

Yes Bank

Performance Highlights

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
NII	1,157	1,108	4.4	909	27.3
Pre-prov. profit	1,150	1,019	12.8	863	33.3
PAT	676	610	10.7	540	25.1

Source: Company, Angel Research

Yes Bank reported a healthy performance during 3QFY2016 with PAT growth of 25.1% yoy to ₹675.7cr, which is above our expectation. The NII for the bank grew strong by 27.3% yoy on account of strong growth in advances and Retail & CASA deposits.

Advances and deposits growth remains strong: During the quarter, advances grew at a healthy pace of 26.7% yoy while deposits grew 23.1% yoy, suggesting a healthy balance sheet growth. Savings deposits continued to witness robust traction, growing by 64.1% yoy, on account of the bank's growing retail franchise while current deposits grew by 18.4% yoy. Overall, CASA deposits grew by 45.1% yoy; as a result the CASA ratio improved 400bp yoy and 120bp qoq to 26.6%.

NIM improved qoq backed by lower cost of funds: The NIM for the bank inched up 10bp qoq to 3.4%. During the quarter, the bank reduced the rate offered on its savings deposits from 7% to 6% and this helped lower the cost of fund, thereby leading to improvement in margins. The non-interest income grew by 39% yoy, while operating expenses grew by 29.2% yoy, leading to a 33.3% yoy growth in operating profit.

Asset quality continues to be healthy: Despite the prevalent economic slowdown, the bank has maintained its asset quality strong. GNPA and NNPA ratios went up marginally by 5bp and 2bp qoq to 0.66% and 0.22% respectively as compared to 0.61% (GNPA) and 0.20% (NNPA) in the sequential previous quarter. Restructured assets stand at ₹568.3cr, which represent 0.67% of gross advances. Also, the bank indicated that there has neither been any sale to ARCs nor has the bank refinanced any loan through the 5-25 route or SDR, during the quarter. Credit cost for the quarter was at 56bp (annualized), while it has further reduced its credit cost guidance for FY2016 to 50bp from 70bp earlier. The Provision coverage ratio came in at 66.5% (reported).

Outlook and valuation: The bank's asset quality performance has held up well so far. Going forward, we expect Yes Bank to deliver a CAGR of 20.5% in earnings for FY2015-17E. Currently the stock trades at 2.0x FY2017E ABV which seems to be fully valued in our view. **Hence, we recommend NEUTRAL 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	2,433	2,910
% chg	24.4	24.0	21.3	19.6
NIM (%)	2.8	3.0	3.2	3.3
EPS (₹)	44.9	48.0	58.2	69.7
P/E (x)	17.2	16.1	13.3	11.1
P/ABV (x)	3.9	2.8	2.4	2.0
RoA (%)	1.6	1.6	1.6	1.6
RoE (%)	25.0	21.3	19.2	19.6

Source: Company, Angel Research; Note: CMP as of February 1, 2016

Please refer to important disclosures at the end of this report

NEUTRAL

CMP	₹772
Target Price	-

Investment Period	-
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Stock Info	
Sector	Banking
Market Cap (₹ cr)	32,434
Beta	1.6
52 Week High / Low	910 / 590
Avg. Daily Volume	3,343,514
Face Value (₹)	10
BSE Sensex	24,825
Nifty	7,556
Reuters Code	YESB.BO
Bloomberg Code	YES@IN

Shareholding Pattern (%)	
Promoters	22.0
MF / Banks / Indian FIs	23.6
FII / NRIs / OCBs	42.0
Indian Public / Others	12.5

Abs. (%)	3m	1yr	3yr
Sensex	(6.9)	(14.9)	25.5
Yes Bank	1.7	(10.5)	45.3

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance summary (standalone)

