

Yes Bank

Performance Highlights

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
NII	1,108	1,060	4.6	856	29.4
Pre-prov. profit	1,019	908	12.2	817	24.7
PAT	610	551	10.7	483	26.5

Source: Company, Angel Research

Yes Bank reported a healthy set of numbers for 2QFY2016 with the PAT outperforming our estimates, growing 26.5% yoy to ₹610.4cr. The growth was led by surge in net interest income (NII) as well as lower than expected provisions. The bank registered a CASA ratio of 25.5%, for the quarter.

Advances growth high; consistent performance on the NIM front

During the quarter, advances grew at a healthy pace of 29.0% yoy while deposits grew 24.0% yoy, suggesting a healthy balance sheet growth. Savings deposits continued to witness robust traction, growing by 61.7% yoy, on account of the bank's growing retail franchise and influenced by some big ticket accounts. Overall, CASA deposits grew by 40.5% yoy enabling the bank to register a CASA ratio of 25.5%. The NIM for the bank inched up 10bp yoy to 3.3% but remained flat sequentially; while both the cost of funds as well as the yield on advances saw a decline of 30bp qoq each. The non interest income grew by 22.2% yoy, which was predominantly led by remittances and services businesses from the branches and it was largely retail and SME customers, who were the main contributors. The cost to income ratio surged by 97bp yoy to 41.0%, due to a yoy increase in operating expenses.

Performance on the asset quality front was modest considering the economic slowdown. The Gross NPA and Net NPA ratios were at 0.61% and 0.20% as compared to 0.46% and 0.13% respectively in the sequential previous quarter. Restructured assets stand at ₹569.3cr, which represent 0.71% of gross advances. Also, the bank indicated that there has neither been any sale to ARC during the previous four quarters nor the bank has refinanced any loan through the 5-25 route. Credit cost for the quarter was at 54 basis points while provision coverage ratio came in at 67.7%.

Outlook and valuation: The bank's asset quality performance has held up well so far. Going forward, we have factored higher provisions and slippages given the bank's corporate exposure to metal and EPC industries. Even after factoring the higher provisions and slippages, we expect Yes Bank to deliver a CAGR of 20.2% in earnings for FY2015-17E. Currently the stock trades at 1.95x FY2017E ABV. **We maintain our BUY rating on the stock.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII	2,716	3,488	4,616	5,826
% chg	22.4	28.4	32.3	26.2
Net profit	1,618	2,005	2,412	2,898
% chg	24.4	24.0	20.3	20.2
NIM (%)	2.8	3.0	3.2	3.3
EPS (₹)	44.9	48.0	57.7	69.4
P/E (x)	16.3	15.2	12.6	10.5
P/ABV (x)	3.7	2.6	2.2	1.9
RoA (%)	1.6	1.6	1.6	1.6
RoE (%)	25.0	21.3	19.1	19.6

Source: Company, Angel Research; Note: CMP as of October 29, 2015

Please refer to important disclosures at the end of this report

BUY

CMP	₹744
Target Price	₹914

Investment Period	12 months
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Stock Info

Sector	Banking
Market Cap (₹ cr)	31,150
Beta	1.5
52 Week High / Low	910/ 590
Avg. Daily Volume	4,26,724
Face Value (₹)	10
BSE Sensex	26,838
Nifty	8,112
Reuters Code	YESB.BO
Bloomberg Code	YES@IN

Shareholding Pattern (%)

Promoters	22.0
MF / Banks / Indian Fls	23.2
FII / NRIs / OCBs	41.3
Indian Public / Others	13.6

Abs. (%)	3m	1yr	3yr
Sensex	(2.6)	(1.0)	44.0
Yes Bank	(8.9)	16.4	79.3

3-year price chart



Source: Company

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Exhibit 1: 2QFY2016 performance summary (standalone)

