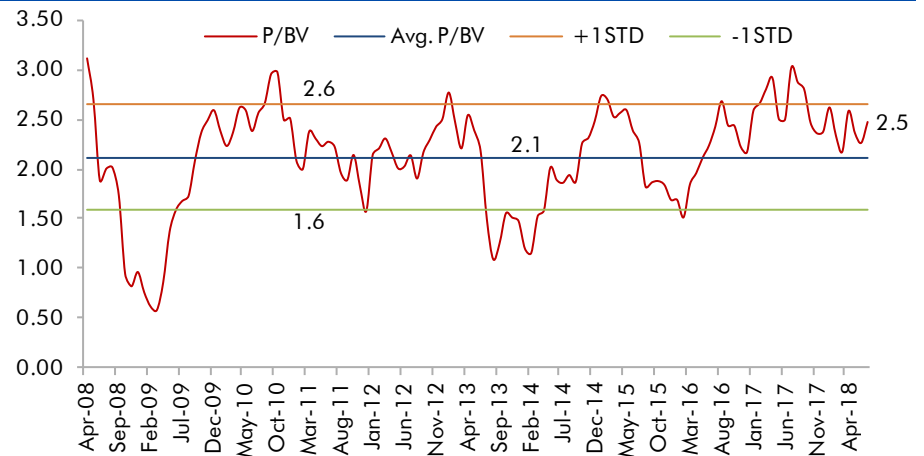
Source: Company

Standard restructured portfolio was flat qoq at ₹91cr in Q4FY208 (16bps of loans) from ₹90.3cr in 3QFY18, while SDR portfolio declined to 0 from ₹362cr in 3Q. During the quarter, YES sold 2 NPA accounts to an ARC, SR book declined to 0.92% from 1.07% of advances in 3QFY18. Standard S4A exposure declined to ₹139cr from ₹154cr in 3QFY18.

CASA growth and rating improvement to support NIM: CASA deposit grew at CAGR of 51% over FY15-18 and 41% YoY taking the CASA ratio to 36.5%. Recently, CARE has upgraded the bank's rating to 'AAA' with stable outlook. These factors would support YES Bank's target to achieve 4% NIM by March 2020.

Outlook & Valuation: We expect YES Bank to grow its advances at CAGR of 32% over FY2018-20E. Improvement in CASA, rating up-gradation and in-house priority sector lending would support NIM going forward. At CMP, YES trades at 2.4x FY20E P/ABV, which we believe is attractive considering growth prospects, hence, we recommend BUY with a target price of ₹435 over the next 12 months.

Exhibit 7: One year forward P/B



Source: Company

Exhibit 8: DuPont Analysis (%)

Particular	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	9.5	9.6	9.6	9.4	9.0	8.6	7.7	7.8	7.9
Interest Expenses	7.1	7.0	7.0	6.6	5.9	5.6	4.8	4.9	5.0
NII	2.4	2.6	2.6	2.8	3.0	3.0	2.9	2.9	2.9
- Prov	0.1	0.3	0.3	0.3	0.4	0.4	0.6	0.5	0.5
Adj NII	2.3	2.3	2.3	2.6	2.7	2.6	2.3	2.4	2.4
Total Other Income	1.3	1.5	1.7	1.7	1.8	2.2	2.0	2.0	2.0
Total Income	3.6	3.8	3.9	4.2	4.5	4.8	4.3	4.4	4.4
Opex	1.4	1.5	1.7	1.9	2.0	2.2	2.0	2.0	2.0
PBT	2.2	2.2	2.2	2.4	2.5	2.7	2.3	2.4	2.4
TAX	0.7	0.7	0.7	0.7	0.8	0.9	0.7	0.8	0.8
RoA	1.5	1.5	1.6	1.6	1.7	1.8	1.6	1.6	1.6
Leverage	15.7	16.5	16.1	13.0	11.8	10.6	11.0	12.9	14.1
RoE	23.1	24.8	25.0	21.3	19.9	18.6	17.7	21.1	23.2

Source: Company,

Key risks

If the bank takes longer time to build its retail portfolio and increase CASA, then it could adversely impact NIMs.

Higher than expected slippages would increase credit cost and impact the profitability of the bank.

Lower-than-expected loan growth and loss of key management personnel poses a risk for the bank's performance.

Company Background

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Key management Personnel

Mr. Ashok Chawla has been on the Board of Yes Bank since March 05, 2016 and was appointed as Independent Director of the Bank by the Shareholders in 12th Annual General Meeting (AGM) on June 07, 2016 for a period of five years. Prior to joining Yes Bank, Mr. Chawla was the Chairman of the Competition Commission of India (CCI). He has obtained Masters in Economics from the Delhi School of Economics in 1972 and joined the Indian Administrative Service in 1973.

