

Asset Quality Deteriorates

30th Oct, 2017

CMP: **Rs.307**
Target Price: **Rs.332**
Recommendation: **HOLD**

Stock Info

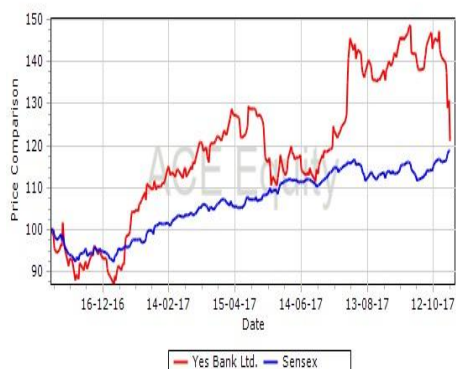
BSE Group	A
BSE Code	532648
NSE Symbol	YESBANK
Bloomberg	YES IN
Reuters	YESB.BO
BSE Sensex	33,157
NSE Nifty	10,323

Market Info

Market Capital	Rs 71,157cr
Equity Capital	Rs 458 cr
Avg. Trading Vol.	30,62,400
52 Wk High/ Low	1866/298
Face Value	2

Shareholding Pattern (%)	(Sept 2017)
Promoters	20.11
Domestic Institutions	24.57
Foreign Institutions	45.51
Public & Others	9.81

Price Vs Sensex Chart



Total Advances grew by 35% to Rs 1,48,675 crore as at Q2 FY18. Corporate banking accounted for 67.4% of the Advances portfolio while Retail & Business Banking constituted 32.6% due to increase in consumer banking and business banking. Total Deposits grew by 23.4% to Rs 1,57,990 crore. The CASA deposits grew by 51.4% Y-o-Y to Rs 58,724 crore taking up the CASA ratio to 37.2% up from 36.8% in the corresponding quarter on. Savings account deposits increased by 51.6% Y-o-Y. Current account deposits increased by 51.1% Y-o-Y.

Aided by strong growth in advances and deposits, NII jumped by 33.5% to Rs 1,885 crore and non-interest income increased by 35.4% and stood at Rs 1248 crs. Net profit for the bank grew by 25% Y-o-Y to Rs 1002 crores.

Gross NPAs increased from 0.97% to 1.82% on QoQ basis, and net NPAs also increased to 1.04% from 0.39%. There was no new restructuring. One account of Rs.161.0 Crores was upgraded from Restructured to Standard Asset. One account of Rs.192.4 Crores was restructured under Outside Standard SDR scheme of RBI. One account of Rs.89.5 Crores was refinanced under 5:25 scheme.

Total Capital funds for the bank stood at Rs 35,690 crores (54%) of which Tier 1 capital stood at 13.2%. Total risk weighted assets stood at Rs 2,00,138 crores. RWA to total assets stood at 84.3%. The daily average liquidity coverage ratio stood at 90.6%.

As on 30 Sept, 2017 total headcount for the bank stands at 20,932, an increase of 726 employees in the quarter and 2,401 incremental employees since Sept 30, 2016. The Bank's branch network stood at 1040 branches, an addition of 20 branches in the quarter and total ATM network stands at 1,823. Cost to income ratio decreased to 39.2% from 40.6% Y-o-Y.

Valuation

YES Bank has delivered satisfactory performance across key financial parameters of growth and profitability driven by steady expansion in NIMs to 3.7%. Bank's comprehensive product offerings continue to enable a healthy and granular credit growth. Bank posted increasing share of retail fees, liabilities & advances. Asset quality saw a deterioration with GNPA's & Net NPA increasing to 1.82% & 1.04% respectively. We have valued the bank at 3.2(x) its FY19E adj. book value and have arrived at fair value of Rs 332 per share. At CMP of Rs 307, the stock is trading at P/ABV(x) of 3.0x its FY19 ABV. We have 'HOLD' rating on stock.

Financial Snapshot (Rs Cr)	FY17	FY18E	FY19E
Net interest income	5,798	7,387	9,515
Operating Profit	5,848	7,460	9,721
PAT	3,340	4,414	5,722
EPS (Rs)	14.6	19.3	25.1
EPS Growth (%)		32%	30%
RoE (%)	19%	20%	25%
P/E (x)	21.9	15.9	12.2
P/ABV (x)	3.4	3.3	3.0

Q2 FY18 Earnings Snapshot:

Reported Quarterly Results					
Particulars (Rs in Cr)	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Interest Earned	4,800	4,094	17%	4,654	3%
Interest Expended	2,915	2,648	10%	2,845	2%
Net Interest Income	1,885	1,446	30%	1,809	4%
Other Income	1,248	888	41%	1,132	10%
<i>Other income / Net Income (%)</i>	39.8	38		38	
Total income	3134	2,334	34%	2,941	7%
Employee Expenses	563	433	30%	546	3%
Non-Employee expenses	664	515	29%	691	-4%
Operating Expenses	1,227	948	29%	1,237	-1%
<i>Cost-income Ratio (%)</i>	39.2	41		42	
Pre-Prov Profits	1,907	1,386	38%	1,704	12%
Provisions & Contingencies	447	162	177%	286	56%
PBT	1,460	1,224	19%	1,418	3%
Provisions for Tax	457	423	8%	453	1%
<i>Effective Tax Rate (%)</i>	31.3	35	-9%	32	-2%
PAT (reported)	1,003	802	25%	966	4%
EPS Basic	4.4	3.8		4.2	
EPS Diluted	4.3	3.7		4.1	
GNPA	2,720	917	197%	1,364	99%
NNPA	1,543	323	378%	545	183%
GNPA (%)	1.8%	0.8%		1.0%	
NNPA (%)	1.0%	0.3%		0.4%	
Total CAR (%)	17.0	15		17	
Tier 1 (%)	13.3	10		13	
Tier 2 (%)	3.7	5		4	
NIM	3.7%	3.4%		3.7%	
Advances	1,48,675	1,10,216	35%	1,39,972	6%
Deposits	1,57,990	1,28,024	23%	1,50,241	5%

Income Statement

Year to 31st March (Rs.Cr)	FY17	FY18E	FY19E
Interest Income	16,425	20,351	25,461
Interest Expenses	10,627	12,964	15,946
Net Interest Income	5,798	7,387	9,515
- growth %	27%	27%	29%
Other Income	4,218	5,483	7,238
Operating Income	10,016	12,870	16,753
- growth %	37%	28%	30%
Operating Expenses	4,169	5,409	7,032
- Staff Cost	1,840	2,429	3,158
- Other Operating Exp.	2,328	2,980	3,874
Gross Profits	5,848	7,460	9,721
- growth %	36%	28%	30%
Provisions	794	722	918
Profit Before Taxes	5,053	6,738	8,803
Taxes	1,714	2,325	3,081
Profit After Taxes	3,340	4,414	5,722
- growth %	157%	32%	30%

Balance Sheet

As on 31st March (Rs. cr)	FY17	FY18E	FY19E
LIABILITIES			
Capital	456	459	461
Reserves & Surplus	21,583	21,486	23,826
Share holders Fund	22,040	21,945	24,287
Deposits	1,42,857	1,79,909	2,25,625
Borrowings	38,607	46,328	55,594
Other liabilities & provisions	11,556	13,289	15,283
Total Liabilities	2,15,060	2,61,472	3,20,788
ASSETS			
Cash on hand & with RBI	6,952	8,096	10,153
Money at call and short notice	12,603	13,070	9,253
Advances	1,32,263	1,65,975	2,15,767
Investments	49,982	58,979	67,825
Fixed assets	687	893	1,161
Other assets	12,574	14,460	16,629
Total Assets	2,15,060	2,61,472	3,20,788

Ratio Analysis

Year to 31st March	FY17	FY18E	FY19E
Basic Ratio (Rs.)			
EPS	15	19	25
Book Value per share	97	96	106
Adjusted Book Value	95	94	104
Dividend per share	14.0	15.0	16.0
Asset Quality (%)			
Gross NPAs	0.9%	0.8%	0.8%
Net NPAs	0.3%	0.3%	0.3%
PCR	66%	64%	64%
Profitability ratios			
RoE	19%	20%	25%
RoA	1.8%	2.1%	2.5%

Spread analysis (%)

	FY17	FY18E	FY19E
NIM	3.4%	3.4%	3.6%
Cost to Income	41.6%	42.0%	42.0%
Yield			
Yield on investments	7.4%	7.2%	7.0%
Yield on advances	9.6%	9.5%	9.6%
Yield on funds	9.2%	9.1%	9.3%
Cost of funds	6.5%	6.4%	6.3%
Spread	2.7%	2.7%	3.0%
Valuation ratios (x)			
P/E	21.9	15.9	12.2
P/BV	3.3	3.2	2.9
P/ABV	3.4	3.3	3.0

Arihant Research Desk

E. research@arihantcapital.com

T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com**Disclaimer:**

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,

Andheri Ghatkopar Link Road Chakala, Andheri (E)

Tel. 022-42254800 Fax. 022 4225488

www.arihantcapital.com