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	3,377	3,252	3.9	2,832	19.2	11,572	9,981	15.9
- on Advances / Bills	2,415	2,328	3.7	1,969	22.7	8,016	6,540	22.6
- on investments	856	856	0.1	856	0.0	3,511	3,414	2.8
- on balance with RBI & others	52	17	210.3	8	554.3	43	24	79.5
- on others	54	51	6.4	0	67,925.0	2	3	(20.9)
Interest Expended	2,269	2,192	3.5	1,976	14.8	8,084	7,265	11.3
Net Interest Income	1,108	1,060	4.6	856	29.4	3,488	2,716	28.4
Other income	618	545	13.4	506	22.2	2,046	1,722	18.9
- Financial markets	117	100	17.3	54	116.3	356	478	(25.6)
- Financial advisory	209	233	(10.4)	176	18.4	850	607	40.1
- Transaction banking	156	132	18.6	134	16.6	548	423	29.5
- Retail and others	109	73	49.4	82	33.6	293	214	36.9
Operating income	1,727	1,605	7.6	1,362	26.8	5,534	4,438	24.7
Operating expenses	707	697	1.5	545	29.8	2,285	1,750	30.6
- Employee expenses	313	289	8.4	239	30.9	980	784	24.9
- Other Opex	395	408	(3.3)	306	29.0	1,305	965	35.2
Pre-provision Profit	1,019	908	12.2	817	24.7	3,250	2,688	20.9
Provisions & Contingencies	104	98	6.1	120	(13.0)	339	362	(6.1)
PBT	915	810	12.9	698	31.2	2,910	2,326	25.1
Provision for Tax	305	259	17.6	215	41.7	905	709	27.7
PAT	610	551	10.7	483	26.5	2,005	1,618	24.0
Effective Tax Rate (%)	33.3	32.0	133bp	30.8	247bp	31.1	30.5	2.1

Source: Company, Angel Research

Exhibit 2: 2QFY2016 performance analysis (standalone)

Particulars	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	80,015	79,666	0.4	62,030	29.0
Deposits (₹ cr)	99,344	95,316	4.2	80,131	24.0
Credit-to-Deposit Ratio (%)	80.5	83.6	(304)bp	77.4	313bp
Current deposits (₹ cr)	8,554	8,400	1.8	7,648	11.9
Savings deposits (₹ cr)	16,764	13,867	20.9	10,367	61.7
CASA deposits (₹ cr)	25,318	22,268	13.7	18,015	40.5
CASA ratio (%)	25.5	23.4	212bp	22.5	300bp
CAR (%)*	14.9	15.0	(10)bp	17.4	(250)bp
CET 1 CAR (%)*	10.9	10.9	0bp	12.2	(130)bp
Profitability Ratios (%)					
Yield on advances	11.6	11.9	(30)bp	12.2	(60)bp
Cost of funds	7.3	7.6	(30)bp	8.3	(100)bp
Reported NIM	3.3	3.3	0bp	3.2	10bp
Cost-to-income ratio	41.0	43.4	(244)bp	40.0	97bp
Asset quality					
Gross NPAs (₹ cr)	491	368	33.4	222	120.9
Gross NPAs (%)	0.61	0.46	15bp	0.36	25bp
Net NPAs (₹ cr)	159	107	48.6	54	194.3
Net NPAs (%)	0.20	0.13	7bp	0.09	11bp
Provision Coverage Ratio (%)	67.7	71.0	(331)bp	75.8	(805)bp
Provisions to avg. assets (%)	0.3	0.3	0bp	0.4	(13)bp

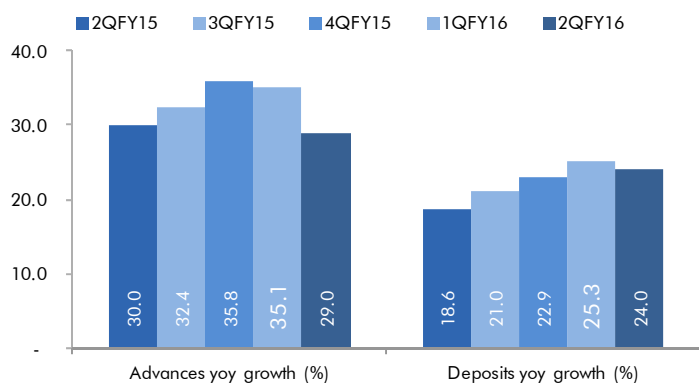
Source: Company, Angel Research, Note: *Basel III including profits

Healthy growth in loans and deposits

During the quarter, advances grew at a healthy pace of 29.0% yoy while deposits surged 24.0% yoy, suggesting a healthy balance sheet growth. Savings deposits continued to witness robust traction, growing by 61.7% yoy, on account of the bank's growing retail franchise and influenced by some big ticket accounts. Overall, CASA deposits grew by 40.5% yoy, enabling the bank to register a CASA ratio of 25.5%.