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	3,376	3,377	(0.0)	2,972	13.6	11,572	9,981	15.9
- on Advances / Bills	2,421	2,415	0.3	2,071	16.9	8,016	6,540	22.6
- on investments	885	856	3.4	889	(0.4)	3,511	3,414	2.8
- on balance with RBI & others	22	52	(57.1)	11	98.0	43	24	79.5
- on others	48	54	(12.6)	1	7,215.4	2	3	(20.9)
Interest Expended	2,219	2,269	(2.2)	2,063	7.6	8,084	7,265	11.3
Net Interest Income	1,157	1,108	4.4	909	27.3	3,488	2,716	28.4
Other income	746	618	20.7	537	39.0	2,046	1,722	18.9
-Corporate Trade & Cash Management	112	101	10.9	109	2.5	356	478	(25.6)
-Forex, Debt Capital Markets & Securities	103	152	(32.7)	80	28.9	850	607	40.1
-Corporate Banking Fees	380	220	73.1	233	63.3	548	423	29.5
-Retail Banking Fees	152	145	4.4	115	31.4	293	214	36.9
Operating income	1,903	1,727	10.2	1,446	31.6	5,534	4,438	24.7
Operating expenses	753	707	6.5	583	29.2	2,285	1,750	30.6
- Employee expenses	343	313	9.5	254	34.8	980	784	24.9
- Other Opex	411	395	4.1	329	24.9	1,305	965	35.2
Pre-provision Profit	1,150	1,019	12.8	863	33.3	3,250	2,688	20.9
Provisions & Contingencies	148	104	42.3	70	111.8	339	362	(6.1)
PBT	1,002	915	9.5	793	26.3	2,910	2,326	25.1
Provision for Tax	326	305	6.9	253	29.0	905	709	27.7
PAT	676	610	10.7	540	25.1	2,005	1,618	24.0
Effective Tax Rate (%)	32.5	33.3	(76)bp	31.9	68bp	31.1	30.5	2.1

Source: Company, Angel Research

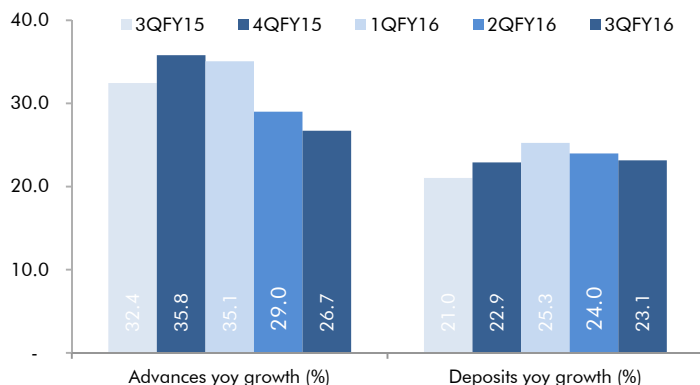
Exhibit 2: 3QFY2016 performance analysis (standalone)

Particulars	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	84,396	80,015	5.5	66,607	26.7
Deposits (₹ cr)	1,01,437	99,344	2.1	82,370	23.1
Credit-to-Deposit Ratio (%)	83.2	80.5	266bp	80.9	234bp
Current deposits (₹ cr)	9,152	8,554	7.0	7,730	18.4
Savings deposits (₹ cr)	17,868	16,764	6.6	10,890	64.1
CASA deposits (₹ cr)	27,019	25,318	6.7	18,623	45.1
CASA ratio (%)	26.6	25.5	115bp	22.6	403bp
CAR (%)*	16.1	14.9	120bp	16.7	(60)bp
CET 1 CAR (%)*	10.9	10.9	0bp	11.9	(100)bp
Profitability Ratios (%)					
Yield on advances	11.6	11.6	0bp	12.2	(60)bp
Cost of funds	7.3	7.3	0bp	8.1	(80)bp
Reported NIM	3.4	3.3	10bp	3.2	20bp
Cost-to-income ratio	39.6	41.0	(138)bp	40.3	(74)bp
Asset quality					
Gross NPAs (₹ cr)	687	491	39.9	279	146.7
Gross NPAs (%)	0.66	0.61	5bp	0.42	24bp
Net NPAs (₹ cr)	187	159	18.0	65	190.1
Net NPAs (%)	0.22	0.20	2bp	0.10	12bp
Provision Coverage Ratio (%)	72.8	67.7	505bp	76.8	(404)bp
Provisions to avg. assets (%)	0.4	0.3	12bp	0.3	19bp

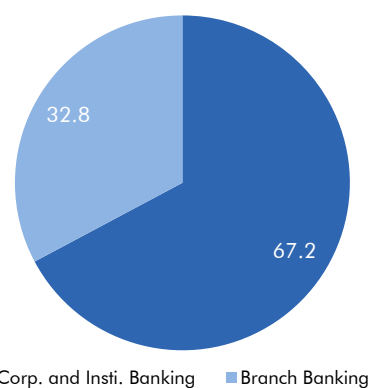
Source: Company, Angel Research, Note: *Basel III including profits