Mr. Rana Kapoor has been serving as the **Managing Director & CEO** of the Bank since September 01, 2004. He holds an MBA degree from Rutgers' University in New Jersey, U.S.A. (1980), and Bachelor's degree in Economics (Honours) from the University of Delhi (1977).

Mr. Raj Ahuja has been appointed as **CFO** in April 2018. Prior to joining Yes Bank, Raj was CFO and Head of Enterprise functions at Reliance Jio Infocomm Ltd. He has over 26 years of rich experience in managing finance and allied areas, operations, compliance and regulatory aspects.

Income Statement

Y/E March (₹cr)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	3,488	4,567	5,797	7,737	10,593	13,967
- YoY Growth (%)	28	31	27	33	37	32
Other Income	2,046	2,712	4,157	5,224	7,414	9,796
- YoY Growth (%)	19	33	53	26	42	32
Operating Income	5,534	7,279	9,954	12,961	18,007	23,763
- YoY Growth (%)	25	32	37	30	39	32
Operating Expenses	2,285	2,976	4,117	5,213	7,202	9,545
- YoY Growth (%)	31	30	38	27	38	33
Pre - Provision Profit	3,250	4,302	5,838	7,748	10,805	14,218
- YoY Growth (%)	21	32	36	33	39	32
Prov. & Cont.	339	536	793	1,554	1,923	2,500
- YoY Growth (%)	(6)	58	48	96	24	30
Profit Before Tax	2,910	3,766	5,044	6,194	8,882	11,718
- YoY Growth (%)	25	29	34	23	43	32
Prov. for Taxation	905	1,227	1,714	1,970	2,931	3,867
- as a % of PBT	31	33	34	32	33	33
PAT	2,005	2,539	3,330	4,225	5,951	7,851
- YoY Growth (%)	24	27	31	27	41	32

Source: Company

Balance Sheet

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity	418	421	456	461	461	461
Reserve & Surplus	11,262	13,366	21,598	25,298	30,177	36,615
Networth	11,680	13,787	22,054	25,758	30,638	37,076
Deposits	91,176	1,11,720	1,42,874	2,00,738	2,66,370	3,53,319
- Growth (%)	23	23	28	41	33	33
Borrowings	26,220	31,659	38,607	74,894	1,00,357	1,29,461
Other Liab. & Prov.	7,094	8,098	11,525	11,056	18,797	21,198
Total Liabilities	1,36,170	1,65,263	2,15,060	3,12,446	4,16,163	5,41,053
Cash Balances	5,241	5,776	6,952	11,426	15,181	20,140
Bank Balances	2,317	2,442	12,597	13,309	17,517	23,238
Investments	43,228	48,838	50,032	68,399	91,086	1,20,839
Advances	75,550	98,210	1,32,263	2,03,534	2,74,771	3,57,202
- Growth (%)	36	30	35	54	35	30
Fixed Assets	319	471	684	832	1,168	1,549
Other Assets	9,516	9,526	12,532	14,946	16,441	18,085
Total Assets	1,36,170	1,65,263	2,15,060	3,12,446	4,16,163	5,41,053

Source: Company

Exhibit 9: Key Ratio

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E	FY20E
Profitability ratios (%)						
NIMs	3.1	3.3	3.4	3.3	3.2	3.2
Cost to Income Ratio	41.3	40.9	41.4	40.2	40.0	40.2
RoA	1.6	1.7	1.8	1.6	1.6	1.6
RoE	21.3	19.9	18.6	17.7	21.1	23.2
B/S ratios (%)						
CASA Ratio	0.23	0.28	0.36	0.36	0.38	0.39
Credit/Deposit Ratio	0.8	0.9	0.9	1.0	1.0	1.0
Asset Quality (%)						
Gross NPAs	0.41	0.76	1.52	1.28	1.25	1.25
Gross NPAs (Amt)	313	749	2,018	2,626	3,434	4,465
Net NPAs	0.12	0.29	0.81	0.64	0.55	0.50
Net NPAs (Amt)	87	284	1,072	1,312	1,511	1,786
Credit Cost on Advance	0.45	0.55	0.60	0.76	0.70	0.70
Provision Coverage	72%	62%	47%	50%	56%	60%
Per Share Data (₹)						
EPS	8.7	11.0	14.5	18.3	25.8	34.1
BV	50.7	59.9	95.8	111.8	133.0	161.0
ABVPS (75% cover.)	50.7	59.4	93.3	109.0	130.2	158.1
DPS	1.8	2.0	2.4	2.7	4.7	6.1
Valuation Ratios						
PER (x)	43.7	34.5	26.3	20.8	14.7	11.2
P/BV	7.5	6.4	4.0	3.4	2.9	2.4
P/ABVPS (x)	7.5	6.4	4.1	3.5	2.9	2.4
Dividend Yield	0.5	0.5	0.6	0.7	1.2	1.6

Note - Valuation done on closing price of 17/07/2018

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

Yes Bank

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No