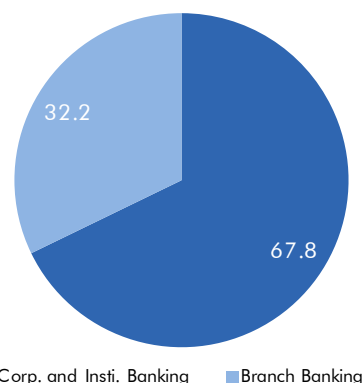
The bank added about 1.25 lakh savings accounts during the quarter, taking the total number of savings account to about 1.3 million as of September 30, 2015.

Exhibit 3: Healthy loan book growth



Source: Company, Angel Research

Exhibit 4: Business Segment breakup as of 2QFY2016



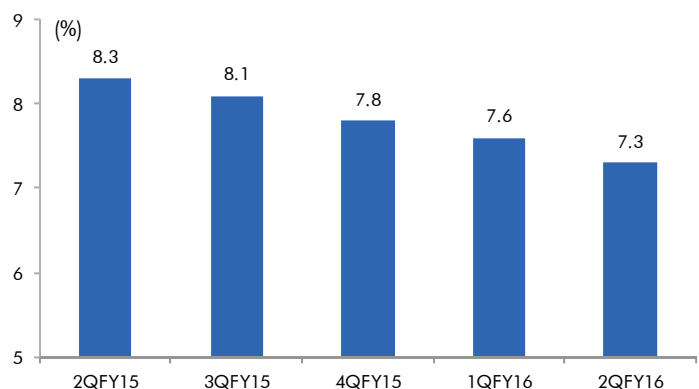
Source: Company, Angel Research

NIM flat qoq

The NIM for the bank inched up 10bp yoy to 3.3% but remained flat sequentially; while both the cost of funds as well as the yield on advances saw a decline of 30bp qoq each.

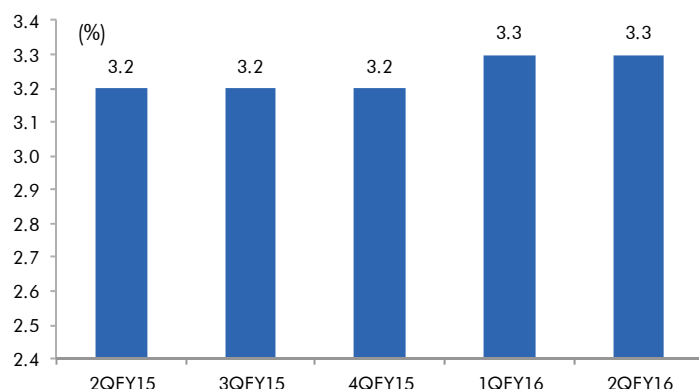
Average cost of savings account deposits was around 6.9% for the quarter. The Management has indicated that it is looking at 10 to 15 basis point improvement in margins over the next two, three quarters, due to the savings account rates which will be dropped effective November 1, 2015 and also expects growth in CASA deposits pointing that the second half of the year is usually stronger for CASA growth.

Exhibit 5: Cost of funds fell 30bp qoq & 100bp yoy



Source: Company, Angel Research

Exhibit 6: NIM stable at 3.30%



Source: Company, Angel Research

Moderate Non-interest income growth

The non-interest income on the other hand grew at a relatively lower rate than the NII, at 22.2% yoy to ₹618.1cr. It was predominantly led by remittances and services businesses from the branches and it was largely retail and SME customers, who were the main contributors.