Advances as well as deposit growth remained strong

During the quarter, advances grew at a healthy pace of 26.7% yoy while deposits grew 23.1% yoy, suggesting a healthy balance sheet growth. Savings deposits continued to witness robust traction, growing by 64.1% yoy, on account of the bank's growing retail franchise while current deposits grew by 18.4% yoy. Overall, CASA deposits grew by 45.1% yoy; as a result the CASA ratio improved 400bp yoy and 120bp qoq to 26.6%.

Exhibit 3: Healthy loan book growth continues


Source: Company, Angel Research

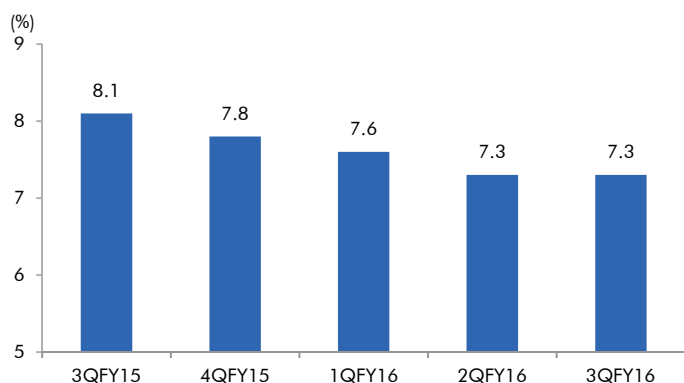
Exhibit 4: Business segment breakup as of 3QFY2016


Source: Company, Angel Research

NIM improved qoq backed by lower cost of funds

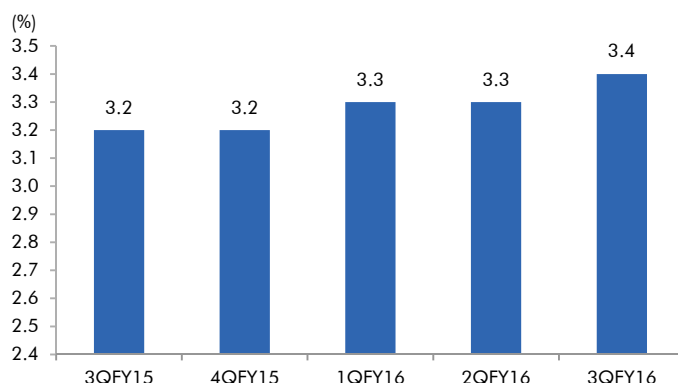
The NIM for the bank inched up 10bp qoq to 3.4%. During the quarter, the bank reduced the rate offered on its savings deposits from 7% to 6% and this helped lower the cost of fund, thereby leading to improvement in margins. The non-interest income grew by 39% yoy, while operating expenses grew by 29.2% yoy, leading to a 33.3% yoy growth in operating profit.

Exhibit 5: Cost of funds stable qoq; dips 80bp yoy



Source: Company, Angel Research

Exhibit 6: NIM jumps 10bp qoq to 3.40%



Source: Company, Angel Research

Strong non-interest income growth

The non-interest income grew at a faster pace, ie at 39.0% yoy to ₹746.1cr. The growth in retail banking fees witnessed a bit of a slowdown as compared to the sequential previous quarter. However, it still continues to grow at a healthy pace.