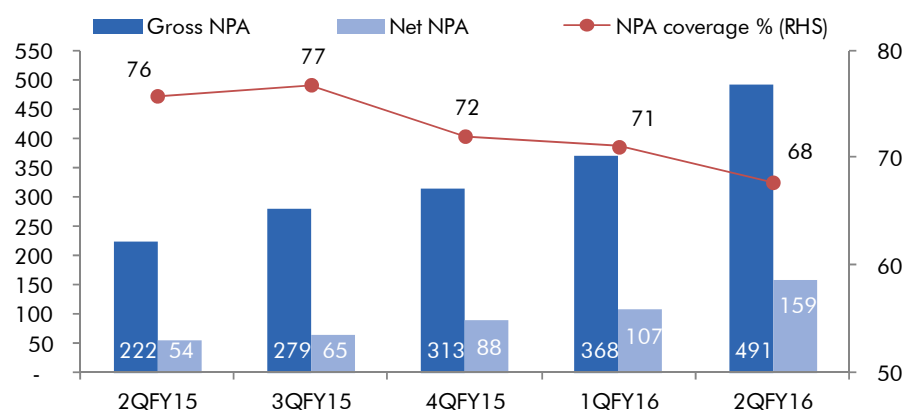
Exhibit 7: Non-int. Inc. performance

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Financial markets	101	107	(5.8)	116	(12.9)
Financial advisory	152	97	56.8	87	75.3
Transaction banking	220	207	6.2	211	3.9
Retail and others	145	134	8.2	92	58.6
Total income	618	545	13.4	506	22.2

Source: Company, Angel Research

Asset quality remains fairly stable

Performance on the Asset quality front was modest considering the economic slowdown. The Gross NPA ratio and Net NPA ratio were at 0.61% and 0.20% as compared to 0.46% and 0.13% respectively in the sequential previous quarter. Restructured assets stand at ₹569.3cr, which represent 0.71% of gross assets. Also the bank indicated that there has neither been any sale to ARC during the previous four quarters nor the bank has refinanced any loan through the 5-25 route. Credit cost for the quarter was at 54 basis points while provision coverage ratio came in at 67.7%. The Management reiterates its credit cost guidance of 50-70bp for the financial year 2015-16.

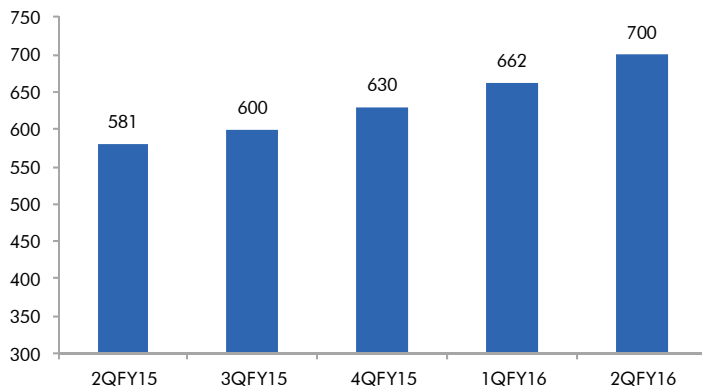
Exhibit 8: Asset quality amongst the top in the industry


Source: Company, Angel Research

Steady network expansion continues

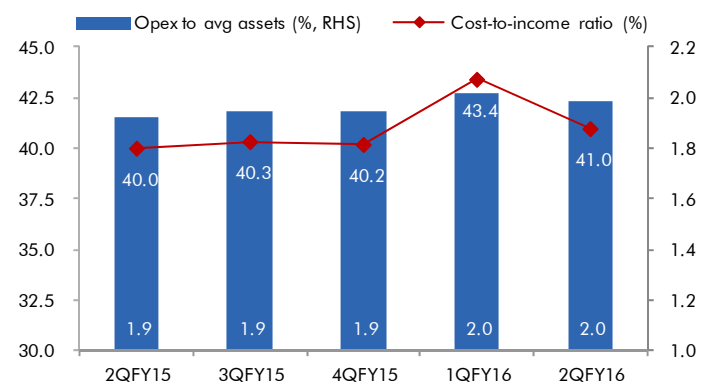
The bank added 38 branches since 1QFY2016 and 119 branches since 2QFY2015, taking the total number of branches to 700. This aided the bank to increase the CASA ratio from 23.4% in 1QFY2016 to 25.5% in 2QFY2016. The cost to income ratio surged by 97bp yoy to 41.0% due to yoy increase in operating expenses.

Exhibit 9: Steady branch network expansion continues



Source: Company, Angel Research

Exhibit 10: Cost to Income ratio declines qoq to 41%



Source: Company, Angel Research

Outlook and valuation

The bank's asset quality performance has held up well so far. Going forward, we have factored higher provisions and slippages given the bank's corporate exposure to metals and EPC industries. Even after factoring the higher provisions and slippages, we expect Yes Bank to deliver a CAGR of 20.2% in earnings for FY2015-17E. Currently the stock trades at 1.95x FY2017E ABV. **We maintain our BUY rating on the stock.**

Exhibit 11: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Accumulate	1,102	1,262	14.5	3.3	3.8	18.1	22.4	1.9	19.7
ICICIBk*	Buy	271	345	27.0	1.8	2.1	10.8	15.3	1.6	15.2
YesBk	Buy	744	914	22.9	2.0	2.4	10.7	20.2	1.6	19.6
AxisBk	Buy	469	630	34.1	1.9	2.6	10.8	18.4	1.8	18.9
SBI*	Buy	237	295	24.3	1.1	1.2	9.7	17.8	0.7	12.8
FedBk	Neutral	55	-	-	1.0	1.1	8.8	3.1	1.0	11.9
SIB	Neutral	21	-	-	0.7	0.8	6.2	21.6	0.7	11.6
BOB	Neutral	162	-	-	0.8	0.8	6.6	27.1	0.7	12.1
PNB	Neutral	129	-	-	0.6	0.6	4.7	28.5	0.7	12.0
BOI	Neutral	134	-	-	0.3	1.0	4.0	14.0	0.3	7.6
IndBk	Neutral	129	-	-	0.4	0.4	4.3	19.4	0.7	9.3
Vijaya Bank	Neutral	37	-	-	0.5	0.5	5.5	14.1	0.4	8.8
OBC	Neutral	137	-	-	0.3	0.5	3.0	65.5	0.5	9.4
Allahabad Bank	Neutral	75	-	-	0.3	0.3	2.9	53.5	0.6	10.9
UnionBk	Neutral	160	-	-	0.5	0.4	4.1	18.1	0.6	11.4
CanBk	Neutral	281	-	-	0.5	0.3	4.1	9.8	0.5	10.7
AIIBk	Neutral	75	-	-	0.3	0.4	2.9	53.5	0.6	10.9
IDBI#	Neutral	89	-	-	0.6	0.6	6.3	61.6	0.6	9.3

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

Yes Bank is the youngest private sector bank in the country, promoted by professional bankers. The bank started its operations in CY2004 and has been growing at a scorching pace, focusing on niche assets to maintain profitable margins and asset quality. The bank's thrust so far has been primarily on wholesale banking operations for mid-sized corporates. Now aiming for a higher share of retail deposits, the bank has increased its network to 700 branches which is approximately 75% growth in the past three years (targeting the urban affluent segment).

Income statement

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15P	FY16E	FY17E
Net Interest Income	1,247	1,616	2,219	2,716	3,488	4,616	5,826
- YoY Growth (%)	58.2	29.6	37.3	22.4	28.4	32.3	26.2
Other Income	623	857	1,258	1,722	2,046	2,612	3,217
- YoY Growth (%)	8.3	37.5	46.7	36.9	18.9	27.6	23.2
Operating Income	1,870	2,473	3,476	4,438	5,534	7,228	9,043
- YoY Growth (%)	37.2	32.2	40.6	27.7	24.7	30.6	25.1
Operating Expenses	680	933	1,335	1,750	2,285	2,978	3,766
- YoY Growth (%)	35.9	37.2	43.1	31.1	30.6	30.4	26.5
Pre - Provision Profit	1,190	1,540	2,142	2,688	3,250	4,250	5,277
- YoY Growth (%)	37.9	29.4	39.1	25.5	20.9	30.8	24.2
Prov. & Cont.	98	90	216	362	339	703	845
- YoY Growth (%)	(28.2)	(8.1)	139.3	67.5	(6.1)	107.1	20.2
Profit Before Tax	1,092	1,450	1,926	2,326	2,910	3,547	4,432
- YoY Growth (%)	50.3	32.8	32.8	20.8	25.1	21.9	25.0
Prov. for Taxation	365	473	625	709	905	1,135	1,534
- as a % of PBT	33.4	32.6	32.5	30.5	31.1	32.0	34.6
PAT	727	977	1,301	1,618	2,005	2,412	2,898
- YoY Growth (%)	52.2	34.4	33.1	24.4	24.0	20.3	20.2