Exhibit 7: Non-int. Inc. performance

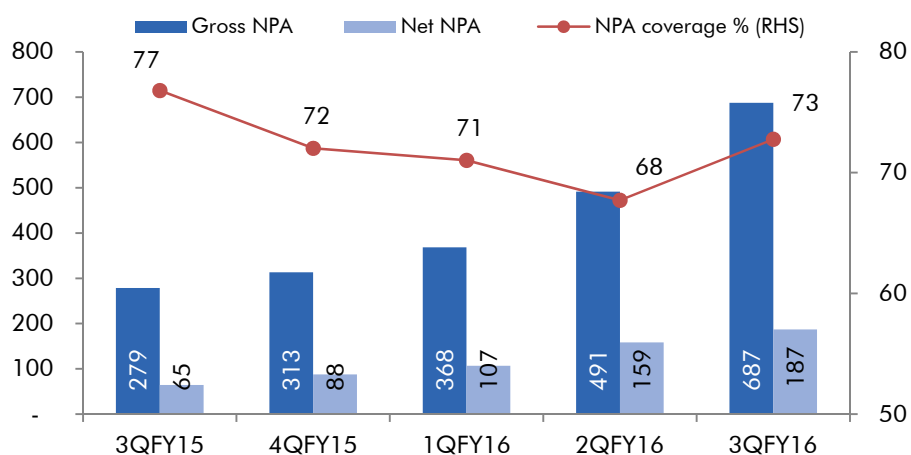
Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
Corporate Trade & Cash Management	112	101	10.9	109	2.5
Forex, Debt Capital Markets & Securities	103	152	(32.7)	80	28.9
Corporate Banking Fees	380	220	73.1	233	63.3
Retail Banking Fees	152	145	4.4	115	31.4
Total other income	746	618	20.7	537	39.0
Other income excl. Treasury	644	466	38.2	457	40.7

Source: Company, Angel Research

Asset quality continues to be healthy

Despite the prevalent economic slowdown, the bank has maintained its asset quality strong. GNPA and NNPA ratios went up marginally by 5bp and 2bp qoq to 0.66% and 0.22% respectively as compared to 0.61% (GNPA) and 0.20% (NNPA) in the sequential previous quarter. Restructured assets stand at ₹568.3cr, which represent 0.67% of gross advances. Also, the bank indicated that there has neither been any sale to ARCs nor has the bank refinanced any loan through the 5-25 route or SDR, during the quarter. Credit cost for the quarter was at 56bp (annualized), while it has further reduced its credit cost guidance for FY2016 to 50bp from 70bp earlier. The Provision coverage ratio came in at 66.5% (reported).

Exhibit 8: Asset quality amongst the top in the industry

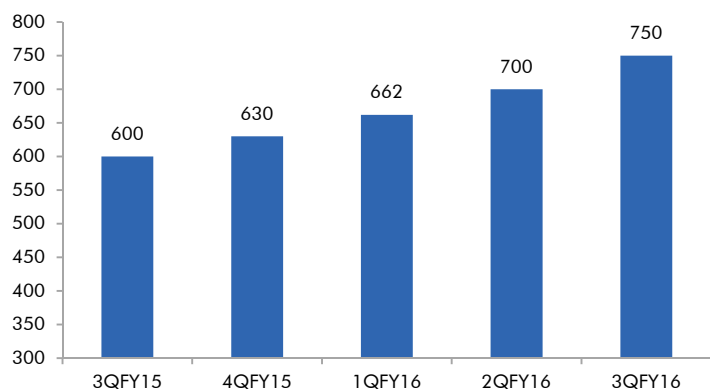


Source: Company, Angel Research

Steady network expansion continues

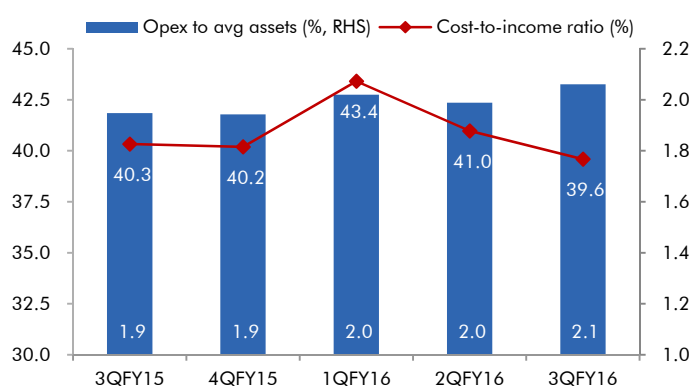
The bank added 50 branches since 2QFY2016 and 150 branches since 3QFY2015, taking the total number of branches to 750. This aided the bank to increase the CASA ratio from 22.6% in 3QFY2015 to 26.6% in 3QFY2016. The cost to income ratio declined by 74bp yoy to 39.6%.