Balance sheet

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15P	FY16E	FY17E
Share Capital	347	353	359	361	418	418	418
Reserves & Surplus	3,447	4,324	5,449	6,761	11,262	13,213	15,577
Deposits	45,939	49,152	66,956	74,192	91,176	1,14,882	1,45,900
- Growth (%)	71.4	7.0	36.2	10.8	22.9	26.0	27.0
Borrowings	3,333	9,343	14,148	14,543	19,788	21,870	26,053
Tier 2 Capital	3,358	4,813	6,774	6,771	6,433	6,111	5,806
Other Liab. & Prov.	2,583	5,677	5,419	6,388	7,094	8,566	10,588
Total Liabilities	59,007	73,662	99,104	1,09,016	1,36,170	1,65,060	2,04,341
Cash Balances	3,076	2,333	3,339	4,542	5,241	5,744	7,295
Bank Balances	420	1,253	727	1,350	2,317	2,476	3,065
Investments	18,829	27,757	42,976	40,950	46,605	52,319	61,504
Advances	34,364	37,989	47,000	55,633	75,550	96,704	1,22,814
- Growth (%)	54.8	10.5	23.7	18.4	35.8	28.0	27.0
Fixed Assets	132	177	230	293	319	375	450
Other Assets	2,186	4,153	4,833	6,247	6,139	7,442	9,213
Total Assets	59,007	73,662	99,104	1,09,016	1,36,170	1,65,060	2,04,341
- Growth (%)	62.2	24.8	34.5	10.0	24.9	21.2	23.8

Ratio analysis

Y/E March	FY11	FY12	FY13	FY14	FY15P	FY16E	FY17E
Profitability ratios (%)							
NIMs	2.7	2.6	2.7	2.8	3.0	3.2	3.3
Cost to Income Ratio	36.3	37.7	38.4	39.4	41.3	41.2	41.6
RoA	1.5	1.5	1.5	1.6	1.6	1.6	1.6
RoE	21.1	23.1	24.8	25.0	21.3	19.1	19.6
B/S ratios (%)							
CASA Ratio	10.3	15.0	18.9	22.0	23.1	24.7	26.3
Credit/Deposit Ratio	74.8	77.3	70.2	75.0	82.9	84.2	84.2
CAR	16.5	17.9	18.3	14.4	15.8	14.5	13.1
- Tier I	9.7	9.9	9.5	9.8	12.3	11.7	11.0
Asset Quality (%)							
Gross NPAs	0.2	0.2	0.2	0.3	0.4	1.0	1.4
Net NPAs	0.0	0.0	0.0	0.0	0.1	0.3	0.4
Slippages	0.2	0.2	0.6	0.8	0.8	1.3	1.2
Loan Loss Prov. /Avg. Assets	0.1	0.0	0.2	0.1	0.1	0.3	0.3
Provision Coverage	88.6	79.2	92.6	85.1	72.0	66.7	69.6
Per Share Data (₹)							
EPS	20.9	27.7	36.3	44.9	48.0	57.7	69.4
ABVPS (75% cover.)	109.3	132.5	162.0	197.5	279.4	324.4	380.7
DPS	2.5	4.0	6.0	8.0	8.1	9.5	11.0
Valuation Ratios							
PER (x)	35.5	26.9	20.5	16.6	15.5	12.9	10.7
P/ABVPS (x)	6.8	5.6	4.6	3.8	2.7	2.3	2.0
Dividend Yield	0.3	0.5	0.8	1.1	1.1	1.3	1.5
DuPont Analysis							
NII	2.6	2.4	2.6	2.6	2.8	3.1	3.2
(-) Prov. Exp.	0.2	0.1	0.2	0.3	0.3	0.5	0.5
Adj. NII	2.4	2.3	2.3	2.3	2.6	2.6	2.7
Treasury	(0.1)	0.1	0.2	0.2	0.1	0.2	0.2
Int. Sens. Inc.	2.3	2.4	2.5	2.4	2.7	2.8	2.9
Other Inc.	1.4	1.2	1.3	1.5	1.5	1.5	1.5
Op. Inc.	3.7	3.6	3.8	3.9	4.2	4.3	4.4
Opex	1.4	1.4	1.5	1.7	1.9	2.0	2.0
PBT	2.3	2.2	2.2	2.2	2.4	2.4	2.4
Taxes	0.8	0.7	0.7	0.7	0.7	0.8	0.8
RoA	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Leverage	13.9	15.7	16.5	16.1	13.0	11.9	12.5
RoE	21.1	23.1	24.8	25.0	21.3	19.1	19.6

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Disclosure of Interest Statement	Yes Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)