Exhibit 9: Steady branch network expansion continues



Source: Company, Angel Research

Exhibit 10: Cost to Income ratio declines goq to 39.6%



Source: Company, Angel Research

Outlook and valuation

The bank's asset quality performance has held up well so far. Going forward, we expect Yes Bank to deliver a CAGR of 20.5% in earnings over FY2015-17E. Currently the stock trades at 2.0x FY2017E ABV which seems to be fully valued in our view. **Hence, we recommend NEUTRAL 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	Buy	1,061	1,262	18.9	3.2	3.8	17.4	22.4	1.9	19.7
ICICIBk*	Buy	217	254	16.9	1.5	1.3	8.9	13.5	1.6	14.7
YesBk	Neutral	772	-	-	2.0	2.0	11.1	20.5	1.6	19.6
AxisBk	Buy	399	494	23.7	1.6	2.0	9.2	18.4	1.8	18.9
SBI*	Buy	173	202	16.7	0.8	0.8	7.1	17.8	0.7	12.7
FedBk	Neutral	47	-	-	0.9	0.9	8.5	(2.9)	0.9	10.8
SIB	Neutral	19	-	-	0.7	0.7	5.6	21.6	0.7	11.6
BOB	Neutral	122	-	-	0.6	0.7	5.8	17.5	0.6	10.6
PNB	Neutral	90	-	-	0.4	0.4	3.3	28.5	0.7	12.0
BOI	Neutral	98	-	-	0.2	0.7	2.9	14.0	0.3	7.6
IndBk	Neutral	92	-	-	0.3	0.3	3.1	19.4	0.6	8.6
Vijaya Bank	Neutral	31	-	-	0.4	0.4	4.6	14.1	0.4	8.8
OBC	Neutral	109	-	-	0.2	0.3	2.4	65.5	0.5	9.4
Allahabad Bank	Neutral	52	-	-	0.2	0.2	1.9	56.2	0.6	11.9
UnionBk	Neutral	126	-	-	0.4	0.3	3.2	18.1	0.6	11.4
CanBk	Neutral	188	-	-	0.3	0.2	2.7	12.0	0.6	11.2
IDBI#	Neutral	59	-	-	0.4	0.5	4.1	61.6	0.6	9.3
DenaBk	Neutral	36	-	-	0.3	0.4	3.5	45.6	0.4	7.9

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 corporate. Now aiming for a higher share of retail deposits, the bank has increased its network to 750 branches which is approximately 82% 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	2,574	3,185
- YoY Growth (%)	8.3	37.5	46.7	36.9	18.9	25.8	23.7
Operating Income	1,870	2,473	3,476	4,438	5,534	7,190	9,011
- YoY Growth (%)	37.2	32.2	40.6	27.7	24.7	29.9	25.3
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	4,212	5,245
- YoY Growth (%)	37.9	29.4	39.1	25.5	20.9	29.6	24.5
Prov. & Cont.	98	90	216	362	339	635	795
- YoY Growth (%)	(28.2)	(8.1)	139.3	67.5	(6.1)	87.0	25.3
Profit Before Tax	1,092	1,450	1,926	2,326	2,910	3,577	4,450
- YoY Growth (%)	50.3	32.8	32.8	20.8	25.1	22.9	24.4
Prov. for Taxation	365	473	625	709	905	1,145	1,540
- 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	2,433	2,910
- YoY Growth (%)	52.2	34.4	33.1	24.4	24.0	21.3	19.6

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	13,234	15,609
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	8,545	10,555
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	41.4	41.8
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	19.2	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	13.2
- 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	0.9	1.2
Net NPAs	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Slippages	0.2	0.2	0.6	0.8	0.8	1.2	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	71.6	75.9
Per Share Data (₹)							
EPS	20.9	27.7	36.3	44.9	48.0	58.2	69.7
ABVPS (75% cover.)	109.3	132.5	162.0	197.5	279.4	326.1	383.7
DPS	2.5	4.0	6.0	8.0	8.1	9.5	11.0
Valuation Ratios							
PER (x)	36.9	27.9	21.3	17.2	16.1	13.3	11.1
P/ABVPS (x)	7.1	5.8	4.8	3.9	2.8	2.4	2.0
Dividend Yield	0.3	0.5	0.8	1.0	1.0	1.2	1.4
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	0.4	0.4
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	4.4	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	12.4
RoE	21.1	23.1	24.8	25.0	21.3	19.2	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)